

The History of the European Monetary Union

Comparing Strategies amidst Prospects for Integration and National Resistance

Daniela Preda (ed.)



P.I.E. Peter Lang



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The financial and economic crisis that hit Europe in 2009 brought out the precariousness of the monetary union, accentuating the economic disequilibrium among European nations and strengthening Euro-skepticism.

The crisis was the catalyst for long-standing and unresolved problems: the creation of a singly monetary area with intergovernmental control, the final act in the construction of a Europe economically united but without a government and a state; the consequent discrepancy between forming a consensus that remains in large part national and the political dynamics in Europe; the sustainability of a monetary union in the absence of an economic-social union, which presents again the long-standing debate between “monetarist” countries and “economist” countries.

This book aims at placing current events within a long-term framework composed of a mosaic of multidisciplinary contributions that can provide the reader with keys which are adequate for an understanding of these events and useful for opening up new horizons.

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THE HISTORY OF THE EUROPEAN MONETARY UNION

COMPARING STRATEGIES AMIDST
PROSPECTS FOR INTEGRATION
AND NATIONAL RESISTANCE



P.I.E. Peter Lang

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Introduction

The financial and economic crisis that hit Europe in 2009 brought out the precariousness of the monetary union, accentuating the economic disequilibrium among European nations and strengthening Euro-skepticism. As occurred during the 1970s, the charges of self-interest levelled at the stronger countries were countered by accusations that the weaker ones were lacking in the necessary economic rigor.

The crisis served as a catalyst for long-standing unresolved problems: the creation of a single monetary area with intergovernmental control, the final act in the construction of a Europe economically united but without a government and a state; the consequent discrepancy between the forming of a consensus that remains in large part national and the European context of political dynamics; and the sustainability of a monetary union in the absence of an economic-social union, which presents again the long-standing debate between “monetarist” countries, whose priority was the establishment of common constraints to monetary policies, and “economist” countries, which gave priority to harmonizing economic policies before undertaking monetary cooperation.

The history of European unification provides us with several useful points to reflect on in terms of current events.

If at the start of the continental unification process the final objective of a European federation was clearly visible, beginning with the Treaties of Rome this objective became merely ancillary. Monnet’s functionalism called for a vertical integration by sector, characterized by the creation of supranational institutions with broad powers. In fact, it consisted in a sort of constitutional gradualism, whose final stage was clearly indicated as the creation of a European federation. The European Economic Community responded instead to a different idea of integration: a broader, horizontal one in which the function of the supranational institutions was to organize and manage the market. In short, this integration reflected a different functionalist model, the Anglo-Saxon functional approach, mitigated only partially by the independence of the Commission with respect to the governments and by the immediate efficacy of community legal regulations. This outmoded stance by the EEC toward the supranational aspects of the ECSC was immediately perceived by the federalist Altiero

Spinelli, who, in a strongly-worded manner, wrote of the “hoax of the Common Market”.¹

Nevertheless, even the Treaties of Rome were from the start considered as a sort of master-key to political integration on the continent, an interpretation that subsequently would continue to characterize all the stages of European integration, including monetary unification. The political aim was the last objective of the Founding Fathers, part of their cultural baggage and hopes. Interpreting the spirit and will that had led to the “European revival”, Paul-Henri Spaak stated that the men whose task it was to draw up the Treaties of Rome “croyaient que l’intégration économique les conduirait inmanquablement à l’union politique” and considering economic integration as nothing other than “l’accessoire, ou tout au moins la première étape d’une révolution politique plus importante encore”.²

Therefore, political integration was part of the ‘spirit’ of the Treaties but not part of their substance.

In similar fashion, the creation of the European Central Bank and single currency, which in December of 1995 the Council of Madrid would call the “Euro”, along with the criteria set by the stability and growth pact, produced an effective and consistent transfer of sovereignty from the national states to the European Union. In this case as well, Europe proceeded, as Delors stated, “avec lo visage masqué”: that is, hiding the ultimate objective for fear of arousing the resistance of the governments.

The Monetary Union can be considered the last act of a method (Monnet’s gradualist one) that has been very fruitful, but which over time seems to have lost sight of the final objective. As in the 1950s, the Founding Fathers of the EMU were convinced that a single currency would favor further progress toward a more stringent economic and political integration: once created, the single currency would have spontaneously produced the conditions for further transfers of sovereignty and for the completion of the institutional framework of the Union. After the positive experience of the European Common Market, even many federalists shared this strategy. As highlighted in Guido Montani’s article in this book, at the start of the 1970s Mario Albertini, the President of the *Union européenne des fédéralistes* (UEF),

¹ Spinelli, Altiero, *La beffa del Mercato comune*, September 24, 1957, in *L’Europa non cade dal cielo*, Bologna, Il Mulino, 1960, p. 282-287.

² Spaak, Paul-Henri, *Cambats inachevés*, Vol. II, *De l’espoir aux déceptions*, Paris, Fayard, 1969, p. 100.

believed the Monetary Union could have gained momentum among the political forces in support of economic unification. In his view progress of an institutional nature in the monetary field would be possible. For his part, Jacques Delors held that the Maastricht Treaty meant reopening the way toward a constituent process: monetary integration would have been the driving force behind economic and political integration. In fact, the currency was a basic element of sovereignty and could represent the foundation for a relaunching of political integration, just as in the 1950s the army was a basis for the initial attempt at creating a European state. Therefore, it appeared that the single currency had created the conditions for a common ground between the two strategies for the construction of a united Europe, economic or political union, which had opposed one another throughout the integration process. In this way economic and political integration would be joined according to the “constitutional gradualism” method.

In fact, the weakness of Maastricht at the political level was not overcome, and the monetary union did not succeed in facilitating the economic and political union.

The present crisis surrounding the euro brings to the fore once again those questions which were so urgent in the past and for which it is essential today to find solutions. It is clear that monetary union is not sustainable without an agreement among the member countries regarding the principles for the monetary policy of the Central Bank. It is not sustainable if the convergence of economic and financial actions of the member countries, guaranteed at the moment of entry into the union, is not maintained over time.

Particularly at issue, as the German Foreign Minister, Joschka Fischer, noted in his famous speech at Humboldt University in Berlin on June 12, 2000, is the fate of the functionalist strategy in the event this does not revert to the original approach set forth by Jean Monnet, where the final objective is visible and shared: the European Union as a unitary political and economic entity.

* * *

Despite the importance of the topic, studies on the history of monetary integration have been relatively patchy; above all, they have lacked a deep interdisciplinary analysis capable of understanding the historical-political, economic and legal implications.

This book, which presents the proceedings of a convention held in Genoa on May 7-8, 2015, as part of the activities of the Jean Monnet Chair *ad personam* in “History and Politics of European Integration”, and

whose essays are published here after being updated on May 31, 2016, aims at placing current events within a long-term framework composed of a mosaic of multidisciplinary contributions that can provide the reader with keys which are adequate for an understanding of these events and useful for opening up new horizons. The path toward monetary union is an uneven one marked by a long and deep reflection on methods, stages and conditions. This process has developed at the same pace as the evolution of the international context, often leading to an open contrast between the distinct positions of the “monetarists” and “economists” within the individual European countries and between those who considered the single currency as the decisive instrument for overcoming the economic policy differences of the European states and opposed the return of protectionism and those who held that the national states must not deprive themselves of one of the fundamental pillars of sovereignty.

The present work begins with a look at the monetary unification projects that have characterized the 19th century – the Latin Monetary Union, the Germanic Monetary Union, and the Scandinavian Monetary Union – which are described in Lara Piccardo’s essay, in an attempt to reconstruct the long road toward the single currency, which began back in the 1950s with the creation of the European Payments Union and later continued with the first monetary unification projects. Ivo Maes focuses in particular on Robert Triffin’s role in European monetary unification within a broader international system. Maes analyzes Triffin’s relationships with various figures, such as Monnet, Marjolin and Barre, beginning with his education and writings on the monetary system, dealing at length with Triffin’s proposals for a European Reserve Fund and European unit of account as a parallel currency, which opened up new prospects in advance of monetary integration. Maria Eleonora Guasconi deals with the birth of the European monetary snake during the Bretton Woods period of instability, during which there already emerged, at the Hague Conference, a battle between “economists” and “monetarists”. The Werner report, which called for the fixing of exchange rate parities among the various currencies and the start of a common monetary policy managed by an independent European Central Bank, is the topic of Andreas Wilkens’ essay. Wilkens focuses on the German plan for a harmonization of economic policies as a way of eliminating the disparities among the economic and financial policies of European countries before the implementation of monetary policy measures. He also deals with the German government’s awareness of the political implications of the economic and monetary union.

Starting from the Hague Conference and Albertini's strategic turning point, Guido Montani explores the crucial stages in the federalist battle for the European currency, drawing critical conclusions in light of federalist thinking on the relationship between economic theory and political theory.

After the turbulence of the 1970s, the European Monetary System gave new impetus to cohesion among European countries, taking a further step towards a European political union. By examining the motivations that led to the birth of the EMS and its strengthening in the 1980s, the economist Giovanni Battista Pittaluga tries to give answers to two main questions: Has the EMS been a success or a failure?, and What were the causes of the 1992 crisis in the EMS and its substantial collapse? The analysis in the essay provides a positive answer to the first question and underscores with regard to the second that the 1992 crisis clearly evidenced the limits of fixed exchange rate regimes. In her essay Daniela Preda focuses on the contribution made by the Andreotti government in Italy made to the birth of the EMS and the Monetary Union, emphasizing the relations with Europeanist and federalist economic study groups and bringing to light the close connection afforded monetary, political and economic integration by the Italian government.

Since the EMS had created a condition of relative monetary stability, it was possible to eliminate the other barriers that stopped the Common Market from being considered as an effective internal market. Despite its limits, the Single European Act brought back the prospects for an Economic Union, which, however, was not possible without a currency and a democratic consensus.

There thus began a long struggle for the Monetary Union, which would end at Maastricht. The Maastricht Treaty called for proceeding by stages toward the final goal of a Monetary Union at the same time that it instituted European citizenship, increased the Community's authority, broadened the European Parliament's prerogatives, and created the Common Foreign and Security Policy (CFSP) and the collaboration among states regarding internal affairs and justice. Jean-Marie Palayret analyzes the role of François Mitterrand in the process, which entailed his conversion, beginning in March 1983, to the idea of a broader monetary unification than that called for in the EMS, while also privileging Franco-German relations during that period. He points out the continuity in the relative positions of the two countries on monetary union from the Hague Conference to the Maastricht Treaty, with Germany determined to advance simultaneously toward economic and monetary union, on the one hand, and political union on the other, and France holding firm to

a monetary union alone; to its persistence in defending French interests in the project for relaunching the monetary union; and the fact that German reunification and the breakup of the Soviet Union would have implications for European integration.

The economists Alberto Majocchi, Carlo Degli Abbatì and Franco Praussello and the jurists Francesco Munari and Adriano Giovannelli focus on the creation of and crisis in the Eurozone. Alberto Majocchi examines the conditions that should be met to join the single currency, the Stability and Growth Pact, and the different steps towards an effective governance of the Eurozone area for the sake of guaranteeing financial stability and growth – the Treaty on Stability, Coordination and Governance (the Fiscal Compact), the Six Pack and the Two Pack's, the Juncker plan – proposing at the end of his essay a reform of the governance of the EMU, with particular reference to a Eurozone budget and a Eurozone Treasury. Carlo Degli Abbatì reconstructs the development and introduction of the Euro as a single currency to uncover the main reasons for the subsequent crisis, upholding the need for a courageous relaunching of Europe, which could be achieved through strengthened cooperation. Franco Praussello analyses the origins, the remedies so far employed, and the possible ways out of the ongoing Eurozone crisis in view of a possible relaunching of the integration process, focusing mainly on the errors made by Eurogroup governments in their inefficient management of the flaws that underlay the sovereign debt predicament, which put at risk the viability of monetary integration.

Francesco Munari's essay deals with the difficult years of European Monetary Union and their impact on the EU legal system, emphasizing from the legal viewpoint the shortcomings of rules concerning the EMU and financial assistance to states, which could undermine the overall stability of the European system. Referring in particular to the decisions of the European Court of Justice in the Pringle and Gauweiler cases, Munari outlines the difficulties the Court faced in being forced to pronounce sentences strongly conditioned (in particular in the Pringle case) by politics, stating the need for a return to the rule of law, which has always characterized the legal order in the EU.

Finally, Adriano Giovannelli presents a detailed and valuable reconstruction of what the EU has already accomplished in managing the Eurozone crisis – Quantitative Easing, the European Financial Stability Facility, the European Stability Mechanism, the common monitoring of government budgets, and the Banking Union – in order to highlight the crisis in the functionalist method and the illusion of creating a currency without a state and a supranational democracy.

As with all large-scale crises, the present one, made more acute by the result of the Brexit referendum, opens up new horizons and presents new challenges, raising the problem of the legitimization of the European Union and adding to the European agenda the need to complete the monetary union not only with a financial, fiscal, banking and budgetary union, based on the classic functionalist method, but with the definitive shifting to the constitutionalist approach through the creation of a political union.

Daniela Preda

Opening Address

It is a great pleasure to host, in this fine Branch of the Bank of Italy, the conference “The history of European Economic and Monetary Union”, organized by the Department of Political Science of the University of Genoa.

The current state of the Union will be discussed by eminent and illustrious experts, who will review its history, and then reflect on the perspectives of the integration process and the most suitable approaches to the current issues concerning Union’s role, framework, and governance.

We are close to celebrate Europe Day on next May 9. On the same day in 1950 a speech held by Robert Schuman, the then French Foreign Minister, set out the idea for a new form of political cooperation in Europe. That speech is now considered to be the beginning of the European Union.

On the occasion of this anniversary, every year the Bank of Italy and the other European Central Banks organize training courses for their staff. This year two main topics have been selected.

The first topic is the Banking Union, after the Single Supervisory Mechanism (SSM) was established six months ago. The European Central Bank has taken on specific tasks relating to the prudential supervision of euro-area credit institutions, in cooperation with the national competent authorities of participating EU countries, within the framework of harmonized rules. The objectives are manifold: to break the vicious circle of banks’ distress and sovereign risk, that is, the probability that a government would refuse to honour their debt; to contribute to financial integration of the euro area and of the single market as a whole; to ensure enhanced supervision of Europe’s banks in accordance with their increased cross-border activities and ensuing inter-dependencies.

Since June 2012, when the Decision of the Council of the European Union was issued, the Bank of Italy has ensured full and continuous support to the project, making an independent and valuable contribution of proposals, resources, experience, and procedures to the new supervision framework.

The second topic chosen for the 2015 Europe Day is the cooperation in euro banknotes’ design, production, and circulation. It should be noted

that also in this activity the contribution of the Bank of Italy is significant: to the production process, with 1.16 billion notes yearly printed in our country, accounting for 14 per cent of the total euro-area production; to the design process, with the new, strongly innovative €20 note of “Europa series”, that is due to enter in circulation in November 2015 and has been developed with the participation of Bank of Italy’s experts.

The branches of the Bank of Italy play an important role in currency circulation. They manage and monitor the currency circuit (over 5 billion notes put into circulation or withdrawn in 2014), take part in the fight against counterfeiting and money laundering, exercise powers of control over professional cash handlers, and inform the public and professional users of the technical characteristics of the new banknote series.

Let me thank Professor Daniela Preda and Professor Guido Levi for choosing this branch as the conference location: today we are continuing with a fruitful, long-standing cooperation, which will bear even more fruit in the future.

Before giving the floor to the Dean of the University School of Social Sciences, I thank all the speakers for sharing their analyses and knowledge. Their contributions will be useful to every participant, especially to students, who have not witnessed the first steps of the Economic and Monetary Union and therefore may not fully perceive how beneficial the Union has been so far.

Mario Venturi
Manager of the Genova Branch
Banca d’Italia

Opening Address

Ladies and gentlemen, thank you all for your invitation, and a special heartfelt thanks to Professor Daniela Preda.

I bring you greetings from the School of Social Sciences, the coordinating structure of the Departments of Political Science, Economics, Law, and Teacher Education of the University of Genoa.

Also let me express my delight in seeing among the key participants in these days, along with some distinguished Italian and European scholars, many illustrious professors from our School.

At this difficult present time – in these years especially – we need a historical perspective in order to speak about Europe, and in particular about its economic and monetary policy.

We need this in order to attempt an objective evaluation of the development of the European project – one far removed from daily controversies and using the tools of critical analysis concerning, on the one hand, the ideas of the founding fathers (although these cannot always be integrated in a unitary picture) and, on the other, the issues connected with the recent global economic development. This last is distinguished by an interconnectedness of economies and cultures unprecedented in human history, as well as by the growth of the financial dimension in economic processes and, finally, by a severe crisis that began many years ago. A crisis of which it's hard to see the end, especially in Europe and in our own country.

These are clearly very complex issues and difficult to grasp for a philosopher of law, as I am. But it's precisely on these matters that you will focus your thoughts during these two days.

From my side, I can only relate a personal worry, which I have as a citizen and not as a scholar. Thinking about the starting-point of our history – of the intention that the majority, if not all, the authors of the idea of Europe had of creating strong political integration – I believe that politics should recover an awareness of its nature and of its responsibilities regarding the issues bound up with the economic and monetary system of our continent. It is necessary to regain the consciousness that “economic policy” is a very different thing from a political doctrine which wears the garb of economic theory. Even when its validity and its truth might

legitimate its primacy or hegemony in its own field, politics cannot for this reason modify its goals. Politics must strengthen, even in hard times, its mission of protecting the quality and dignity of citizens' lives.

Eventually, politics must engage in thinking further, in the unquestionably more complex terms of the European political process, about the conditions of legitimacy that govern its actions – conditions that are prescribed, now as in the past, by the principles of liberal democracy.

Realino Marra
Dean of the School of Social Sciences
University of Genoa

Three Lessons from the Past

Monetary Unions in the 19th Century Europe

Lara PICCARDO

Department of Political Science, University of Genoa

At the beginning of the 19th century, Napoleon Bonaparte spread a single currency throughout the French Empire: the franc. In the Napoleonic monetary system (1808-1814) there was no central bank nor paper money and the system was based on the bimetallic franc and on the one to one exchange rate with lira and franc.

The Napoleonic idea was revived in 1865 by the nephew, Napoleon III, whose purpose was to defeat the growing power of the British pound: thus the Latin Monetary Union (1865-1926) was born. Two other similar experiments¹, designed to equip large European single currency areas, appeared in the 19th century: the Germanic Monetary Union (1838-1871) and the Scandinavian Monetary Union (1872-1931)².

These attempts met different outcomes, but still constitute a source of education and reflection. They show that monetary unions can take (and actually have taken) many forms. One of them, the Germanic

¹ About these three monetary unions please see Janssen, Albert E., *Les conventions monétaires*, Paris, Alcan et Lisbonne, 1911; Krämer, Hans R., *Experience with Historical Monetary Unions*, Kieler Diskussionsbeiträge, No. 5, 1970, available at <https://www.econstor.eu/bitstream/10419/48044/1/020009046.pdf> (6 September 2016); Pollard, Sidney, *European Economic Integration, 1815-1970*, London, Thames & Hudson, 1974; Mastrangelo, Fulvio, “Tentativi di unione monetaria in Europa dall’antichità al secolo XIX”, in *Rivista di storia finanziaria*, No. 6, gennaio-giugno 2001, p. 61-76; Flandreau, Marc, Maurel, Mathilde, “Monetary Union, Trade Integration, and Business Cycles in 19th Century Europe”, in *Open Economies Review*, Vol. 16, No. 2, April 2005, pp. 135-152; Depeyrot, Georges, Bregiannē, Catherine, Kovalchuk, Marina, *Three Conferences on International Monetary History*, Wetteren, Moneta, 2013.

² Sometimes I found the expression “Scandinavian Currency Union”. However, as Lars Joung underlined, the official term was “den skandinaviska myntunionen” which is better translated as “Scandinavian Monetary Union”. Cf. Jonung, Lars, “The Scandinavian Monetary Union 1873-1924”, in Cottrell, Philip L., Notaras, Gérasimos, Tortella, Gabriel (eds.), *From the Athenian Tetradrachm to the Euro. Studies in European Monetary Integration*, Aldershot, Ashgate, 2007, p. 76-95, specifically p. 78.

Monetary Union, has been successful, lasting and being folded into an even larger monetary union; the other two, the Latin Monetary Union and the Scandinavian Monetary Union, have come apart. Knowing their histories allows to draw many interesting historic parallels between them and the European Monetary Union³.

1. The Latin Monetary Union (LMU)

Between the late eighteenth and early nineteenth century a new coinage appeared in Europe and the circumstances seemed to bring to pass, at least in a part of the Continent, the ancient dream of the single currency.

In 1795, in France, the revolutionary government shocked the currency system: no longer the traditional triad pound-shilling-penny⁴, created by Charlemagne, but a new currency, the franc, based on the decimal system⁵. It was a bimetallic monetary system, in which the gold

³ Recent studies dealing with comparison among different monetary unions in history underline that the need for effective oversight of banking and financial systems at the level of the monetary unions is not enough because it is very important to analyse political economy considerations and political integration as well. Cf. Bordo, Michael D., Jonung, Lars, *The Future of EMU: What Does the History of Monetary Unions Tell Us?*, NBER Working Paper No. 7365, September 1999, available on <http://www.nber.org/papers/w7365.pdf> (15 September 2016); Eichengreen, Barry, "European Monetary Integration with Benefit of Hindsight", in *Journal of Common Market Studies*, Vol. 50, No. 1, March 2012, p. 123-136; James, Harold, *Making the European Monetary Union*, Cambridge, Harvard University Press, 2012; Lastra, Rosa M., Loui, Jean-Victor, "European Economic and Monetary Union: History, Trends, and Prospects", in *Yearbook of European Law*, March 2013, p. 1-150; O'Rourke, Kevin H., Taylor, Alan M., "Cross of Euros", in *Journal of Economic Perspectives*, Vol. 27, No. 3, Summer 2013, p. 167-192; Tache, Ileana, "Historical Record of Monetary Unions: Lessons for the European Economic and Monetary Union", in *Bulletin of the Transilvania University of Brasov*, Vol. 6, No. 2, 2013, p. 161-170; Fendel, Ralf, Maurer, David, "Does European History Repeat Itself? Lessons from the Latin Monetary Union for the European Monetary Union", in *Journal of Economic Integration*, Vol. 30, No. 1, March 2015, p. 93-120; Ryan, John, *Forgotten Lessons for the Eurozone*, Brussels, Egmont Royal Institute for International Relations, 2016.

⁴ In 779, Charlemagne established a new standard, the *livre carolinienne* (from the Latin *libra*, the modern pound), which was based upon a pound of silver – a unit of both money and weight – which was worth 20 sous (from the Latin *solidus*, which was primarily an accounting device and never actually minted, the modern shilling) or 240 *deniers* (from the Latin *denarius*, the modern penny). The *livre* and the *sou* were counting units; only the *denier* was a coin of the realm.

⁵ The decimal system, introduced in France in 1793 following the French Revolution, replaced the duodecimal system monometallic created by Charlemagne. The effective use of the decimal system took place in 1803, with the issuance of the

currencies and the silver ones could be minted freely and had an unlimited liberating power. Between the monetary values of the two metals there was a legal and fixed ratio⁶.

The currency followed Napoleon in his conquests. The franc became the coinage of the Empire departments and the vassal States adopted a similar currency system.

The fall of the Empire partially compromised this monetary unification, because the franc continued to be used in many continental regions and some European countries adopted monetary rules that were inspired to the French system⁷: a little later, Piedmont adhered to the bimetallic system as Belgium (1832) and Switzerland (1850) did. So, in the mid-nineteenth century, four contiguous European States were to have a monetary model essentially based on the same guidelines, characterized by having welcomed with equal dignity monetary gold and silver in a fixed ratio of 1 to 15,5⁸.

The bimetallism adopted by these countries worked until the mid-nineteenth century, when it was challenged by appreciable fluctuations in the market prices of the two metals⁹.

To address this emergency, Belgium proposed to France, Italy and Switzerland to jointly solve the problem. However, it was the initiative of Napoleon III to break the deadlock. On 20 November 1865 he summoned in Paris a monetary conference, which resulted in the Paris Convention of 23 December: the Latin Monetary Union¹⁰ was born, so named by the

franc by Napoleon Bonaparte who, as a result of his military campaigns, spread it throughout continental Europe.

⁶ Cf. Niveau, Maurice, *Storia dei fatti economici contemporanei*, Milan, Mursia, 1972, p. 224; Lesourd, Jean Alain, *Storia economica dell'Ottocento e del Novecento*, Milan, ISEDI, 1973, p. 30. See also Vilar, Pierre, *Oro e moneta nella storia. 1450-1920*, Bari, Laterza, 1971.

⁷ On the topic see, among the others: Marconcini, Federico, *Vicende dell'oro e dell'argento dalle premesse storiche alla liquidazione della Unione monetaria latina, 1803-1925*, Milan, Vita e Pensiero, 1929; Olszak, Norbert, *Histoire des unions monétaires*, Paris, Presses universitaires de France, 1996.

⁸ See Marconcini, *op. cit.*, p. 19-20.

⁹ On the monetary questions of this period please see, in particular, Felloni, Giuseppe (ed.), *Moneta, credito e banche in Europa: un millennio di storia*, Genoa, Brigati, 1997.

¹⁰ Cf. de Cecco, Marcello, *Moneta e Impero. Il sistema finanziario internazionale dal 1890 al 1914*, Turin, Einaudi, 1979, p. 63-64. The text of the Convention is published in Marconcini, *op. cit.*, p. 338-341. On the birth and history of the Latin Monetary Union please see, among others: Parker Willis, Henry, *A History of the Latin Monetary Union. A Study of International Monetary Action*, Chicago, The University of Chicago Press, 1901; Flandreau, Marc, "The Economics and Politics of Monetary Unions: A Reassessment of the Latin Monetary Union, 1865-71", in *Financial History Review*, Vol. 7, No. 1, April 2000, p. 25-44; de Cecco, Marcello, "The Latin Monetary Union Revisited Once Again", in *From the*

British press to emphasize the South-European nature of this association even if it was open to any other State that would accepted the obligations¹¹.

Although the Conference had proposed a very ambitious program, which aimed to introduce a European monetary circulation, the results were much more limited and confined to the solution of purely technical problems¹².

First of all, the four countries undertook the reduction of the title of silver coins, in order to make the real value of the currencies lower than the nominal one.

Secondly, they fixed the technical data relating to issues, in order to establish a complete list of authorized denominations with dimensions, intrinsic value and tolerances. The coins minted by the four States had such weight, fineness and common diameter, providing differences only in the inscriptions and effigies depending on the national mints¹³: in this way the coins could circulate freely and be accepted in the public purse of each country at an exchange rate of 1:1.

Finally, the free coinage of silver coins and the unlimited liberating power of silver coins among private citizens, which was reduced to 50 francs, were suspended. However, these measures did not imply the abandonment of bimetallism, because they did not apply to silver coins of 5 francs, which circulated freely in all the countries of the Latin Monetary Union¹⁴.

In 1867, during the French Universal Exposition, Napoleon III invited all European countries to Paris for a new monetary conference. The letter of invitation transmitted by the French government enclosed a copy of the LMU treaty, and suggested the holding of an international

Athenian Tetradrachm to the Euro, cit., p. 59-75, Bae, Kee-Hong, Bailey, Warren, "The Latin Monetary Union: Some Evidence on Europe's Failed Common Currency", in *Review of Development Finance*, Vol. 1, No. 2, April-June 2011, p. 131-149.

¹¹ Cf. Fauri, Francesca, *L'integrazione prematura. Le relazioni economiche europee dalla metà dell'Ottocento alla Grande Guerra*, Forlì, Clueb, 2005, p. 23.

¹² Cf. Olszak, *op. cit.*, p. 38-39.

¹³ *Ibidem*.

¹⁴ In May 1866, Italy introduced the fiat, that is the inconvertibility of banknotes in metal currency, thus causing a *de facto* a devaluation of the Italian lira. As a member of the newly formed Latin Monetary Union, Italy tried to improve its financial situation coining silver coins, exporting mainly to France and asking the central bank to change the gold coin to the agreed rate. Italy obtained huge profits from such arbitrage transactions: the LMU countries were inundated with Italian silver coins so to induce them, in the following years come, to put limits to emissions of silver coins in order to curb the exports. With the adhesion of the Papal State to the Latin Monetary Union in 1868, France was invaded not only by about 80 million Italian coins, but also 30 million papal coins. Cf. Fauri, *op. cit.*, p. 24-25.

conference “to consider the question of uniformity of coinage and to seek for the basis of ulterior negotiations”¹⁵. The conference assembled on 17 June, under the presidency of Marquis Léonel de Moustier, Minister of Foreign Affairs, the following named countries being represented: Austria, Baden, Bavaria, Belgium, Denmark, the United States, France, Great Britain, Greece, Italy, the Netherlands, Portugal, Prussia, Russia, Sweden and Norway, Switzerland, Turkey, and Württemberg. The opposition of France to monometallism and that of Great Britain to the decimal monetary system prevented to reach an agreement¹⁶. The conference voted unanimously against the adoption by the countries represented by the silver standard exclusively, and unanimously, with the exception of the Netherlands, in favor of the single gold standard¹⁷. At the final session of the conference it was voted to refer these and other decisions reached to the several States for diplomatic action, and that information of the action of the States should be transmitted to the French Government, which should have power to reassemble the conference. The conference adjourned on 6 July, and was not reassembled¹⁸.

Meanwhile, on 26 September 1868, George I of Greece also joined the Latin Monetary Union¹⁹.

In the following decade²⁰ two factors put in crisis the system created by the Paris Convention²¹.

¹⁵ Lalor, John J. (ed.), *Cyclopædia of Political Science, Political Economy, and the Political History of the United States*, Vol. III, *Oath – Zollverein*, New York, Maynard, Merrill, and Co., 1899, p. 802. On the 1867 monetary conference see also Graham, Thomas, Levi, Leone, *Report of the International Conference on Weights, Measures, and Coins: held in Paris, June 1867*, London, Printed by Harrison and Sons, [1868].

¹⁶ Cf. Schor, Armand-Denis, *La monnaie unique*, Paris, Presses universitaires de France, 1995, p. 15.

¹⁷ On the attempts to transform the Latin Monetary Union into a bigger and stronger monetary union please see the deep analysis of Einaudi, Luca, “From the Franc to the ‘Europe’: The Attempted Transformation of the Latin Monetary Union into a European Monetary Union, 1865-1873”, in *The Economic History Review*, Vol. 53, No. 2, May 2000, p. 284-308.

¹⁸ Schor, *op. cit.*, p. 27.

¹⁹ In 1868, Spain also adopted a system which was similar to the Latin Monetary Union, although never formally acceding because of the difficulties in ensuring an adequate level of circulating money on function of the precious metal reserves available.

²⁰ For a thorough review of the European monetary unification process of this period, see again Einaudi, Luca, *Money and Politics. European Monetary Unification and the International Gold Standard, 1865-1873*, Oxford, Oxford University Press, 2001.

²¹ On the problems affecting the Latin Monetary Union cf. Flandreau, Marc, “On the Inflationary Bias of Common Currencies: The Latin Union Puzzle”, in *European Economic Review*, Vol. 37, No. 2-3, April 1993, p. 501-506.

At the end of the Franco-Prussian War, in 1871, the war compensation paid in gold from France to Germany led to a surplus of silver, so that the devaluation that followed was beyond redemption. The result was the shift of monetary systems toward convertibility of money exclusively in gold²²: in particular Germany, the Netherlands, Scandinavian countries and the United States, having opted for the golden monometallic system, wanted to get rid of their silver reserves²³. All of this changed the gold-silver ratio, which, went from 1 to 15.5 to 19 in 1876 and then to 33.3 in 1890.

Moreover, starting from 1873, the silver depreciated because new reserves were discovered in Nevada, while in the Far East and Europe the metal markets narrowed.

The new agreements, which succeeded in the following years (1874, 1875, 1876, 1878 and 1885), first limited the free coinage of 5 francs silver coins and then, in 1878, suspended it. This restrictions in the LMU in 1878 on free coinage and the acceptance of silver as a form of payment, and the discontinuance in Spain in 1883 of the coinage of gold led to the so called "lame bimetallism"²⁴.

The Latin Monetary Union was renewed in 1885 and in 1891 and was later tacitly extended each year, inching closer to a golden monometallic system (gold standard)²⁵. *De facto*, it ended with the First World War, but its official dissolution was established on 24 December 1925 and entered into force on 1 January 1926²⁶.

History showed how the Latin Monetary Union's attempt to establish rules allowing precise acceptance in one of the members of the currencies of other member countries failed not only under the pressure of international contingencies²⁷, but also because of the absolute lack of

²² Some other good instead of gold would have been used as exchange standards and means of payment, but gold has the advantage of being scarce, relatively indestructible and few industrial uses. Cf. Samuelson, Paul A., Nordhaus, William D., *Economia*, Milan, McGraw Hill, 1996, p. 719.

²³ Cf. North, Michael, *La storia del denaro: una storia dell'economia e della società europea di oltre mille anni*, Casale Monferrato, Piemme, 1998, p. 194.

²⁴ Cf. Schor, *op. cit.*, p. 67; Pecorari, Paolo, *La lira debole. L'Italia, l'Unione monetaria latina e il "bimetallismo zoppo"*, Padua CEDAM, 1999.

²⁵ The gold standard was formally introduced in the United Kingdom by the Peel Act (1844). Between 1870 and 1913 it was extended to most of the continental economies, the United States and Japan. Cf. Fauri, *op. cit.*, p. 39-44, 137.

²⁶ The liquidation took place before 1 January 1927. See Droulers, Frederic, *Histoire de l'écu européen du moyen âge à nos jours et des précédentes unions monétaires*, s.l., Aria-Creations, s.d., p. 68-70.

²⁷ Moreover, it was not taken into consideration the economic imbalance between the members, nor the exchange policy based on a bimetallic system, which lent itself to easy speculations varying the ratio of commercial value and legal value of gold and silver.

common organisms coordinating the economic policies of the various States. For this reason, the weakest members of the Union could well take advantage of the inadequacies of the founding Treaty: the critical financial situation of Italy, Greece and the Holy Siege brought about various forms of excessive monetary creation. The incompleteness of the definitions of money taken by the Union allowed Italy extensive paper money emissions. The declining fortunes of bimetallism and the fall of silver prices then created the unstable financial conditions conducive to international speculation's insertion in the process and amplify the impact. The economically stronger LMU countries, such as France and Switzerland, became victims of these abuses. They could curb these practices only through a complete control of monetary creation of the new LMU members (Greece) and adopting a more aggressive stance after 1870. This took the form of the expulsion of "free riders" (for the Holy Siege) and a tightening of LMU rules, imposed by the threat of financial sanctions (against Italy and Belgium). Of course, this attitude could only preclude any extension of monetary cooperation, and prevented new LMU adhesions, in order to avoid the difficulties of monitoring of too many peripheral countries by the center (France). All this narrowed gradually the scope of the Latin Monetary Union until its total extinction²⁸.

2. The Germanic Monetary Union (GMU)

After the Congress of Vienna, the 35 princedoms and the four free cities of the German territory²⁹ sovereignly administrated their customs duties, their weights and measures and their currency system³⁰. Metallic coins in circulation were many, because those already numerous of the

²⁸ These considerations are presented by Einaudi, Luca, "Monetary Unions and Free Riders: The Case of the Latin Monetary Union (1865-78)", in *Rivista di storia economica*, No. 3, dicembre 1997, p. 327-362.

²⁹ The arrangement of the numerous German States was so complex that dragged on since the Congress of Vienna until 1819, when in Frankfurt the agreement was signed, ratifying the boundaries of the medium and small States, and setting up a German Confederation (which lasted, with some changes of members, until the Prussian victory over Austria in 1866), made up of 39 State entities against the previous 350. See, in particular: Mann, Golo, *Storia della Germania moderna*, Firenze, Sansoni, 1964; Carrié, René Albrecht, *Storia diplomatica d'Europa, 1815-1968*, Rome-Bari, Laterza, 1978.

³⁰ Cf. Bogart, Ernest Ludlow, *Storia economica dell'Europa, 1760-1939*, Turin, Unione tipografico-editrice torinese, 1968, p. 216.

German Confederation States were added with English, Danish, French and Russian ones³¹.

Therefore, the metallic circulation was variegated. It prevailed the silver standard, but the weights and names of the coins were different and there were two units of reference adopted by a certain number of States: the thaler in the Northern States – including Prussia –, the florin in the Southern States – including Austria. Even within the two bench marks prevailed chaos: denominations or number of pieces which could be minted with the unit of weight of the referent fine metal fluctuated³².

This system created many difficulties for the process of industrialization that Germany was facing at that time, a process already hampered by the division of the country into many state entities. In particular, the Prussian territories as agreed by the Treaty of Vienna sprawled across Northern Germany, but their economic development was hampered by antiquarian tariff barriers. Within Prussia there were sixty-seven different tariffs and thirteen non-Prussian enclaves, each with a different fiscal system. Internal customs duties in Prussia were abolished in 1818: the customs union, the *Zollverein*, was born.

One of the enclaves was induced by the Prussian Finance Minister, Friedrich von Motz, to hand over its customs administration in 1819; six other small States followed suit in 1822. Other German States, perceiving the economic strength that was accruing to Prussia, formed unions of their own in 1828, but, as the resources of the Prussian union were greater, they too were forced into the *Zollverein* by the end of 1833. More States joined in following eleven years, although the great seaports such as Hamburg and Bremen were strong enough to remain outside.

The problem of free movement of goods had already placed after the birth of the Confederation, in the wake of the ideas of the economist Friedrich List³³, who was calling for the overthrow of the complex grid

³¹ In the first half of the nineteenth century, a shortage of banknotes, which made up only 3% of the money circulating in Germany, was opposing to this variety of metallic money. Cf. De Simone, Ennio, *Storia della banca: dalle origini ai nostri giorni*, Napoli, Arte Tipografica, 1987, p. 175.

³² Cf. Schor, *op. cit.*, p. 20.

³³ Born in Reutlingen (Württemberg) in 1789, List taught at the University of Tübingen, a position he had to leave in 1818 because frowned upon by the government for its economic doctrines. In fact, he advocated the need to break down trade barriers among German States and abolish the doctrine of free trade in relations with foreign countries, saying that Germany could give rise to a domestic industry only through protectionism; once the industry had grown sufficiently to cope with international competition it could return to free trade. Cf. Fauri, *op. cit.*, p. 16-17. In 1819, the General Association of German Industrialists and Traders introduced, under

made by dozens of customs duties, also present within a same country. Initiated by Prussia in 1818 with the goal of eliminating all internal barriers and enclosing the entire State into a single customs border, the *Zollverein* arrived to a final shape on 1 January 1834 and soon also standardizing weights, measures, and currencies within the States (excluding Austria) and thus forming the basis of a “quite national” economy³⁴.

With the realization of the customs union, disadvantages arising from monetary fragmentation became evident³⁵. The Southern States, related to florin, felt more than others the need to standardize their coinage: this is why on 25 August 1837 they promoted the Munich Convention, which led to the adoption of a common currency. The *Munich Treaty among the States of Southern Germany* adopted silver as the base of the agreement and the florin was used as a common count unit, omitting any rule about the circulating currencies.

On 30 July 1838, the Dresden Convention³⁶, or *Münzverein*, was ratified: noting the common adoption of the thaler by the Northern States, the Dresden Convention recognized the persistence of two monetary zones at 1.75 gulden per thaler, creating the first monetary union covering most of German territory. The Union was of a traditional type, based on the silver standard, on independent local issues following common rules, and did not include paper money. A common coin of 2 thalers equaling 3.5 gulden was introduced, but was too cumbersome to become popular; it weighed 37.12 grams and was the heaviest silver coin circulating in Europe at the time. Its failure was sealed by the nickname “Champagne thaler”³⁷.

his suggestion, a petition in favor of the Customs Union and the establishment of a common external tariff. In 1820, he was elected deputy, but was later expelled and forced to a temporary exile in America between 1825 and 1832. However, his theories were spread in the German Confederation, and were decisive for the birth of the *Zollverein*. Theoretician of the “economic nationalism”, in 1841 he published his most famous work, *Das Nationale System der Politischen Ökonomie (Il sistema nazionale dell'economia politica)*, Turin, UTET, 1936; Milan, Isedi, 1972), in which he insisted on the close link between economics and politics and defended the national economic independence. He died in 1846 in Kufstein.

³⁴ Cf. Hamerow, Theodore S., *Restoration, Revolution, Reaction: Economics and Politics in Germany, 1815-1871*, Princeton, Princeton University Press, 1958; Tilly, Richard H., *On the History of German Monetary Union*, in *From the Athenian Tetradrachm to the Euro*, cit., p. 42-58; Rössner, Philipp Robinson, “Monetary Instability, Lack of Integration, and the Curse of a Commodity Money Standard. The German Lands, c. 1400-1900 A.D.”, in *Credit and Capital Markets – Kredit und Kapital*, Vol. 47, No. 2, 2014, p. 297-340.

³⁵ Cf. De Simone, *op. cit.*, p. 175.

³⁶ Cf. Droulers, *op. cit.*, p. 47-49.

³⁷ Cf. Henderson, William O., *The Zollverein*, Cambridge, Cambridge University Press, 1939.

A proposal by Saxony to adopt a single coinage based on the mark was rejected by the other German States wishing to retain the attributes, as well as the substance, of monetary sovereignty.

Therefore, the agreement did not unify the coinage in the *Zollverein*, but managed to keep it simple³⁸: it set a permanently fixed exchange rate between the two monetary zones of the customs union, it imposed the silver standard, it adopted a system based on the dual currency, with fixed exchange rates between the currency of the customs union and the currency of each country and each country accepted the common currency of the *Zollverein* alongside its own currencies as a tool endowed with liberating power.

The immediate effect was the acceleration of the industrial process. Economic integration also strengthened the national consciousness in the German States, making the political unity a scenario much more likely. Germany began to exhibit all the characteristics of a nation-State.

The next step towards monetary unification of the German-speaking countries came with the Treaty of Vienna (January 1857): with that Treaty, Austria finally managed to become a member of the *Münzverein*, despite its weaker fiscal and monetary situation and its long-standing depreciated inconvertible paper currency. It had to accept the return to full convertibility into silver of its bank notes and the dominant role of the Prussian thaler in the Union³⁹, the *Vereinsthaler*, at a rate of 1.75 gulden and 1.5 Austrian florins. Prussia had blocked the Austrian accession, as part of its bid for open supremacy over Germany, but Austria still held the presidency of the Diet of the Confederation⁴⁰.

Divergent economic conditions and the war of 1859 with Italy forced Austria to suspend convertibility again after only one year. It could not stand the discipline of limited seigniorage income. After suffering defeat in the Austro-Prussian war of 1866, Austria was given the opportunity to remain in the *Münzverein*, but the year after opted out in order to reach an agreement with France. Entering into the LMU seemed to offer access to the Parisian capital market, to a large international currency agreement, and was also part of a new military alliance against Prussia. The French government, however, never ratified the provisional Franco-Austrian monetary convention of 1867, worried by the consequences of

³⁸ Cf. Schor, *op. cit.*, p. 22-23; Bogart, *op. cit.*, p. 216.

³⁹ Cf. North, *op. cit.*, p. 190; Olszak, *op. cit.*, p. 28-29.

⁴⁰ Cf. Einaudi, Luca, "The Generous Utopia of Yesterday Can Become the Practical Achievement of Tomorrow: 1000 Years of Monetary Union in Europe", in *National Institute Economic Review*, Vol. 172, 2000, p. 90-104, specifically p. 94-95.

Austrian inconvertibility and by the request to abandon bimetallism for the gold standard.

The GMU lasted only until 13 June 1867, when, following the defeat in the war against Prussia, Austria was forced to withdraw from the Treaty⁴¹.

The last step towards the currency union came in 1871, with the founding of the *Reich* and the appearance of a new monetary unit, the gold mark, accounting for one third of the Prussian thaler. Two years later, picking up the recommendations coming from the business world, it was adopted the gold standard. The fact was favored by the payment made by France to the *Reich* for the reparations of war amounting to 5 billion gold francs⁴². It was decided the minting of a gold coin from 20 brands, which became the main currency of the *Reich*, when, in 1873, it introduced the imperial gold currency and declared the old regional currencies out of circulation as of 1 January 1876⁴³.

Unlike what happened with the Latin Monetary Union, the Germanic Monetary Union was produced by the customs union and formed the basis for the political unification⁴⁴.

3. The Scandinavian Monetary Union (SMU)

Parallel to Latin and Germanic Monetary Unions, Europe experienced a third similar experience.

⁴¹ Cf. Droulers, *op. cit.*, p. 53-54.

⁴² Cf. Luzzatto, Gino, *Storia economica dell'età moderna e contemporanea*, Vol. II, *L'età contemporanea*, Padua CEDAM, 1960, p. 337.

⁴³ Cf. North, *op. cit.*, p. 194.

⁴⁴ On this question please see Holtfrerich, Carl-Ludwig, *Did Monetary Unification Precede or Follow Political Unification of Germany in the 19th Century?*, in *European Economic Review*, Vol. 37, No. 2-3, April 1993, p. 518-524; Vanthoor, Wim F. V., *European Monetary Union since 1848: A Political and Historical Analysis*, London, Edward Elgar Publishing, 1996. Both the authors insist and demonstrate how any monetary union would only succeed if supported by much closer political union among the member States.

The Scandinavian Monetary Union⁴⁵, activated from 1872 to 1931 among Denmark, Norway⁴⁶, and Sweden, gave rise to an integration that involved not only the metal currency as in the previous cases, but also the banknotes, which could freely circulate outside the issuing State. The largest cultural solidarity that united the three Nordic States allowed them to go farther than the Latin Monetary Union, which although had been their initial reference. Unfortunately, it did not prevent the emergence of economic and political differences and the SMU was already fragile when it had to face the indirect consequences of the First World War. The deep disruption of markets, caused by the conflict, did not spare these neutral governments and the Union came out dying⁴⁷.

Like most of the European States, the three countries had experienced severe monetary disorder in the early 19th century. Their currency systems were based on silver, according to the model of the city of Hamburg, which they had close commercial relationships with. The unit was called everywhere “thaler”, but its equivalence in metal and its subdivisions varied: the Norwegian thaler was worth two Danish thalers or four Swedes thalers and it was divided into 120 shillings, while the Danish thaler corresponded to six marks, and each mark was worth 16 shillings; only the Swedish thaler had a decimal division in 100 *öre*. This complexity did not disturb a strong circulations in the three States. On average, one-fifth of the circulation of each country was made up of the currencies of the others, and locally, in the border areas, the phenomenon was greater, as in the south of Sweden, where mainly Danish coins circulated. The

⁴⁵ On the history of the Scandinavian Monetary Union, please see, among the others: Lindgren, Raymond E., *Norway-Sweden: Union, Disunion, and Scandinavian Integration*, Princeton, Princeton University Press, 1913; Bergman, U. Michael, Gerlach, Stefan, Jonung, Lars, “The Rise and Fall of the Scandinavian Currency Union 1873-1920”, in *European Economic Review*, Vol. 37, No. 2, 1993, p. 507-517; Henriksen, Ingrid, Kærgård, Niels, “The Scandinavian Currency Union 1875-1914”, in Reis, Jaime (ed.), *International Monetary Systems in Historical Perspective*, London, Palgrave-Macmillan, 1995, p. 91-112; Talia, Krim, *The Scandinavian Currency Union 1873-1924: Studies in Monetary Integration and Disintegration*, Stockholm, Stockholm School of Economics, 2004; Jonung, Lars, *The Scandinavian Monetary Union 1873-1924*, cit.; Øksendal, Lars Fredrik, “The Impact of the Scandinavian Monetary Union on Financial Market Integration”, in *Financial History Review*, Vol. 14, No. 2, October 2007, p. 125-148; Sørensen, Anders Ravn, “Monetary Romanticism: Nationalist Rhetoric and Monetary Organisation in Nineteenth-Century Denmark”, in *Scandinavian Economic History Review*, Vol. 61, No. 3, 2013, p. 209-232.

⁴⁶ From 1814 to 1905 Norway was an independent kingdom, with its own constitution and its own parliament, though the crown was held by the King of Sweden. Following the separation of the two countries, in 1906 Haakon VII, son of Frederick VIII of Denmark, was crowned King of Norway.

⁴⁷ Cf. Olszak, *op. cit.*, p. 67.

same situation was found in the reserves of the issuing banks, where the currencies of neighboring States accumulated⁴⁸.

The three Scandinavian countries had participated at the 1867 Paris International Conference, which did not achieve practical results but created a lot of expectations for membership to the LMU.

Sweden seemed to be particularly interested, and since 1869 it began to adapt its monetary system to the French one. Sweden coined a new gold coin, called *karolin*, which was identical to the 10 French francs coin. The *karolin* had no legal tender, but it was used for commercial purpose. However, it should be noted that it was a gold coin, while LMU's reference was rather silver, as it did, indeed, in the Scandinavian systems.

The 1867 Paris discussions had shown great hesitation among the three Nordic countries, who wondered if it was reasonable to join a bimetallic system in crisis, the LMU, while the main trading partners, such as Britain, used the gold standard, or, as the German States, were preparing to do so. The German unification in progress was another hesitation factor since attracted Norway and created hardships in Denmark, proven by the defeat of 1864⁴⁹. These fears were quickly wiped out by the results of the Franco-Prussian War of 1870. The victory of Germany weakened the positions of France, of silver and of bimetalism proponents and reaching the German system and aligning to its principles resulted political impossible for the Nordic States.

The development of a purely Scandinavian system was decided. For this purpose, a Currency Commission was established. It met in Copenhagen on 19 August 1872. The agreement for monetary union was signed in Stockholm on 18 December 1872, but the next Treaty was ratified on 27 May 1873 only by Christian IX of Denmark and Oscar II of Sweden. On the contrary, the Norwegian Parliament rejected it with a narrow majority, fearful that the monetary union would serve to reinforce political union with Sweden. However, in October 1875 Norway coined a new currency: the crown, divided into 100 *øre*, which respected the rules of the 1872 Agreement. This made possible the subsequent accession into the Scandinavian Monetary Union, thanks to a new treaty of 16 October 1875⁵⁰.

⁴⁸ Cf. de Cecco, Marcello, *European Monetary and Financial Cooperation before the First World War*, in *Rivista di storia economica*, 1992, No. 1-2, p. 55-76, specifically p. 66; Olszak, *op. cit.*, p. 70-71.

⁴⁹ *Ivi*, p. 72. In 1864, Austria and Germany declared war on Denmark. Defeating it, they obtained the administration of the duchy of Schleswig-Holstein.

⁵⁰ Cf. Dowle, Anthony, *Monnaies modernes de 1789 à nos jours*, Fribourg, Office du Livre, 1972, p. 164.

The text of the founding document of the Scandinavian Monetary Union was really inspired to the Monetary Agreement of 1865. First of all, it appeared as a list of technical requirements on the issue of the metallic money, corresponding to a new common unit, the crown, which was equal in weight and standard to the old Swedish gold coin. The pieces would have the same weight and size in each country and only effigies and inscriptions would have varied from country to country. Correspondence with previous coins was fixed as follows: a crown had the value of one Swedish thaler, of half Danish thaler and of one quarter of Norwegian thaler. In fact, the new common system was drawn on the old Swedish system, which was already a decimal system.

From a brief analysis, the Scandinavian monetary system seemed freer than Latin Monetary Union, because there was no limitation regarding both the minted quantities and the liberating power⁵¹. This lack of restriction was justified by the impossibility of fixing quotas since in each of the three countries the currency needs were difficult to estimate. However, this freedom was only apparent, because the Convention contained a clause of unlimited redemption: any issuer State undertook to resume all issued divisional coins at the request of another country and to encash them into gold. Thus excessive emissions by the individual States were discouraged. Nevertheless, it must be underlined that a similar redemption clause existed in the Latin Monetary Union, with the possibility of exchange in gold or silver shields, but it seemed inadequate and was supplemented by very strict quantitative restrictions, which were frequently contested afterwards⁵². Moreover, there was, another severe clause, according to which a member State could not conclude other agreements without the consent of the partners⁵³.

Since the early years, the Scandinavian Monetary Union experienced the dominion of the fiduciary circulation, facilitated by the existence of small denomination banknotes. Since the start of the agreement, each central bank of the three countries accepted at par the banknotes issued by the others, even if for a long time there was no written commitment. The agreement between Norway and Sweden was signed only in 1894 and Denmark joined in 1901. Furthermore in 1885 started a Scandinavian

⁵¹ Cf. Bartel, Robert J., *International Monetary Unions: The 19th Century Experience*, in *Journal of European Economic History*, 1974, No. 3, p. 689-704, specifically p. 698.

⁵² Cf. Olszak, *op. cit.*, p. 73-74.

⁵³ This clause, which was intended to avoid any indirect and involuntary reunification to the German system or to the Latin Monetary Union's system, contrasted with the remarkable opening of the 1865 Paris Convention, which provided nothing in this sense and allowed new adhesions without agreement of the founders. Cf. *ibidem*.

clearing agreement. The three central banks mutually opened current accounts, which functioned without interest or bank charges. The clearing was done every three months and the debit balances should be adjusted in gold⁵⁴, but this favorable system was denounced by the Bank of Sweden in 1905, shortly after the political break with Norway.

None of the Scandinavian countries took part in the First World War; however, they were economically involved in the dramatic situation, so that the Scandinavian Monetary Union was suspended in 1914 for the duration of World War I and hardly began to work again after 1918. Sweden was the first country in Europe to re-establish convertibility of banknotes in January 1924; Denmark followed in December of 1926; then Norway in May 1928, but the monetary rules were very different among the three countries and in Denmark, in particular, the free convertibility was done in very high value gold bars. Actually, the circulation of gold in Europe was almost over.

Following the crisis of 1929, the three Scandinavian countries abandoned one after the other the gold exchange standard, which had become untenable, and tried to enter the area of the pound: it happened in 1933. 1931 marked the end of the 1872 Convention⁵⁵.

In fact, the cultural and economic similarities, albeit fundamental, were not able to guarantee the success and the duration of Scandinavian Monetary Union: the lack of a basic customs union, winning in the German case, and the persistence of different trade policies (which were liberal in Denmark and protectionist in Sweden and Norway) prevented in the Nordic countries the birth of a single market and led to the collapse of intra-community trade for the benefit of international trade with Great Britain and Germany⁵⁶.

Finally, as for the Latin Monetary Union, even in the case of the Scandinavian Monetary Union the absence of a supranational body that could coordinate the monetary policy of the various States led each country to follow its own path, to the detriment of cooperation⁵⁷.

⁵⁴ Cf. de Cecco, *European Monetary and Financial Cooperation*, cit., p. 67.

⁵⁵ Cf. Olszak, *op. cit.*, p. 81.

⁵⁶ Cf. Fauri, *op. cit.*, p. 29. The same consideration is presented by Bergman, U. Michael, "Do Monetary Unions Make Economic Sense? Evidence from the Scandinavian Currency Union, 1873-1913", in *The Scandinavian Journal of Economics*, Vol. 101, No. 3, September, 1999, p. 363-377.

⁵⁷ *Ibidem*.

4. Conclusions

The history of these three experiences shows that national monetary unions in Europe have lasted only as long as centralized governments have been able to maintain national political union. In case of supranational monetary unions, the monetary link is weaker and unions can be terminated without the destruction of a nation state. So far, looking to nowadays, if the European Union remains as it is, not proceeding towards a federation or a single political entity, the euro will remain a “temporary” arrangement, which could last few or many years but will not be permanent⁵⁸.

Monetary unions, however, tend to be rather persistent and dissolve only after very substantial economic or military shocks have created strong divergent political interests. From this historical analysis, it is clear that major economic shocks can destroy economic conditions for union: the economic divergence caused by the First World War deleted the Latin Monetary Union, while the Great Depression dissolved the Scandinavian Monetary Union. On the other hand, history teaches that successful monetary unions consolidate in a full political unification: the *Münzverein* becomes the German Monetary Unification (mark) after the creation of the German Empire in 1871⁵⁹.

Political unification followed by monetary unification has usually required a war, while supranational monetary unions have been the consequence of peace and free trade. Monetary unions alone, however, are not an absolute guarantee of peace and harmony. The political will to maintain a high level of cooperation remains crucial, and needs to be renewed continuously, without excessive confidence in the automatic development of institutional arrangements⁶⁰.

⁵⁸ Cf. Einaudi, “The Generous Utopia of Yesterday Can Become the Practical Achievement of Tomorrow”, cit., p. 104.

⁵⁹ Nuno, Valério, “Europe in the Mirror of Germany: To What Extent Does German Unification (1815-1888) Prefigure the Unification of Europe (1947-...)?”, in *The Journal of European Economic History*, Vol. 41, No. 2, Summer 2012, p. 117-146.

⁶⁰ Cf. Einaudi, “The Generous Utopia of Yesterday Can Become the Practical Achievement of Tomorrow”, cit., p. 104.

Robert Triffin et le processus d'intégration monétaire européenne

IVO MAES¹

« Les pays dont la paix, le progrès et la prospérité sont intimement interdépendants doivent, dans leur propre intérêt, apprendre à utiliser ou limiter leur souveraineté nationale à la lumière de cette interdépendance » (Triffin, 1957 : 30).

Robert Triffin (1911-1993) a joué un rôle important dans les débats monétaires internationaux qui ont eu lieu durant la période de l'après-guerre. Triffin s'est fait connaître grâce à son ouvrage intitulé « L'or et la crise du dollar », publié en 1960, dans lequel il prédit la fin du système de Bretton Woods. L'attitude qu'avait Triffin en matière d'économie a été bien résumée par Jacques de Larosière : « À mes yeux, le plus remarquable dans le travail et la personnalité du Professeur Robert Triffin est la combinaison de trois aspects : sa capacité d'analyse, son imagination dans le développement des institutions, et son pragmatisme en tant que praticien » (de Larosière, 1991 : 135).

Aujourd'hui encore, Triffin est toujours très présent dans les débats portant sur le système monétaire international. Pour Tommaso Padoa-Schioppa (2010), l'analyse de Triffin a transcendé le système de Bretton Woods. Pour Triffin et Padoa-Schioppa, l'approche consistant à « mettre de l'ordre dans ses propres affaires » (selon laquelle chaque pays vise l'équilibre intérieur) ne suffisait pas à garantir la soutenabilité et la stabilité du système monétaire international. Triffin allait dès lors adopter un point de vue « systémique » du système monétaire international, toujours en quête de la « contrepartie » dans le mécanisme d'ajustement international.

Dans la présente contribution, nous nous pencherons sur le rôle de Triffin dans le processus d'intégration monétaire européenne. Nous avançons que son travail présente une continuité remarquable. Dès ses tout premiers écrits, Triffin a développé une vision selon laquelle le

¹ L'auteur souhaite remercier tous ceux qui ont contribué à ce projet. Les réserves d'usage s'appliquent.

processus d'ajustement international ne fonctionnait pas conformément aux mécanismes classiques. Cette vision se fondait sur des analyses empiriques très fouillées de l'économie belge durant la Grande Dépression, mettant l'accent sur les déséquilibres et la période de transition. Sa thèse de doctorat sur la théorie de la concurrence imparfaite à Harvard ainsi que ses missions en Amérique latine pour le compte de la Réserve fédérale ont encore renforcé cette vision fondamentale. Comme de nombreux économistes de sa génération, Robert Triffin a été profondément marqué par la Grande Dépression des années 1930. À ses yeux, la conclusion de politique économique qu'il fallait en tirer était de placer alors la liquidité au cœur du système monétaire international et de coordonner les politiques économiques.

Les propositions que formulait Triffin en matière d'intégration monétaire suivaient une approche à deux niveaux, qui se préoccupait à la fois de la dimension internationale et de la dimension européenne. À cet égard, il a été fortement influencé par le début de l'après-guerre, notamment par l'échec du retour à la convertibilité ainsi que par le succès de l'Union européenne des paiements (dont il se réclamait aussi l'un des architectes). Il a ainsi avancé des propositions de réformes du système monétaire international. Cependant, face à ses doutes quant à leur réalisation future, il s'est également attaché à formuler des pistes d'intégration monétaire régionale, particulièrement en Europe. À ses yeux, ces deux approches présentaient une forte complémentarité et visaient l'instauration d'un système monétaire international multipolaire, dont la Communauté européenne serait un pilier fondamental. Il s'est ainsi érigé en fervent défenseur de l'intégration monétaire européenne.

Dans cet article, nous commencerons par évoquer les années de formation de Triffin avant de nous intéresser à ses écrits consacrés au système monétaire international, en particulier « L'or et la crise du dollar ». Nous nous intéresserons ensuite à l'analyse de Triffin ainsi qu'à ses propositions sur les politiques à adopter en matière d'intégration monétaire européenne.

1. Études et début de carrière

Robert Triffin a accompli ses études supérieures à l'Université de Louvain, où il a obtenu une licence en sciences économiques en 1935. Il a entamé sa carrière au sein de l'Institut des sciences économiques. Durant l'entre-deux-guerres, l'Institut est devenu un des premiers centres modernes de recherche économique dans le monde francophone (Maes, 2008). La

figure de proue y était à cette époque Léon-H. Dupriez, lui aussi diplômé d'Harvard et membre de la Banque nationale de Belgique. Dupriez était un éminent érudit dans l'analyse des cycles conjoncturels au sens large, à savoir l'interaction entre la croissance et les différents types de cycles dans l'économie. L'accent était surtout placé sur les différents secteurs industriels de l'économie, lesquels étaient alors au cœur du processus de croissance économique. Dupriez (1959 : 468) décrivait la révolution industrielle comme « une grande aventure *prométhéenne* de l'humanité » (souligné par l'auteur). De plus, selon lui, l'argent et la finance occupaient une place centrale dans l'économie. Dupriez a également été l'un des premiers à introduire des méthodes statistiques d'analyse conjoncturelle en Europe. Dupriez se singularisait par deux éléments. Premièrement, il fondait son analyse sur des recherches empiriques approfondies (en accordant beaucoup d'attention aux méthodes statistiques descriptives, ainsi qu'aux graphiques et aux tableaux). Il la décrivait lui-même comme « une théorie conjoncturelle "collant aux faits" » (Dupriez, 1959 : VIII). Deuxièmement, il n'était pas partisan des nouvelles écoles de pensée économique, comme l'économie keynésienne. L'approche théorique de Dupriez s'inspirait très largement de la théorie de l'équilibre général de Walras. À ses yeux, il était crucial que la théorie économique revienne aux décisions économiques individuelles.

En tant que petite économie ouverte, la Belgique a été durement touchée par la Grande Dépression des années 1930, surtout par la vive contraction du commerce mondial ainsi que par la chute des prix internationaux, soulevant d'âpres débats. Au printemps 1934, Dupriez présentait la dévaluation comme unique solution. En mars 1935, la Belgique a connu un profond remaniement politique. Paul van Zeeland, un collègue de Dupriez nommé premier ministre, a immédiatement procédé à une dévaluation du franc de l'ordre de 28 %, un pourcentage que l'on doit aux calculs du jeune Robert Triffin.

En 1935, Triffin a écrit un article statistique se fondant sur les calculs effectués pour la dévaluation, dans lequel il avançait que les écarts de prix, surtout la rigidité des coûts intérieurs, entraînait de lourdes pertes pour l'industrie belge et, partant, la fermeture d'entreprises : « Et des prix de vente apparemment favorables constituaient pour nos industriels des prix de famine, qui, en 1934, mettaient en perte la moitié des entreprises du pays » (Triffin, 1935 : 290). Il convient de noter par ailleurs que Triffin est arrivé à la conclusion que les prix des produits agricoles étaient bien plus sensibles aux fluctuations de la conjoncture (Maes, 2013). Ce constat allait devenir un thème majeur de son œuvre, utilisé pour illustrer le fait qu'une politique déflationniste au cœur du

système économique entraînerait des effets déflationnistes encore plus importants dans la périphérie de l'économie mondiale.

En 1937, alors étudiant de troisième cycle à l'Université de Harvard, Triffin a publié l'article intitulé « La théorie de la surévaluation monétaire et la dévaluation belge », expliquant aussi les contextes théorique et empirique de la dévaluation du franc belge. L'article de Triffin s'ouvrait sur une critique virulente de la théorie de la parité de pouvoir d'achat de Cassel, estimant en particulier qu'elle ne convenait pas aux situations de déséquilibre (Maes, 2012). La critique fondamentale que formulait Triffin, dans la continuité de son article précédent, était que Cassel ne considérait pas la structure des prix dans un pays. Suivant en cela Dupriez, Triffin opérait une distinction entre les secteurs « protégés » et les secteurs « non protégés » de l'économie. Dans ces derniers, les prix de vente devaient être alignés sur les prix en vigueur sur les marchés internationaux. Cela étant, les coûts dans les secteurs non protégés étaient largement déterminés par des facteurs nationaux, induisant une pression sur les bénéficiaires, une contraction de la production et une augmentation du chômage.

Triffin a intégré Harvard en 1935, où il a obtenu son Ph.D. en économie. Il s'y est pris de passion pour Joseph Schumpeter et la théorie économique pure. Comme il l'a écrit dans un article autobiographique : « Quelques semaines à Harvard ont toutefois suffi pour me convaincre que ce qui m'avait le plus manqué, c'était une bonne formation à la théorie pure, qui était alors enseignée à Harvard par le professeur Schumpeter, dont l'immense connaissance dans ce domaine, et dans bien d'autres, était aussi unique que son sens de la mise en scène devant ses étudiants » (trad. de Triffin, 1981 : 241). Au centre de la théorie économique se trouvait, d'après Schumpeter, la théorie de l'équilibre général. Sous la direction de Schumpeter, ainsi que de Leontief et Chamberlin, Triffin a rédigé une thèse intitulée « General Equilibrium Theory and Monopolistic Competition » (« Théorie de l'équilibre général et concurrence monopolistique ») (trad. de Triffin, 1941). Il s'efforçait d'y concilier la théorie de la concurrence imparfaite, qui tire ses origines de la théorie de l'équilibre partiel de Marshall, avec celle de l'équilibre général. Ce faisant, Triffin est ainsi devenu un expert de la théorie de la concurrence imparfaite, une théorie qui allait également imprégner sa perception des phénomènes monétaires internationaux.

Après avoir obtenu son Ph. D, Triffin est rentré en Belgique (Wilson, 2015). Ne parvenant toutefois pas à trouver un emploi qui lui convienne, il est retourné à Harvard en 1939. De 1942 à 1946, Triffin a travaillé au Conseil des gouverneurs du Système fédéral de réserve à Washington,

où il s'est principalement consacré à l'Amérique latine. Les missions qu'il a menées dans cette région ont constitué un épisode remarquable dans la diplomatie financière américaine et ont marqué une rupture avec les approches précédentes. Les dirigeants de la banque centrale américaine se sont non seulement détournés des politiques libérales classiques, mais ils se sont aussi « évertués à consulter leurs contreparties latino-américaines et à apprendre à les connaître, ainsi qu'à modeler et à ajuster leurs conseils aux besoins spécifiques de chaque pays » (trad. de Helleiner, 2009 : 24). Triffin lui-même a insisté sur le fait que son but était de placer les politiques monétaire et bancaire au service des « immenses objectifs de développement qui avaient jusque-là été ignorés par la réglementation en matière de banque centrale » (trad. de Triffin, 1981).

Pour Triffin, le cycle économique des économies d'Amérique latine n'était pas déterminé tant par l'épargne et les investissements nationaux que par les flux entrants et sortants des échanges commerciaux. Triffin se montrait par ailleurs critique envers le recours aux ajustements des taux de change à titre d'instrument de politique économique dans ces pays. Il a émis des doutes quant à l'efficacité de la dévaluation dans l'optique d'induire un réajustement de la balance des paiements, sachant que ces pays présentaient un degré élevé de spécialisation, proposant peu de produits à l'exportation et faisant face à une demande inélastique. Nul doute que l'analyse de Triffin était imprégnée de sa formation dans le domaine de la théorie de la concurrence imparfaite. Comme il l'affirmait, « cette situation rappelle le cas de la concurrence oligopolistique dans laquelle aucun vendeur n'est généralement en mesure de tirer bien longtemps profit d'une politique de réduction des prix » (trad. de Triffin, 1944 : 112).

2. Triffin et le système monétaire international

Durant cette période passée à la Réserve fédérale, Triffin a également commencé à s'intéresser au processus d'ajustement international. Il a écrit un premier et important essai sur le système monétaire international, intitulé « National central banking and the international economy » (« Les banques centrales nationales et l'économie internationale ») (trad. de Triffin, 1947).

Paolo Baffi, ancien gouverneur de la Banque d'Italie, a longuement évoqué cet article. Il faisait remarquer que Triffin était le premier économiste à insister sur la contradiction fondamentale entre la stabilité du système monétaire international et la souveraineté nationale en

matière de prise de décisions économiques, « Triffin a été le tout premier à souligner que les épisodes récurrents de crise et de trouble qui entachent les relations économiques extérieures résultent d'un dilemme fondamental entre la souveraineté nationale qui préside aux décisions de politique économique et la dose d'incompatibilité internationale inhérente à de telles "décisions atomistiques" » (trad. de Baffi, 1988 : 16 ; voir également Montani, 1989).

L'objectif de l'article de Triffin était d'examiner la manière de concilier les politiques monétaires nationales avec les conditions préalables à l'équilibre international. Cette question ne se posait pas à l'époque de l'étalon-or puisque la masse monétaire nationale échappait au contrôle des autorités nationales. Cependant, dans la nouvelle configuration du monde de l'entre-deux-guerres, cette option n'était plus à l'ordre du jour, vu que les pays étaient désormais nettement plus attachés aux objectifs de politique économique nationaux.

Triffin a par ailleurs soulevé la question de savoir si le système monétaire international de l'entre-deux-guerres reposait sur l'étalon-or ou sur l'étalon de change-sterling. À son estime, dans la mesure où la Grande-Bretagne constituait le principal centre commercial et financier du monde, toute modification du taux d'escompte britannique exerçait une incidence significative sur les mouvements de capitaux. Par conséquent, la politique d'escompte britannique influençait immédiatement l'économie et les prix non seulement en Grande-Bretagne mais aussi dans d'autres pays, répercutant ainsi les fluctuations conjoncturelles britanniques. Une politique monétaire restrictive en Grande-Bretagne entraînerait donc une amélioration des termes de l'échange et de la balance des paiements britanniques, les prix à l'étranger étant plus touchés que les prix britanniques. Le principal résultat de l'orthodoxie de l'étalon-or a été d'étendre au monde entier les perturbations conjoncturelles qui naissaient dans les grandes nations industrialisées. Eichengreen (1992) a baptisé ce phénomène l'« effet Triffin ».

Pour Triffin, les conclusions à tirer sur le plan des politiques à adopter étaient importantes : il fallait suivre le plus scrupuleusement possible des politiques compensatoires. Cela plaçait la liquidité internationale au cœur du système monétaire mondial. Triffin avait établi un classement des instruments de politique, préférant les contrôles de change à la dévaluation. « Si les réserves s'avèrent insuffisantes, il faut recourir à l'assistance étrangère ou internationale – telle celle envisagée sous l'égide du Fonds monétaire international. Sinon, il faut se servir du contrôle des changes comme troisième ligne de défense, afin de poursuivre

des politiques compensatoires et d'éviter les pires maux inhérents à la déflation ou à la dévaluation de la monnaie » (trad. de Triffin, 1947 : 80).

En 1960, Triffin a publié *L'or et la crise du dollar*, l'ouvrage qui lui a valu sa notoriété. Dans le droit fil de ses écrits précédents, il s'y intéressait à la liquidité internationale et à la vulnérabilité du système monétaire international. Triffin a souligné la fragilité du système de l'étalon de change-or, mettant en exergue la contradiction d'un étalon de change « dont le fonctionnement dépend de plus en plus d'un nombre limité de devises *nationales* qui constituent les composantes fondamentales des réserves monétaires *internationales* » (Triffin, 1962 : 21).

Triffin distinguait deux catégories de déficits de la balance des paiements à financer par les réserves internationales : premièrement, des déficits temporaires et, deuxièmement, des déséquilibres plus profonds, dont la correction prendrait un certain temps (Triffin, 1962 : 37). Pour une personne très affectée par l'expérience des années 1930, l'alternative n'augurait rien de bon : « Dans les deux cas, un niveau insuffisant de réserves forcera le pays déficitaire à recourir à des mesures qui n'auraient pas été indispensables, telles que déflation, dévaluation ou restrictions » (Triffin, 1962 : 37-38).

Triffin a avancé que les besoins mondiaux de liquidités étaient de plus en plus souvent couverts par l'accroissement des réserves de change, en particulier les « balances-dollars », ce qui le préoccupait fortement. Cela lui rappelait la période d'entre-deux-guerres et l'épisode de l'étalon-sterling. Pour Triffin, il s'agissait d'une construction particulièrement fragile, les fonds pouvant entrer et sortir sous l'effet de changements dans les rapports entre taux d'intérêt et/ou dans les perspectives d'évolution des taux de change. En outre, le retour à l'or au taux d'avant-guerre fragilisait sérieusement la livre sterling. La dévaluation de la livre sterling en septembre 1931 avait eu des conséquences dévastatrices pour le système monétaire mondial et les liquidités internationales. Elle avait sonné le glas de l'étalon de change-sterling et provoqué une implosion de la liquidité à l'échelle mondiale. « La conversion de livre sterling en or et en dollars avait été accompagnée puis suivie de conversions similaires de dollars en or. Les devises composant les réserves monétaires mondiales avaient pratiquement disparu dans l'opération » (Triffin, 1960 : 57). La chute de la liquidité monétaire internationale avait contribué à la Grande Dépression.

À la fin des années 1950, Triffin a témoigné une inquiétude croissante concernant la situation des réserves internationales des États-Unis en raison des pertes d'or subies par ce pays et de la hausse des engagements en dollars. Selon lui, la détérioration continue de la situation des réserves

nettes du pays allait saper la confiance des étrangers dans le dollar, en tant que moyen d'accumulation de réserves. Aux yeux de Triffin, la conclusion à tirer de la liquidité internationale était claire : « On ne peut donc pas compter sur des accroissements ultérieurs des balances dollars pour contribuer d'une façon substantielle et indéfinie à la solution du problème mondial que pose le défaut de liquidité » (Triffin, 1962 : 71).

Dès lors, Triffin estimait que l'étalon-or n'était pas tenable, ce qui a conduit à son célèbre dilemme :

« L'étalon de change or peut aider [...] à faire face à une pénurie des réserves monétaires mondiales. Il n'agit ainsi que dans la mesure où les pays à devise clef consentent à laisser la situation nette de leurs réserves se détériorer par des accroissements de dettes à court terme non compensés par des accroissements de leurs réserves brutes. S'ils laissent ceci se passer et se poursuivre, ils tendent toutefois à amener un effondrement du système lui-même par l'affaiblissement progressif de la confiance des étrangers dans les devises clefs » (Triffin, 1962 : 76).

Triffin, comme Keynes, s'est donc attelé à la recherche d'une solution plus « internationale » au problème de la liquidité mondiale, « une véritable "internationalisation" des devises composant les réserves internationales mondiales, protégeant ainsi le système monétaire international de l'instabilité résultant de déplacements arbitraires d'une devise vers une autre, ou d'une devise vers l'or ».

3. Triffin et l'intégration monétaire européenne

De toute évidence, Triffin a été un fédéraliste européen convaincu. Il a fait connaissance avec Jean Monnet en 1948 et est devenu très actif au sein du Comité d'action pour les États-Unis d'Europe, fondé par Monnet. Triffin (2010 : 95) raconte qu'initialement, Monnet et lui n'étaient pas d'accord sur la tactique à adopter en vue de la poursuite de l'intégration monétaire européenne : « Mes premiers contacts avec Jean Monnet remontent à 1948 et furent marqués par un désaccord total sur la tactique à suivre pour promouvoir le but ultime sur lequel je partageais son enthousiasme : le parachèvement de l'Union monétaire européenne comme élément essentiel de son union politique dans ce qu'il appelait les États-Unis d'Europe. Je négociais alors à l'OECE mon projet d'Union européenne des paiements (UEP) [...] accepté intégralement en septembre 1950 contre l'opposition forcée du département du Trésor des États-Unis ». Mais Monnet était sceptique vis-à-vis du projet d'UEP, « jugé beaucoup trop modeste et insuffisant ». Néanmoins, constatant

le succès de l'UEP, Monnet est devenu un ardent partisan du Fonds de réserve européen :

« Le succès de l'UEP dépassa rapidement toutes les espérances et balaya le scepticisme initial de Jean Monnet et les objections de nombreux autres économistes et dirigeants financiers et politiques. C'est avec conviction et enthousiasme que Monnet appuya en 1957 mes propositions de développer l'UEP en un Fonds de réserve européen auprès duquel les banques centrales de pays de la Communauté détiendraient en une monnaie commune, baptisée écu, une proportion grandissante de leurs réserves d'or et de devises. »

Dans le prolongement de sa collaboration avec Jean Monnet, Triffin s'est également engagé dans le Mouvement fédéraliste européen (cf. Montani, 2015 pour la participation de Triffin à ses activités en Italie).

3.1 L'Union européenne des paiements (UEP)

En instaurant le Plan Marshall, proposé en juin 1947, le gouvernement américain a reconnu la nécessité d'une approche de la reconstruction économique en Europe fondée sur un retour aux échanges sur une base multilatérale. En tant que membre de l'administration (américaine) du programme de reconstruction européenne, Triffin a influé sur la création de la dimension monétaire du Plan Marshall, inscrite dans l'UEP. Eichengreen (trad. de 1993 : IX) décrit même Triffin comme l'« architecte de l'UEP ».

Selon Triffin, le processus de réintégration de l'Europe dans l'économie internationale ne pouvait être que progressif et recourir à la « multilatéralisation des échanges et des paiements », en opposition flagrante aux « techniques bilatérales et discriminatoires » toujours utilisées à la fin des années 1940 (Péters, 2001). Si Triffin a admis la nécessité d'imposer des restrictions sur les transferts commerciaux et monétaires, il a également souligné que les restrictions bilatérales étaient de loin les plus néfastes et qu'elles devaient être traitées en priorité (Maes et Pasotti, 2017).

Triffin a par ailleurs mis en exergue qu'il convenait de considérer la libéralisation des échanges dans sa pleine dimension économique, administrative et politique :

« Des engagements mutuels, portant sur un vaste domaine de la politique économique, sont indispensables à la réussite et à la consolidation des mesures de libéralisation des échanges [...] Nous assistons actuellement au développement progressif de zones transfrontalières de libre-échange – ou, du

moins, d'échange plus libre –, qui s'appuie sur des engagements réciproques relevant de différents degrés de souveraineté économique nationale. » En outre, Triffin a insisté sur les avantages d'une approche régionale : « J'ai bien plus confiance dans le maintien des considérations pratiques quant aux intérêts nationaux de chaque participant et à la faisabilité de la mise en œuvre administrative et politique que dans les accords universels basés sur des idéologies économiques abstraites et extrêmement difficiles à négocier et à gérer effectivement dans la pratique. L'intégration économique est un processus de croissance qu'un aménagement global et prématuré peut facilement étouffer au lieu d'accélérer » (trad. de Triffin, 1954 : 537).

Par ailleurs, l'idée d'une convertibilité universelle qui avait prévalu à Bretton Woods a entravé les progrès dans le domaine monétaire. Le FMI s'est vu imposer des objectifs et des instruments qui ne s'accordaient qu'avec le long terme. En outre, son mode de fonctionnement s'est avéré inadapté pour gérer les transitions et s'attaquer aux problèmes spécifiques aux régions.

Toutefois, pour faire fonctionner tant le mécanisme de compensation que la multilatéralisation des engagements nets ou des créances nettes, l'Union européenne des paiements avait besoin d'une unité monétaire (dans laquelle tous les comptes pussent être libellés). L'accord de l'UEP a donné naissance à une unité de compte spécifique à l'UEP, initialement définie par une teneur en or équivalente à celle du dollar des États-Unis de 1950. Cette teneur en or pouvait être modifiée à tout moment par décision du Conseil de l'OECE. Mais la règle de l'unanimité applicable aux décisions de l'OECE rendait une telle modification hautement improbable : les créanciers auraient toujours intérêt à opposer leur veto à une dévaluation, et les débiteurs à opposer leur veto à une appréciation de l'unité UEP (Triffin, 1957 : 173). Il a dès lors été stipulé qu'aucun pays ne pouvait opposer son veto à une modification équivalente (ou inférieure) à l'appréciation ou à la dépréciation de sa propre monnaie. Cela revenait à définir l'unité de compte UEP en fonction de la monnaie des États membres qui demeurerait la plus stable (par rapport à l'or).

Dans une note de bas de page de son ouvrage intitulé *Europe and the Money Muddle*, Triffin revendique la paternité de cette formule et signale sa pertinence pour l'avenir de l'intégration monétaire européenne : « L'objectif que je poursuivais en proposant et en défendant cette formule [...] consistait également à définir une forme de garantie de taux de change qui pourrait ultérieurement être utilisée pour encourager la reprise des mouvements de capitaux en Europe, et une unité monétaire qui pourrait être adoptée dans les futurs accords sur l'intégration économique européenne » (trad. de Triffin, 1957 : 173). Par la suite, Triffin allait

personnellement être associé de manière active à ce processus (voir ci-dessous).

Triffin estimait que le système UEP, qui reposait sur un accord international, était largement supérieur à l'étalon-or :

« Il n'y avait jamais eu d'accord entre les pays utilisant l'étalon-or, tandis que l'UEP est un système d'engagements simultanés. Cette caractéristique essentielle explique pour une bonne part son succès. Il serait extrêmement difficile, sinon impossible, d'amener un pays quelconque à renoncer aux pratiques restrictives, que ce soit sur le plan monétaire ou commercial, s'il ne bénéficiait pas en retour d'une certaine assurance que les autres pays allaient faire de même [...] Je ne puis m'empêcher de penser, par conséquent, que ce système d'engagements réciproques et simultanés est très prometteur » (trad. de Triffin, 1954).

3.2 Le bilan du Traité de Rome aux yeux de Triffin

Au milieu des années 1950, les six « pays Schuman » qui avaient présidé à la création de la Communauté européenne du charbon et de l'acier ont suivi deux chemins assez différents sur la voie de l'intégration économique. Les six ont opté pour l'intégration régionale des marchés des biens, avec la création de la Communauté économique européenne (CEE). Mais la coopération monétaire a quant à elle été considérée d'un point de vue planétaire, avec le rétablissement de la convertibilité externe totale dans le cadre du système de Bretton Woods (Abraham et Lemineur-Toumson, 1981).

Le traité CEE était de facto d'ordre constitutionnel et allait transformer les règles économiques et juridiques dans les pays de la Communauté européenne. Mais il laissait les décisions macroéconomiques et monétaires entre les mains des différents États membres. Les responsabilités de la Commission portaient principalement sur l'orientation et la coordination des politiques nationales. Triffin (1958 : 1) a décrit à l'époque la dimension monétaire limitée du traité CEE comme « un Hamlet dans lequel le rôle du prince du Danemark est presque totalement ignoré ».

Les dispositions concernant les questions macroéconomiques et monétaires se trouvent, dans le Traité de Rome, au chapitre consacré à la « balance des paiements ». Il en ressort que les thèmes macroéconomiques et monétaires étaient abordés sous l'angle du « marché commun », au motif que d'éventuels déséquilibres dans la balance des paiements menaceraient la création et le fonctionnement du marché commun (Maes, 2006). Conformément à l'article 104 du traité, chaque État membre

« pratique la politique économique nécessaire en vue d'assurer l'équilibre de sa balance globale des paiements et de maintenir la confiance dans sa monnaie, tout en veillant à assurer un haut degré d'emploi et la stabilité du niveau des prix ». Cette disposition reflétait très bien l'approche que défendait l'Allemagne quand elle préconisait de « mettre sa propre maison en ordre ».

L'article 108 du traité portait sur la situation d'un État membre en proie à de graves déséquilibres de sa balance des paiements susceptibles de menacer le fonctionnement du marché commun. Il prévoyait que la Commission devait procéder à un examen de la situation et l'autorisait à recommander des mesures à prendre par l'État membre. En outre, l'article prévoyait la possibilité d'accorder le « concours mutuel ».

Après la création de la Communauté économique européenne, le 1^{er} janvier 1958, Robert Triffin est devenu conseiller officiel à la Commission. Il a entretenu des liens très étroits avec le vice-président Marjolin, chargé des affaires économiques et financières. Ils s'étaient rencontrés pendant la Seconde Guerre mondiale, à l'époque où ils étaient tous deux à Washington. Ils avaient par ailleurs été à Paris ensemble au début des années 1950, lorsque Marjolin inaugurait le poste de secrétaire général de l'Organisation européenne de coopération économique (OECE) et que Triffin était à la tête du bureau européen du FMI. Lorsque Triffin venait à Bruxelles, les deux hommes restaient généralement jusqu'aux petites heures à discuter de l'Europe et des problèmes monétaires mondiaux.

Les relations entre Robert Triffin et Raymond Barre, qui avait succédé à Marjolin en 1967, étaient nettement moins étroites. Barre avait une approche beaucoup plus « pragmatique » et « réaliste », en porte-à-faux avec la vision plus « utopique » qu'avait Triffin de l'intégration monétaire européenne. Plus tard, lorsque la présidence de la Commission est revenue, en 1977, à Roy Jenkins, lui aussi plus « monétariste » et volontariste, Triffin a repris de l'importance. Jenkins souligne dans ses mémoires sur le volet européen de sa carrière (trad. de *European Diary*, 1989 : 296) que Triffin « nous a été grandement utile dans le cadre du lancement du SME ».

Au sein de la DG II, la direction générale des affaires économiques et financières, Triffin était très proche de Frédéric Boyer de la Giroday, directeur des affaires monétaires. Ils s'étaient côtoyés comme collègues au FMI à la fin des années 1940 et œuvraient tous deux activement en faveur de l'intégration monétaire européenne. Dans une lettre à Triffin, Boyer reconnaît ses dettes à l'égard du « Triffin Treasury of smart ideas » (lettre de Boyer à Triffin, 2 août 1967, RTA, 8557).

3.3 Un Fonds de réserve européen

Dans la seconde moitié des années 1950, Monnet a commencé à s'intéresser de près à l'intégration monétaire européenne. C'était également une conséquence de la crise financière française de l'époque, qui menaçait la participation de la France au projet de marché commun. Fidèle à lui-même, Monnet a placé le problème français dans un contexte européen et s'est tourné vers son réseau de connaissances pour recueillir des conseils d'ordre technique. Les réponses lui sont venues de Uri, de Delouvrier, de Marjolin, et, « surtout », de « l'ami belge de Marjolin » (trad. de Duchêne, 1994).

La situation macro-économique et monétaire de la France préoccupait aussi sérieusement la Commission européenne, l'amenant à réfléchir à la manière dont elle pourrait remplir son rôle dans le domaine macroéconomique et monétaire (Maes et Buyst, 2004). En étroite collaboration avec Triffin, Marjolin a élaboré une proposition visant à mettre en place un Fonds de réserve européen. Ce projet de Fonds de réserve européen allait devenir l'un des grands sujets d'analyse de Robert Triffin au cours de sa carrière de conseiller à la Commission européenne.

Triffin critiquait sévèrement la portée limitée de l'Accord monétaire européen (AME) signé en 1955. Dans le cadre de l'AME, un Fonds européen avait été créé qui donnait aux membres de l'AME l'accès à des facilités de crédit non automatiques en cas de difficultés temporaires dans l'équilibre de la balance des paiements. De l'avis de Triffin, les dispositions de l'AME, qui allaient devenir opérationnelles après la dissolution de l'Union européenne de paiements, n'étaient pas assez ambitieuses. Il préconisait de tirer parti de la prochaine révision de l'UEP pour transformer l'Union des paiements en une chambre de compensation pour l'ensemble des banques centrales européennes, et de requérir de ces dernières de détenir toutes leurs réserves monétaires européennes – voire une partie déterminée de l'ensemble de leur réserves d'or et de devises – sous la forme de dépôts auprès de l'UEP » (trad. de Triffin, 1957 : 285). Cette chambre de compensation européenne utiliserait ces réserves pour intervenir sur les marchés de changes internationaux, réalisant ainsi de manière plus ou moins équivalente les opérations d'*open market* habituellement effectuées par les banques centrales nationales sur leurs marchés domestiques (Triffin, 1957 : 292). Cela préparerait le Fonds de réserve européen à se muer naturellement en « Autorité monétaire européenne » :

« Tous les paiements entre banques centrales, au sein de la Communauté, s'opéreraient par simple transfert obligatoire sur le compte de dépôt

que chaque banque centrale serait tenue de détenir auprès du Fonds de réserve européen. La constitution de ces dépôts doterait le Fonds d'une vaste « masse de manœuvre » qui pourrait être utilisée pour assurer le financement du concours mutuel prévu par le traité de Rome, pour orienter l'évolution de la politique monétaire globale de la Communauté et pour ouvrir progressivement la voie, sur le plan tant pratique que fonctionnel, à la création d'une autorité monétaire européenne capable de « mener le navire » et d'assurer en fin de compte l'intégration monétaire complète entre les six pays de la Communauté » (Triffin, 1958 : 9).

Le Fonds de réserve européen pourrait ainsi être constitué en mettant en commun 10 à 20 % des réserves internationales des banques centrales des États membres (une proposition qui allait forcément s'attirer les foudres des banquiers centraux). Le Fonds pourrait accorder différents types de prêts, tant pour assister les pays confrontés à des difficultés en matière de balance des paiements que pour soutenir la croissance économique. Triffin (1989 : 9) prétendait même que le Fonds pourrait jouer un rôle utile lors des crises bancaires.

Cette idée selon laquelle la Communauté devrait disposer de ressources permettant de faciliter la solidarité financière allait devenir un thème récurrent des propositions de la Commission. On observe ici une certaine ressemblance avec le mécanisme européen de stabilité. L'un des principes de base en est que de tels mécanismes, par l'adoption d'une orientation commune, constituent une manière plus efficace d'éviter la spéculation que des mesures nationales isolées. Ils permettent également d'offrir des « carottes » aux pays qui ont dû adapter leurs politiques, accroissant ainsi l'influence des recommandations de la Commission.

Triffin préconisait par ailleurs d'introduire une unité de compte européenne : « Les comptes de dépôt du Fonds Européen [...] seraient libellés en une unité de compte européenne, définie de manière à lui assurer une stabilité égale à celle de la plus stable des monnaies participantes » (Triffin, 1958 : 10). Dans une note de bas de page, il faisait de nouveau référence à l'exemple de l'Union européenne des paiements : « La définition légale d'une telle unité de compte serait similaire à la formule employée pour la définition de l'actuelle unité de compte U.E.P. ».

Comme on l'a dit plus haut, Triffin établissait un lien très étroit entre ses propositions de système monétaire international et l'intégration monétaire européenne. Il était convaincu que l'intégration monétaire régionale contribuerait à une plus grande stabilité du SMI. De son point de vue, le Fonds de réserve européen permettrait également de renforcer le système monétaire international :

« Le double mécanisme de compensation et de crédits d'un Fonds Européen de Réserve contribuerait d'autre part à la solution d'un problème paradoxalement négligé ou même ignoré aujourd'hui [...] : celui de la liquidité nécessaire au fonctionnement satisfaisant du système monétaire international lui-même » (Triffin, 1958 : 12).

La Commission européenne a discuté du projet de Fonds de réserve européen en sa séance du 20 novembre 1958. Elle a donné son accord de principe sur le projet, mais a reporté le débat sur la mise en œuvre à une réunion ultérieure (Minutes de la réunion de la Commission du 20 novembre, COM(58) PV 38, partie secrète, CECA). Triffin a par ailleurs activement défendu cette idée à Paris (Triffin, 1958). Mais en décembre 1958, De Gaulle a dévalué le franc français et a instauré des mesures de politique économique orthodoxe. Les pays participant à l'Union européenne des paiements ont rétabli la convertibilité externe de leurs monnaies dans le cadre du système de Bretton Woods. La proposition de créer un Fonds de réserve européen a dès lors perdu sa raison d'être (même si Monnet a tenté de la relancer au début des années 1960).

L'idée a été remise à l'ordre du jour en 1969, lorsque Willy Brandt a été élu chancelier. Brandt était membre du Comité d'action pour les États-Unis d'Europe de Jean Monnet, qu'il a consulté en vue de se préparer pour le sommet de La Haye. Monnet a fait appel à Robert Triffin, qui a rédigé une nouvelle proposition de Fonds de réserve européen (Monnet, 1976 : 610). Le sommet de La Haye de décembre 1969 s'est clôturé sur un accord selon lequel « au sein du Conseil, un plan par étapes sera élaboré au cours de l'année 1970 en vue de la création d'une union économique et monétaire ». Le communiqué précisait que les chefs d'État ou de gouvernement étaient « convenus de faire examiner la possibilité d'instituer un Fonds de réserve européen auquel devrait aboutir une politique économique et monétaire commune ». Le sommet de La Haye a marqué une rupture fondamentale dans le processus d'intégration européenne, l'UEM figurant désormais officiellement à l'ordre du jour.

3.4 Une monnaie européenne

L'approche « monétariste » adoptée par Triffin en matière d'intégration monétaire européenne apparaît clairement dans son plaidoyer pour la création d'une monnaie européenne et dans ses propositions de faire de cette monnaie européenne une monnaie parallèle, qui circulerait aux côtés des monnaies nationales existantes, à la fois dans les circuits monétaires officiels (par exemple entre banques centrales) et dans les circuits commerciaux (par exemple sur les marchés obligataires). Il est en outre remarquable que

Triffin soit intervenu non seulement dans le secteur officiel (par exemple en qualité de conseiller auprès de la Commission européenne), mais également dans le secteur privé (par exemple en tant qu'administrateur de la Kredietbank Luxembourgeoise, qui était la principale banque sur le marché des obligations libellées dans l'unité de compte européenne, notamment grâce aux conseils de Triffin).

Comme on l'a déjà évoqué, la création d'une unité monétaire européenne était au cœur des propositions de Triffin, à la fois pour l'Union européenne des paiements et pour un Fonds de réserve européen. L'effondrement du système de Bretton Woods au début des années 1970 allait donner un nouvel élan à ses idées. Triffin préconisait d'agir à deux niveaux, à la fois à l'échelle mondiale et à l'échelon européen. Sur le plan mondial, il recommandait de créer un étalon international inspiré des DTS, d'instaurer des règles d'ajustement plus symétriques et de mettre en place un système permettant de recycler les excédents.

Pour Triffin, le SME, créé en mars 1979, était un aspect essentiel d'un SMI réformé, plutôt qu'une stratégie isolée, ou même en opposition au dollar (Bussière et Feiertag, 2012). L'écu nouvellement créé devait être l'instrument qui servirait à la coopération entre les monnaies européennes, et il jouerait un rôle plus étendu sur le plan régional. À l'échelle mondiale, il émergerait un système décentralisé au sein duquel l'écu jouerait son rôle aux côtés du dollar, et cela deviendrait un système adapté à un « monde hétérogène et diversifié ». Triffin a contribué à promouvoir son modèle en organisant des conférences rassemblant des universitaires, des praticiens et des représentants officiels. En juin 1981, une conférence organisée à Louvain-la-Neuve a réuni des représentants de la Commission européenne, de la Banque nationale de Belgique et des secteurs bancaire et de l'assurance, qui ont esquissé les grandes lignes d'un programme d'élargissement des utilisations de l'écu par les acteurs de l'économie (RTA, 17.2, Séminaire international sur les utilisations privées de l'Ecu, Louvain, 13-14 juin, CR).

Le report de la création d'un Fonds monétaire européen (la phase dite institutionnelle du SME), à la fin de 1980, a été un moment déterminant. Triffin a défini les objectifs et les voies à suivre : instauration de l'écu comme monnaie parallèle pour les pays de la Communauté européenne, utilisation par le secteur privé en tant qu'alternative au marché des eurodevises, des dispositifs de soutien monétaires et financiers, multilatéralisation des accords de swap avec les États-Unis et dénomination en écu, et l'association du Fonds monétaire européen aux interventions intramarginales sur les marchés des changes (nombre de ces idées ont également été développées par la Commission européenne,

et en particulier par Padoa-Schioppa, qui était alors directeur général pour les Affaires économiques et financières).

Dès les années 1950, Triffin avait promu l'idée d'utiliser l'unité de compte de l'Union européenne des paiements pour les émissions d'obligations sur les marchés financiers. Cette idée a été reprise par la Kredietbank en 1961, sous l'impulsion de Triffin qui a été directeur de la Kredietbank Luxembourg de 1961 à 1988. Comme l'a observé De Beckker :

« La première émission en unités de compte européennes (UCE) peut facilement prétendre à être considérée comme la toute première émission d'obligations, précédant ce qui est conventionnellement considéré comme la première émission par Autostrade en 1963. Si l'on considère la définition généralement acceptée d'une émission d'une euro-obligation, c'est-à-dire une émission souscrite et placée par un syndicat international de banques et libellée dans une devise qui n'est pas la devise de l'emprunteur, alors la première émission d'euro-obligations a été lancée en 1961 par la Kredietbank SA luxembourgeoise pour l'emprunteur portugais SACOR ». (trad. de De Beckker, 1984 : 129).

Après la création du SME, Triffin a été très actif dans la promotion de l'Écu commercial. En juin 1980, Triffin a organisé une conférence sur « l'utilisation privée de l'écu » pour les participants aux marchés commerciaux (Triffin et Swings, 1980). Alfonso Iozzo (2012 : 137), qui a assisté à la conférence, l'a qualifiée de « serment solennel ». Après la réunion, de nombreuses initiatives ont été prises, de l'ouverture de comptes courants libellés en Écus à l'émission de chèques de voyage. Dans deux secteurs en particulier, les opérations en Écus ont fait un bond prodigieux : a) l'émission d'obligations, d'abord de banques et de sociétés, ensuite d'États, en particulier l'Italie; et b) l'établissement d'un système de compensation quotidienne. Triffin a également joué un rôle actif dans le développement du système de compensation en Écus. Padoa-Schioppa (1987) nous raconte comment, lorsqu'il était directeur général à la DG II à la Commission, « incité par Robert Triffin et Paul Caron, j'ai convoqué en février 1982 les banques qui opéraient alors sur le marché de l'Écu et les ai invitées à mettre sur pied un groupe d'études pour la création d'un système de compensation multilatéral ».

Le succès de l'Écu privé a créé une dynamique pour d'autres initiatives en matière de politiques à adopter. Comme le soutient Iozzo : « parallèlement au flux d'obligations en Écus émises en volumes croissants qui avaient atteint des parts importantes du marché mondial et étaient « officiellement » enregistrées dans les statistiques internationales, les promoteurs du Système monétaire européen, l'ancien Président français

Valéry Giscard d'Estaing et l'ancien chancelier allemand Helmut Schmidt, ont repris l'initiative en 1986 en mettant sur pied le « Comité pour l'Union monétaire européenne », qui comprenait des hommes politiques importants, des industriels et des représentants du secteur financier des principaux pays européens. » (trad. d'Iozzo, 2012 : 138). Néanmoins, sous l'influence de Renaud de la Genière, ancien gouverneur de la Banque de France, ils ont rejeté l'approche d'une monnaie parallèle, comme le ferait ultérieurement le Comité Delors.

4. Conclusion

Triffin a été l'une des personnalités dominantes des débats monétaires internationaux durant la période d'après-guerre. Ses analyses étaient basées non seulement sur une large compréhension théorique et historique du système monétaire international mais également sur des observations empiriques avisées de la situation économique et financière.

Triffin a été l'un des principaux critiques de l'approche de « la maison en ordre » (*house in order*) du système monétaire international. Comme le fait observer Baffi, « les propositions de Triffin sont basées sur la conviction profonde que « garder sa maison bien en ordre » sans remplir les obligations complémentaires à l'échelon international n'est pas une condition suffisante pour garantir la stabilité monétaire » (trad. de Baffi, 1988 : 16). Aux yeux de Triffin, un système monétaire international soutenable dépendrait également d'une fourniture appropriée de liquidité internationale, pour financer les déséquilibres temporaires, et d'une coordination de la politique économique.

Dans les débats sur l'intégration monétaire européenne, Triffin était certainement un « utopiste », développant des propositions de politique qui étaient souvent trop ambitieuses au regard des réalités économiques et politiques. C'était certainement l'une de ses faiblesses, et cela lui a fait perdre de l'influence sur des responsables plus pragmatiques. Néanmoins, avec ses propositions plus « utopistes », comme celles de l'Écu comme monnaie parallèle, il a façonné les débats sur l'intégration monétaire européenne, préparant les esprits à l'introduction de l'euro. De plus, le mécanisme de stabilité européen récemment créé présente une série de similarités par rapport aux propositions de Triffin sur un Fonds de réserve européen. Mais, comme Triffin assimilait largement l'UEM à un système de taux de change stables, il n'accordait pas beaucoup d'attention aux conditions (économiques et politiques) préalables pour une UEM

soutenable, et il a largement sous-estimé les interdépendances complexes qu'une telle union allait faire naître.

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Le Plan Werner et la découverte de l'Europe monétaire

Andreas WILKENS

Le Plan Werner représente la première tentative cohérente des pays de la Communauté européenne pour tracer le chemin vers une « Union économique et monétaire » (UEM). L'initiative ne surgit pas au hasard, en ce moment historique au début des années 1970. On sait que les réflexions et les travaux pratiques sur une meilleure coordination en matière monétaire remontent plus loin dans le temps et prennent une forme systématique à partir de l'année 1968. La faiblesse du Dollar, le déclin du système de *Bretton Woods*, l'achèvement du Marché commun, les tensions déjà sensibles entre les monnaies européennes – tous ces facteurs favorisent, vers la fin des années 1960, les initiatives en vue d'une meilleure coopération monétaire au niveau de l'Europe des Six.

La spectaculaire crise monétaire de l'automne 1968 renforce la prise de conscience plus large et plus profonde des défis désormais posés. Les économies européennes évoluaient selon des rythmes fort différents : reprise vigoureuse en Allemagne fédérale, crises économiques et monétaires en France et en Grande-Bretagne. Des dollars commençaient à inonder les marchés de devises, des mouvements spéculatifs d'une ampleur jusqu'alors inconnue accentuaient les déséquilibres. Dans ce désordre croissant, la plupart des gouvernements européens et américain demandaient une forte réévaluation du mark ce qui était catégoriquement refusé par le gouvernement allemand¹. L'échec éclatant de la conférence du « groupe des Dix », en novembre 1968, agit ainsi comme révélateur : à l'évidence, une meilleure concertation entre les politiques monétaires était nécessaire afin de pouvoir mettre en place les mécanismes manifestement indispensables.

À regarder de près, le sujet monétaire fut abordé sous divers angles, tout au long de l'année 1968. Il en est ainsi, par exemple, de l'« initiative européenne » présentée par Bonn, au Conseil des ministres à Bruxelles,

¹ Wilkens, Andreas, « L'Europe et sa première crise monétaire. Bonn et Paris en novembre 1968 », *Journal of European Integration History / Revue d'Histoire de l'intégration européenne* 18 (2012), 2, p. 221-243.

au mois de septembre 1968. À cette occasion très précoce, un premier projet du ministère allemand de l'Économie trace les grandes lignes d'une évolution vers une Union économique et monétaire. L'esquisse, déjà, ne laisse aucun doute sur la nécessité d'une « harmonisation » des politiques économiques des pays européens, préalable à toute harmonisation ultérieure de la politique monétaire². La fixation d'objectifs concrets en matière de croissance et de stabilité des prix devait, par la suite, permettre le passage à une « politique commune », comprenant la libéralisation des mouvements des capitaux et l'élimination progressive des marges de fluctuation. À Bruxelles, cette initiative fut rapidement mise de côté³.

Quelques mois plus tard, le plan présenté par le vice-président de la Commission européenne, Raymond Barre, en février 1969, était – somme toute – assez proche des conceptions allemandes⁴. Selon les termes du Plan Barre, le renforcement de la coordination des politiques économiques était le préalable de la mise en œuvre d'un mécanisme communautaire de coopération monétaire. Devant le Parlement européen, dès octobre 1968, Raymond Barre avait ainsi affirmé qu'une union monétaire ne pourrait être conçue que comme le « couronnement » de l'union économique⁵. Cette expression était désormais une référence, elle correspondait largement à la vision allemande.

Toutefois, certains représentants de la *Bundesbank* s'interrogeaient avec scepticisme sur la possibilité d'attendre des partenaires européens qu'ils reprennent à leur compte « nos propres conceptions de stabilité »⁶. Dans les discussions en cours, au sein du « comité monétaire », Français, Allemands, Italiens, Belges avaient déjà pu mesurer combien leurs idées sur les avantages d'une monnaie commune stable n'étaient pas toujours exactement les mêmes.

² Ministère de l'Économie, « Aufzeichnung zur deutsch-französischen Konsultation am 27. September 1968 », 24 septembre 1968, Bundesarchiv Koblenz (par la suite : BArchK), B 102 (ministère de l'Économie), Vol. 51042.

³ Compte rendu de la réunion du Conseil par le représentant allemand Sachs, 27 septembre 1968, *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland* (par la suite : AAPD), 1968, doc. n° 315.

⁴ Cf. les propos de Schiller au Conseil des Communautés européennes (Conseil de la politique conjoncturelle), le 12 décembre 1968, compte rendu, *Historisches Archiv der Deutschen Bundesbank* (Francfort ; par la suite : HA Bundesbank), B 330, Vol. 10851.

⁵ Discours du 2 octobre 1968, *Amtsblatt der Europäischen Gemeinschaften*, septembre/octobre 1968, p. 148.

⁶ Selon les termes d'Otmar Emminger, représentant de la *Bundesbank* au Comité monétaire, « Stichworte zur Aufwertungsfrage », 8 mai 1969, HA Bundesbank, N 2, K 578 ; cf. *idem*, « Bilanz der Währungskrisen », *Außenpolitik* 20, mars 1969, p. 135-147.

Sur un plan général, force est de constater que les réflexions sur l'avenir monétaire de l'Europe sont déjà engagées quand la césure importante de l'année 1969 accélère le cours des événements : en France, Georges Pompidou succède au général de Gaulle, Willy Brandt accède à la chancellerie à Bonn et la conférence de La Haye, début décembre 1969, était destinée à projeter l'Europe dans une nouvelle phase de son développement.

Du côté allemand, Brandt entendait faire de ce premier « sommet » européen un marqueur important du début de son gouvernement⁷. Le 7 novembre 1969, il reçoit Jean Monnet qui l'encourage en particulier à prendre l'initiative en matière monétaire⁸. Brandt s'y montre très favorable. Le chancelier retient en particulier l'idée de la mise en place d'un fonds monétaire européen susceptible de présenter un certain nombre d'avantages : ce serait un moyen pour abrégé « le débat entre la poule et l'œuf », à savoir la préséance entre des mesures d'intégration monétaire et la convergence des économies nationales⁹.

Brandt notait aussi qu'un tel fonds monétaire européen aurait valeur de symbole sur le plan de la « politique extérieure générale », dans la mesure où le gouvernement allemand « donnerait l'impression convaincante que nous sommes prêts – à partir d'une position relativement forte – à faire une contribution essentielle »¹⁰. Pour discuter de ce projet, Brandt se disait prêt à convoquer une conférence dédiée à Bonn, à brève échéance.

Si Jean Monnet enfonçait des portes ouvertes auprès du chancelier, d'autres responsables allemands se montraient beaucoup plus prudents. Ce fut le cas, en particulier, de l'influent ministre de l'Économie, Karl Schiller, mais aussi des services de l'*Auswärtiges Amt*, sans même parler de la *Bundesbank*. Les mises en garde répétées de Schiller, dès cette époque, se dressaient contre toute tentative tendant à réaliser « la convergence économique à travers la politique monétaire »¹¹.

⁷ Brandt, Willy, *Begegnungen und Einsichten. Die Jahre 1960-1975*, Hambourg, Hoffmann & Campe, 1976, p. 320-322 ; *idem*, *Erinnerungen*, Francfort/M., Propyläen, 1989, p. 454.

⁸ Compte rendu du 10 novembre 1969 établi par Sanne (chancellerie), BArchK, B 136, Vol. 6410.

⁹ Notes manuscrites de Brandt, 9 novembre 1969, Willy-Brandt-Archiv im Archiv der sozialen Demokratie de la Friedrich-Ebert-Stiftung (Bonn), fonds Bundeskanzler, Vol. 91.

¹⁰ *Ibidem*.

¹¹ Cit. : note de l'*Auswärtiges Amt* (III A1-81) à l'attention du chancelier, 6 novembre 1969, BArchK, B 136, Vol. 6410 ; note de Weinstock (chancellerie), 24 novembre 1969, « Betr. : Europäischer Reservefonds », BArchK, B 136, Vol. 6410.

Cependant, Brandt tenait fermement à obtenir des avancées concrètes, et il avisa personnellement le Président Georges Pompidou de ce qu'il s'apprêtait à proposer la mise en place d'un fonds monétaire européen à l'occasion de la conférence de La Haye¹².

À la vérité, lors de l'ouverture du sommet, le 1^{er} décembre 1969, Brandt fait un exposé assez équilibré en matière monétaire. Il met l'accent sur la nécessité de développer « une politique économique commune », incluant, entre autre, « un comportement convergent des grands groupes sociaux »¹³. Si le fameux fonds européen de réserve est bien mentionné, il se trouve relégué à l'arrière-plan et intégré dans un programme beaucoup plus complexe d'une future Union économique et monétaire. Celle-ci, par ailleurs, devait avoir les traits – selon la formule empruntée à son ministre de l'Économie – d'une « communauté de stabilité ouverte au monde » (« eine weltoffene Stabilitätsgemeinschaft »).

On sait que la conférence de La Haye n'entra pas dans une discussion détaillée mais retint, dans son communiqué final (point 8), l'objectif de l'élaboration, « au cours de l'année 1970 », d'un plan en vue de la création d'une Union économique et monétaire. Si le principe général fit l'unanimité entre les Six, les chemins pour y parvenir restaient à définir. Toute la difficulté était d'ores et déjà contenue dans une affirmation sèche du communiqué qui précisait, bien dans l'esprit de l'approche allemande : « Le développement de la coopération monétaire devrait s'appuyer sur l'harmonisation des politiques économiques »¹⁴.

Au lendemain de la conférence de La Haye, les travaux préparatoires s'intensifiaient. Schiller faisait établir, à partir des travaux antérieurs, un mémorandum qui devait servir de base de discussion au sein du futur Comité Werner¹⁵. Les grandes lignes de ce texte du 12 février

¹² Lettre de Brandt à Pompidou, 27 novembre 1969, AAPD 1969, doc. n° 380.

¹³ *Bulletin des Presse- und Informationsamtes der Bundesregierung*, 2 décembre 1969, n° 146, p. 124-126 ; pour le contexte, du point de vue de la politique allemande : Wilkens, Andreas, « Dans la logique de l'histoire. Willy Brandt et la césure européenne de 1969/70 », in *idem* (dir.), *Willy Brandt et l'unité de l'Europe. De l'objectif de la paix aux solidarités nécessaires*, Bruxelles, P.I.E. Peter Lang, 2011, p. 247-282.

¹⁴ Avec de nombreux documents en lien avec le plan Werner, le communiqué de La Haye figure dans le corpus de recherche mis en ligne par le « Centre virtuel de la connaissance sur l'Europe » (Luxembourg) : Une relecture du rapport Werner du 8 octobre 1970 à la lumière des archives familiales Pierre Werner : www.cvce.eu ; pour l'ensemble, cf. aussi Danescu, Elena, Muñoz, Susana (dir.), *Pierre Werner et l'Europe. Pensée, action, enseignements*, Bruxelles, P.I.E. Peter Lang, 2015 ; Danescu, Elena, « Le 'Comité Werner' : nouvelles archives », *Histoire, économie et société* 30 (2011), 4, p. 29-38.

¹⁵ « Memorandum : Grundlinien eines Stufenplanes zur Verwirklichung der Wirtschafts- und Währungsunion in der EWG », 12 février 1970, Politisches Archiv

1970, coordonné avec les autres ministères intéressés et la *Bundesbank*, étaient bien conformes aux conceptions des « économistes » allemands : il prévoyait d'abord d'accomplir deux étapes « d'harmonisation et de coordination » afin d'éliminer les plus grands déséquilibres entre les politiques économiques et financières des pays participants. Une fois cette condition remplie, les économies européennes devraient converger vers des objectifs communs à moyen terme, condition indispensable pour procéder ensuite, également en deux temps, à la mise en œuvre progressive de mesures d'intégration monétaire, à savoir la réduction des marges de fluctuation, l'accord préalable des partenaires à tout changement de parité et la mise en place du Fonds européen de réserve. Le début de l'étape finale était envisagé pour l'année 1978 !

L'ensemble du processus était donc sujet à caution : le passage d'une étape à l'autre était conditionné par la réalisation effective de l'essentiel des mesures prévues à l'échelon précédent. Ce n'était qu'en pointillé qu'apparaissait, *in fine*, la fixation définitive des taux de change, voire l'introduction d'une unité monétaire européenne, ainsi que la transformation du Comité des gouverneurs en véritable Banque centrale européenne qui déciderait à la majorité des voix.

Si le projet reflétait bien la conception monétaire allemande, il avait été conçu comme une contribution sérieuse à la politique européenne et proposait aux partenaires de parvenir à l'UEM au cours de la décennie. Cependant, les deux phases initiales de « convergence » prévues du côté allemand semblaient reléguer le rapprochement monétaire proprement dit à une échéance relativement lointaine. Or, l'articulation entre « l'harmonisation » économique et « solidarité » monétaire constituait la question clé de toutes les discussions. S'il était hors de question, pour les « économistes » allemands, de prévoir la mise en commun des réserves ou un soutien monétaire à moyen terme dès la phase initiale, Schiller ne récusait pas, en principe, l'idée du « parallélisme ». Seulement : selon lui, il devait s'agir d'un « parallélisme effectif » qui prendrait en compte le fait que des mesures d'harmonisation économique mettent du temps à produire leurs effets, tandis que des décisions d'ordre monétaire ont un effet immédiat¹⁶.

des Auswärtigen Amts (Berlin ; par la suite : PAAA), B 20, Vol. 1555 ; le texte a été publié à l'époque : *Tagesnachrichten* du *Bundesministerium für Wirtschaft*, 27 février 1970, n° 6122 ; reproduit in : Zentralbankrat der Deutschen Bundesbank (éd.), *Hans Tietmeyer – Währungsstabilität für Europa. Beiträge, Reden und Dokumente zur europäischen Währungsintegration aus vier Jahrzehnten*, Baden-Baden, Nomos, 1996, p. 88-94.

¹⁶ Résumé de la position allemande par Robert (*Auswärtiges Amt*) 25 février 1970, PAAA, B 20, Vol. 1555. Cf. aussi Tietmeyer, Hans, « Europäische Wirtschafts- und

La réunion des ministres des Finances des Six à Paris, les 23 et 24 février 1970, fut l'occasion d'une première confrontation des différentes conceptions en présence¹⁷. Les projets belge et luxembourgeois mettaient l'accent sur l'importance du fonds de réserve ainsi que sur le rétrécissement des marges de fluctuation dans une phase relativement précoce¹⁸. De son côté, Schiller, soutenu par le néerlandais Witteveen, soulignait de nouveau la nécessité d'un « rapprochement des objectifs de politique économique et de la politique économique réelle » avant toute mesure spécifiquement monétaire. Conformément aux principes de son plan en quatre étapes, la phase de « l'institutionnalisation communautaire progressive » ne devait débiter qu'avec la troisième étape. Surtout, seul le progrès effectivement réalisé devait déterminer le passage d'une étape à l'autre.

Le ministre italien Colombo, en insistant sur l'intérêt du maintien de la flexibilité des taux de change pendant la phase de transition, semblait vouloir occuper une position à part. Pour la France, Giscard d'Estaing ne présenta pas de plan propre, laissant ainsi planer le doute sur les intentions de Paris. Tout au plus Giscard évoqua-t-il « l'identité monétaire » européenne qui devrait émerger dès la deuxième étape (sur les trois, prévus dans le schéma présenté par la Commission européenne).

Les termes du débat étant ainsi posés, l'élaboration d'un projet commun (« rapport ») devait être entamée et concrétisée dans le cadre d'un « groupe de travail ad hoc », officiellement installé par le Conseil le 6 mars 1970 et dont la présidence fut confiée au Premier ministre du Luxembourg, Pierre Werner¹⁹.

Dès l'entrée des négociations, Hans Tietmeyer, haut fonctionnaire au ministère allemand des Finances et membre suppléant du groupe Werner, faisait état, en interne, de son scepticisme quant aux réelles chances de succès, compte tenu des « contrastes assez profonds » entre les

Währungsunion – eine politische Herausforderung », *Europa-Archiv*, n° 26, 1971, p. 409-420.

¹⁷ Compte rendu de la conférence dans la note de Tietmeyer, 25 février 1970, « Ergebnisse der Beratungen auf der Wirtschafts- und Finanzministerkonferenz in Paris am 23./24.2.1970 », PAAA, B 20, Vol. 1555.

¹⁸ Cf. aussi le tableau comparatif des différents projets établi par la Commission européenne en mars 1970, reproduit in Dierikx, Marc *et al.* (ed.), *Common Fate, Common Future. A Documentary History of Monetary and Financial Cooperation in Europe, 1947-1974*, Den Haag, Luxembourg, Huygens ING, CVCE, 2012, p. 123-142.

¹⁹ Cf. aussi la présentation de l'intéressé : Werner, Pierre, *Itinéraires luxembourgeois et européens. Évolutions et souvenirs, 1945-1985*, Vol. 2, Luxembourg, éd. Saint-Paul, 2^e éd., 1992, p. 123-131.

partenaires²⁰. En tout cas, telle était l'impression que la première réunion du comité Werner, le 20 mars 1970, au Luxembourg, lui avait laissée. Son compte rendu fait état de préoccupations assez différentes exprimées lors de ce premier tour d'horizon²¹. Comme on pouvait s'y attendre, certains participants (le Français Clappier, le Belge Ansiaux) se montraient surtout intéressés par la coopération monétaire à courte échéance, tout en se divisant sur l'utilité de définir d'emblée l'aboutissement de l'ensemble du projet. L'Allemand Schöllhorn mettait en garde contre le risque d'une pure « coordination verbale » de la politique économique, tandis que les mécanismes monétaires, eux, seraient « communautarisés ». Avec le Néerlandais Brouwers, Schöllhorn soulignait sans ambages que la dernière étape du processus impliquerait d'importants transferts de droits souverains.

En fait, aux « cultures monétaires » traditionnellement différentes s'ajoutait, à l'époque, une situation conjoncturelle qui inquiétait les responsables allemands. L'Allemagne commençait à connaître une hausse des prix spectaculaire : en 1971, le taux d'inflation de 5,2 % équivalait presque à celui de la France (5,5 %) et était même supérieur à celui de l'Italie (4,9 %) ²². Juguler l'inflation et éviter la surchauffe économique devint ainsi le *leitmotiv* du discours tenu en Allemagne. Dans ces conditions, comment concevoir – du point de vue allemand – une Union économique et monétaire dont l'objectif structurant ne serait pas la « stabilité » ?

Par contre, la priorité du côté du gouvernement français n'était pas la lutte contre l'inflation mais, au contraire, le soutien massif à la croissance et à l'exportation. Or, en l'absence d'un projet français élaboré, les cinq partenaires européens étaient forcément réduits à des spéculations sur l'attitude réelle de Paris²³.

Malgré les conceptions différentes, les discussions au sein du groupe Werner ne devaient pas connaître de blocage. Lors de la conférence des ministres des Finances à Venise, les 29 et 30 mai 1970, Pierre Werner pouvait une fois de plus constater que les participants étaient tous

²⁰ Note de von Staden (*Auswärtiges Amt*), « Höflichkeitsbesuch von Herrn Ti[e]tmeyer am 25.3.1970 », PAAA, B 20, Vol. 1555.

²¹ Tietmeyer, « Zusammenfassender Kurzbericht über die 1. Sitzung der 'Werner-Gruppe' », 23 mars 1970, accessible en ligne : http://www.cvce.eu/unit-content/-/unit/ba6ac883-7a80-470c-9baa-8f95b8372811/cde3fbe8-3e9b-4d05-97fe-491440c8fb55/Resources#edce91dc-909f-4474-aeaa-5972c3ae74e3_fr&overlay (1^{er} juillet 2016).

²² Chiffres d'après Deutsche Bundesbank, *Geschäftsbericht 1972*, p. 13.

²³ Note de Tietmeyer, 25 février 1970 (cf. note 17).

unanimus sur l'objectif à atteindre même si les moyens pour y parvenir « divergeaient partiellement »²⁴. Un assez large consensus se dégagait aussi sur la nécessité de renforcer, dans la phase initiale d'une durée d'environ trois ans, les efforts en vue de la coordination et de l'harmonisation des politiques économiques. Les divergences se cristallisaient autour de la question du rétrécissement des bandes de fluctuation et du fonds européen de devises – deux éléments qui constituaient toujours la priorité des représentants français et belge.

Selon le compte rendu allemand, ce fut Schiller qui insista particulièrement sur les conséquences institutionnelles à prévoir au niveau européen : au minimum, deux organes communautaires devraient être créés : « une instance centrale exerçant la responsabilité politique en matière de politique conjoncturelle » ainsi qu'un « organe autonome » pour la prise de décision dans le domaine monétaire. Ces organes communautaires auxquels seraient transférés des droits souverains nationaux devraient s'appuyer sur une légitimité parlementaire²⁵.

Il faut dire que cette question des implications politiques et de leur traduction institutionnelle suscita étonnamment peu d'intérêt au cours des discussions. Sans doute était-elle particulièrement de nature à provoquer des dissensions. Se dessinait ainsi un schéma selon lequel les dispositions institutionnelles à prévoir pour la deuxième phase resteraient entourées d'un certain flou.

Pour sa part, le chancelier Brandt, au cours des négociations du comité Werner, intervint parfois directement pour appeler les tenants de la politique monétaire allemande à une plus grande souplesse. Au milieu des pourparlers, Brandt fit ainsi remarquer au Président de la *Bundesbank*, Karl Klasen, qu'un « esprit de compromis » était nécessaire de tous les côtés pour aboutir « à une solution acceptable pour toutes les délégations »²⁶.

Mais Brandt était aussi conscient des contraintes et des limites de l'exercice. Il le montra face à l'insistance du gouvernement belge de prévoir, dès la première étape de l'Union économique et monétaire, un « Fonds européen d'égalisation des changes ». S'adressant directement à Brandt, le Premier ministre belge, Gaston Eyskens, en vantait « le grand

²⁴ Compte rendu de la conférence, ministère des Finances, sans date, « Vermerk über das 35. Treffen der EWG-Finanzminister am 29./30. Mai 1970 in Venedig », PAAA, B 20, Vol. 1555.

²⁵ *Ibidem* ; cf. aussi le compte rendu des discussions de Tietmeyer, 1^{er} juin 1970, « Ergebnisbericht », *ibidem*.

²⁶ Lettre de Brandt à Klasen, 18 juin 1970, HA Bundesbank, N 2, Vol. 156.

intérêt politique et psychologique » qui s'y attacherait²⁷. Dans sa réponse, Brandt insista plutôt sur l'importance de « l'harmonisation de la politique économique » et ne souhaita prendre aucun engagement précis²⁸. Au même moment, il demandait à son ministre Schiller d'examiner « la possibilité d'un compromis » sur cette question d'importance²⁹.

Au total, c'était forcément un compromis équilibré que le Plan Werner, adopté par le « groupe ad-hoc » le 8 octobre 1970, devait mettre au point. La « formule magique » qui permit, à ce stade, de concevoir le plan d'ensemble pour la création d'une UEM en trois étapes fut sans doute toujours celle du « parallélisme effectif » entre les mesures de « rapprochement économique » et celles impliquant la « solidarité monétaire ». La formule permettait cependant bien des interprétations, si bien que le Président français et le chancelier allemand n'eurent aucun mal à l'adopter, entre eux, lors de leurs consultations bilatérales au mois de juillet 1970³⁰.

On sait que la première des trois étapes prévues par le Plan Werner consistait à mettre en place une « coordination » et une « harmonisation » des politiques budgétaires, mais aussi – à titre expérimental – une limitation des fluctuations des cours entre les monnaies communautaires³¹. La deuxième étape verrait une coordination plus étroite encore, y compris en matière de politique conjoncturelle. Moyennant une « convergence suffisante des politiques économiques », un Fonds européen de coopération monétaire serait, si possible, constitué au cours de la première phase, au plus tard pendant la phase intermédiaire. Enfin, la « fixation irrévocable des rapports de parité » ou – éventuellement – l'introduction de la « monnaie unique » était prévue comme couronnement du processus, à l'horizon de l'année 1980. Sur le plan institutionnel, le plan préconisa, également pour l'étape finale, la mise en place d'un « centre de décision pour la politique économique » qui serait « politiquement responsable devant un Parlement européen » ainsi que la création d'un « système communautaire des banques centrales ».

En Allemagne, l'agencement du Plan Werner rencontra des réactions très largement favorables dans les milieux politiques et un écho

²⁷ Lettre d'Eyskens à Brandt, 15 mai 1970, PAAA, B 20, Vol. 1555.

²⁸ Lettre de Brandt à Eyskens, 27 mai 1970, *ibidem*.

²⁹ Lettre de Brandt à Schiller, 27 mai 1970, *ibidem*.

³⁰ Entretien Brandt-Pompidou à Bonn, 3 juillet 1970, matinée, AAPD 1970, doc. n° 291 (p. 1079-1080).

³¹ Rapport au Conseil et à la Commission concernant la réalisation par étapes de l'Union économique et monétaire dans la Communauté (« Rapport Werner »), in : *Bulletin des Communautés européennes*, supplément n° 11, 1970.

prudemment positif du côté des responsables économiques et monétaires. Il en allait tout autrement en France.

Le Chancelier Brandt fut le premier à souligner l'importance historique du projet. La signification du plan pour l'ensemble de l'intégration européenne « ne pourra guère être surestimée », faisait-il comprendre, par écrit, à son ministre de l'Économie³². L'adoption définitive du plan par le Conseil des ministres – si possible avant la fin de l'année – constituerait « très probablement la décision la plus importante depuis la signature des traités de Rome ».

Devant le *Bundestag*, le 6 novembre 1970, Brandt faisait preuve du même enthousiasme en qualifiant le Plan Werner de rien de moins que de « nouvelle *Magna Charta* » de la Communauté européenne³³.

Le 22 octobre, Schiller présentait le Plan Werner au Conseil des ministres allemand qui exprimait le souhait de voir adopter le projet avant l'expiration de la présidence allemande du Conseil, à la fin de l'année³⁴. En pratique, on envisageait que la réunion du Conseil du 23 novembre puisse prendre la décision de faire débiter la première phase de l'UEM dès le 1^{er} janvier 1971. C'est dire qu'à ce moment, l'optimisme était visiblement de mise.

De son côté, l'évaluation finale du ministère de l'Économie arrivait à la conclusion que le gouvernement fédéral pouvait « entièrement souscrire » aux dispositions prévues par le Plan Werner³⁵. Même si des compromis avaient dû être négociés, le résultat correspondrait « dans une large mesure aux objectifs allemands en matière économique et européenne ». Le principe du « parallélisme effectif » entre des avancées économiques et monétaires ainsi que l'ancrage de l'objectif général de stabilité réduirait considérablement les risques impliqués par une « communautarisation précoce ». Si le *satisfecit* fut ainsi donné, on répétait à l'envie que la barre était désormais placée très haute : le chemin vers l'Union économique et monétaire ne pourrait être emprunté avec succès qu'à condition de transférer d'importantes compétences économiques et

³² Lettre de Brandt à Schiller, 21 octobre 1970, HA Bundesbank, N 2, Vol. 156.

³³ Brandt, déclaration sur la politique européenne du 6 novembre 1970, Deutscher Bundestag, *Stenographische Berichte*, 6^e législature, p. 4268-4271 (p. 4269).

³⁴ Note de Herbst (*Auswärtiges Amt*), 23 octobre 1970, « Betr. Sitzung des Staatssekretärsausschusses für Europafragen am 28. Oktober 1970 », PAAA, B 20, Vol. 1556.

³⁵ Note du département d'Europe du ministère de l'Économie, E 1/IA1 (sans signature, mais sans doute de Tietmeyer), 27 octobre 1970, 8 pages, PAAA, B 20, Vol. 1556 (« [...] sich voll-inhaltlich anschließen ») ; la note était à la base à la directive de l'*Auswärtiges Amt* du 30 octobre 1970, AAPD 1970, doc. n° 503.

financières à l'échelon communautaire et aussi de compléter l'UEM par une Union politique. La préoccupation principale était invariablement que l'intégration monétaire risquait de progresser alors que les leviers de la politique économique resteraient en fait durablement sous contrôle national.

On ne s'étonnera guère que les discussions au sein du *Zentralbankrat* de la *Bundesbank* aient rendu un autre son de cloche. Toutefois, force est de constater que les banquiers centraux ne montraient pas d'hostilité de principe mais se bornaient à demander des précisions ultérieures, voire certains durcissements du dispositif proposé. Deux exigences se trouvaient particulièrement mises en avant :

– Premièrement, la réduction des marges de fluctuation des monnaies européennes et, à plus forte raison, leur élimination ne devaient intervenir qu'après une « véritable harmonisation » des politiques économiques et financières³⁶;

– Deuxièmement, le futur Conseil des Présidents des banques centrales devait être responsable, dès le départ, des orientations de la politique monétaire « et ceci indépendamment du Conseil des ministres, bien qu'en tenant compte des lignes directrices élaborées par le Conseil de la politique économique »³⁷. Se trouvait ainsi posée la question de la responsabilité effective de la future politique monétaire qui, selon les dirigeants de la *Bundesbank*, devait incomber pour l'essentiel au collège des banquiers centraux européens.

Ce fut également l'approche défendue par le ministère allemand de l'Économie. Lors d'une importante réunion entre Schiller et le *Zentralbankrat* de la *Bundesbank*, le 17 novembre 1970, le ministre soulignait l'intention du gouvernement de Bonn « de préconiser la banque centrale autonome comme modèle pour la future banque centrale européenne »³⁸.

Si des appréciations partiellement différentes s'exprimaient ainsi, le responsable des questions monétaires internationales au sein de la *Bundesbank*, Otmar Emminger, ne cachait pas son scepticisme de fond à l'égard du « long chemin » à parcourir pour réaliser l'union monétaire. À son avis, point n'était besoin de nouvelles consultations et

³⁶ Deutsche Bundesbank, 315^e séance du *Zentralbankrat*, le 3 juin 1970, compte rendu, p. 12-15, HA Bundesbank.

³⁷ Deutsche Bundesbank, 325^e séance du *Zentralbankrat*, le 4 novembre 1970, compte rendu, p. 13, HA Bundesbank.

³⁸ Deutsche Bundesbank, 326^e séance du *Zentralbankrat*, le 17 novembre 1970, compte rendu, p. 20, HA Bundesbank.

d'institutions : la question décisive serait la convergence réelle des priorités et des objectifs en matière monétaire. Or, selon lui, la France était déjà en train de pousser à la croissance malgré un taux d'inflation entre 5 et 6 % [...] ce qui augurait mal de la « volonté de stabilité » dans certains pays partenaires³⁹.

L'aval donné au Plan Werner par les responsables de la politique monétaire allemande était conditionné au respect de dispositions et formules très précises. Ainsi, les propositions que la Commission européenne fit au Conseil sur la base du Plan Werner provoquaient, elles, de prompts et vives critiques⁴⁰. Aux yeux de Schiller, de l'*Auswärtiges Amt* comme de la *Bundesbank*, la Commission semblait vouloir privilégier les avancées en matière de coopération monétaire au détriment de l'harmonisation économique et, sur le plan de la répartition des compétences, porter atteinte à l'autonomie des banques centrales nationales dès la première étape de la mise en œuvre de l'UEM⁴¹. On s'étonna d'autant plus du positionnement de la Commission que la réaction au Plan Werner, dans cinq capitales européennes, avait été largement « positive ». Il était évident que la Commission faisait délibérément un pas en direction des dispositions françaises⁴². En tout cas, du côté de Bonn, on ne souhaitait pas que le Plan Werner soit « dilué », selon le terme employé par Schiller⁴³. Au demeurant, la position allemande était sans ambiguïté : on préconisa l'application du Plan Werner « tel quel »⁴⁴. Nul doute par ailleurs, du côté allemand, que « la future banque centrale européenne » devait être calquée sur le modèle d'une « banque centrale autonome »⁴⁵.

³⁹ Emminger, Otmar, « Bemerkungen zum Werner-Bericht über die europäische Wirtschafts- und Währungsunion », HA Bundesbank, N 2, Vol. 153.

⁴⁰ Communication de la Commission sur le Plan Werner, 30 octobre 1970, en ligne : www.cvce.eu.

⁴¹ Secrétaire d'État Rohwedder (ministère de l'Économie), « Schnellbrief », 4 novembre 1970, avec note de Tietmeyer, 3 novembre 1970, PAAA, B 20, Vol. 1556 ; télégramme d'Emminger à Tietmeyer, 4 novembre 1970, n° 470, HA Bundesbank, N 2, Vol. 153.

⁴² Note de Ruyter (*Auswärtiges Amt*), 4 novembre 1970, « Beurteilung der Kommissions-Papiere in rechtlicher und taktischer Sicht », PAAA, B 20, Vol. 1556.

⁴³ Intervention au *Bundestag*, 6 novembre 1970, Deutscher Bundestag, *Stenographische Berichte*, 6^e législature, p. 4295.

⁴⁴ L'expression employée dans la note de von Bismarck-Osten (*Auswärtiges Amt*), 9 novembre 1970, PAAA, B 20, Vol. 1556 ; dans le même sens la « Kabinettsvorlage » du ministère de l'Économie, 12 novembre 1970, E 1/IA1-030000/10, *ibidem*.

⁴⁵ Deutsche Bundesbank, 326^e séance du *Zentralbankrat*, le 17 novembre 1970, compte rendu, p. 20, HA Bundesbank.

Concernant les réactions aux principes du Plan Werner, le contraste était saisissant entre l'accueil largement favorable dans les capitales de l'Europe des « cinq » et celui réservé à Paris. Dans des réunions internes, le Président Georges Pompidou ne trouvait pas de mots assez durs contre le principe même du transfert de compétences monétaires importantes sur des instances communautaires. On sait que le Président français donna la consigne explicite à ses négociateurs de ne pas finaliser le projet lors du dernier Conseil des ministres avant la fin de l'année, prévu à Bruxelles, le 14 décembre 1970. Il entendait ainsi manifester son rejet et envoyer un signal aux « farceurs » européens – des « buffoni » européens, selon son expression. Il croyait les distinguer en particulier parmi les hommes politiques des pays du Benelux⁴⁶.

Dans ces conditions, bien que le projet de l'UEM ait maintenu, sur le papier, l'objectif de l'intégration monétaire à moyen-long terme, l'accord effectif entre les partenaires européens, au début de l'année 1971, n'allait en réalité pas au-delà de la première phase, censée enclencher le processus d'une coopération renforcée.

De son côté, Schiller demanda et obtint, lors des négociations de Bruxelles, l'introduction d'une « clause de prudence » permettant de suspendre les mesures d'intégration monétaire à l'issue de la première phase si le degré de convergence des économies était alors jugé insuffisant⁴⁷. Le risque était donc réel que l'action engagée ne fut pas irréversible mais permit un retour en arrière.

Au même moment, Willy Brandt s'employait à préserver la perspective d'ensemble du processus. Il cherchait d'abord un accord avec le Président français sur « une vision plus claire de ce qu'il arrivera quand la première phase sera accomplie »⁴⁸. Il insistait aussi sur la nécessité de mettre les instances de la Communauté en mesure « d'agir efficacement et rapidement », une manière de dire qu'il fallait renforcer le dispositif institutionnel, y compris, si nécessaire, par une modification des traités. Par une lettre du 1^{er} février 1971, Brandt s'adressait également, dans le même esprit, à Pierre Werner. L'essentiel semblait être la recherche d'une solution « de rattrapage » au cas où, à l'issue de la 1^{re} phase, l'harmonisation économique n'aurait pas

⁴⁶ Compte rendu de la réunion restreinte du mercredi 9 décembre 1970 sur les affaires européennes, Archives nationales (Paris), 5 AG 2, Vol. 1044. Cf. aussi Bossuat, Gérard, « Le Président Georges Pompidou et les tentatives d'Union économique et monétaire », in *Georges Pompidou et l'Europe*, éd. par l'Association Georges Pompidou, Bruxelles, Complexe, 1995, p. 405-447.

⁴⁷ Cf. les déclarations de Schiller devant le *Bundestag*, 29 janvier 1971, Deutscher Bundestag, *Stenographische Berichte*, 6^e législature, p. 5174-5176.

⁴⁸ Entretien Brandt-Pompidou, Paris, 25 janvier 1971, AAPD 1971, doc. n° 27 (p. 115-116).

été jugée satisfaisante. Pouvait-on prévoir – c'était sa demande – un délai supplémentaire pour les pays « en retard » ?⁴⁹

Lorsque le Conseil des ministres de la Communauté entérina officiellement le projet de l'UEM, le 22 mars 1971⁵⁰, l'accord était certes salué. Mais le doute s'était installé quant aux capacités réelles des Six de respecter la trajectoire esquissée.

La suspension de la cotation du mark, réponse donnée par le gouvernement allemand, le 9 mai 1971, à un afflux spectaculaire de dollars, équivalut à la suspension de la première étape de l'UEM⁵¹. Dans un premier temps, l'espoir du gouvernement allemand fut de retourner, dans un délai rapproché, au régime de taux fixes afin de pouvoir reprendre le projet de l'UEM ultérieurement. L'instabilité persistante du système monétaire international fit vite comprendre qu'il faudrait beaucoup plus de temps pour adapter le projet monétaire européen à des circonstances politiques, économiques et monétaires turbulentes.

L'établissement du Plan Werner porte la marque d'un certain optimisme européen prévalant au tournant des années 1960-1970. Les différences des cultures monétaires – aux antipodes celles de la France et l'Allemagne – sont bien connues et discutées dans cette période. Ce qui est frappant de constater, c'est que les acteurs de l'époque semblent néanmoins très largement sous-estimer les difficultés – en vérité énormes – à les dépasser et à opérer les rapprochements nécessaires.

Malgré la suspension du Plan Werner (ou plutôt du projet d'Union économique et monétaire) au lendemain de son adoption et en dépit des doutes déjà présents sur les chances de sa réalisation, il s'agit d'une étape essentielle voire indispensable sur le chemin de la construction de l'Europe monétaire. Les gouvernements européens avaient commencé à se pencher sérieusement sur les enjeux d'un rapprochement des monnaies nationales et ce sujet ne devrait plus quitter l'agenda européen dans les temps à venir. Un processus d'apprentissage à longue distance a été enclenché, avec ses avancées et ses échecs.

⁴⁹ Lettre de Brandt à Werner, 1^{er} février 1971, Archives familiales Pierre Werner, Luxembourg, mise en ligne : http://www.cvce.eu/recherche/unit-content/-/unit/ba6ac883-7a80-470c-9baa-8f95b8372811/d045dbbd-b33c-4274-b889-68b0f49e89d8/Resource#650fb497-ca9f-45c7-a158-d42472d0e702_fr&overlay (1^{er} juillet 2016).

⁵⁰ Résolution du Conseil concernant la réalisation par étapes de l'Union économique et monétaire dans la Communauté, 22 mars 1971, www.cvce.eu.

⁵¹ Pour les préoccupations de la *Bundesbank*, cf. Emminger, Otmar, *D-Mark, Dollar, Währungskrisen. Erinnerungen eines ehemaligen Bundesbankpräsidenten*, Stuttgart, DVA, 1986, p. 186-195.

En même temps, on peut rester perplexe sur le décalage manifeste entre le bon diagnostic concernant la condition de base d'une Union économique et monétaire – à savoir une certaine convergence des politiques économiques et budgétaires – et le manque d'engagement politique réel pour mettre en œuvre cette même convergence jugée indispensable. Partant du Plan Werner et à travers toute l'histoire de la construction monétaire européenne, les gouvernements européens allaient se retrouver devant le même défi pendant plusieurs décennies et ne guère trouver de réponse réellement satisfaisante.

The End of Bretton Woods and the Setting up of the Snake

Maria Eleonora GUASCONI

The Nixon Administration's decision to suspend the dollar's convertibility into gold, announced on August 15, 1971, determined the collapse of the international monetary system, created at the Bretton Woods Conference of September 1944, which linked the dollar to gold at the fixed price of 35 dollars an ounce and established a gold-dollar standard system, based on fixed exchange rates.

Nixon's decision to close the gold window represented, together with the energy crisis and the failure of Kissinger's "Year of Europe" in 1973, a turning point in transatlantic relations and identified a period of turmoil and disagreements between the US and Western Europe that affected European attempts to establish a European and Monetary Union (EMU).¹

It would initiate a period of uncontrollable currency fluctuations, which coincided with the decline of the European economy and an increase in inflation, thus threatening EC cohesion and confounding European efforts to maintain monetary stability. The Werner Plan of 1970 would be wiped away by the "Nixon shock", and the "snake" represented only a pale attempt to relaunch the EMU goal established at the Hague Conference of 1969.²

¹ Basosi, D., *Il governo del dollaro. Interdipendenza economica e potere statunitense negli anni di Richard Nixon 1969-1973*, Florence, Polistampa, 2006; E. Bussière, "France, European monetary cooperation and the international monetary system crisis, 1968-1973", in H. Haftendorn, G. H., Soutou, S. Szabo & S. Wells Jr (eds.), *The Strategic Triangle: France, Germany and the United States in the Shaping of the New Europe*, Washington, DC, Woodrow Wilson Center Press, 2006, p. 171-88; H. Zimmermann, "Unraveling the ties that really bind", in M. Schulz & T. Schwarz (eds.), *US-European Relations from Nixon to Carter*, Cambridge, Cambridge University Press, 2010, p. 125-44.

² Basosi, D., "The US, Western Europe and a changing monetary system 1969-1979", in Varsori, A. & Migani, G. (eds.), *Europe in the International Arena in the 1970s: Entering a Different World*, Brussels, P.I.E. Peter Lang, 2011, p. 99-116.

In spite of the partial restoration of fixed parities agreed in Washington with the Smithsonian Agreements of December 1971, the international monetary system would never return to dollar convertibility and fixed exchange rates, but would slowly move towards a flexible exchange rate system, set up with the Jamaican agreements of November 1976, with the dollar continuing to hold a pivotal role as a reserve currency.³

Starting from the historic decision of the Nixon administration to end the dollar's convertibility into gold, this essay aims at analyzing the debate that developed among the European countries and inside the European institutions by the end of Bretton Woods, evaluating its consequences for the project of European Monetary Union, and focusing in particular on the establishment of the "snake".

1. The Nixon Shock

The US had profited enormously from the Bretton Woods system, as the American currency became the linchpin of the international monetary system, where major commodities, such as oil, and trade in currencies were conducted in dollars.

By the end of the 1960s, the costs of the Vietnam War, the widening of the US balance of payment deficits, and the decrease in US gold reserves threatened the Bretton Woods stability. In particular, as soon as the increasing American balance of payment deficits signaled that the dollar could be overvalued, the gold reserves of the Federal Reserve shrunk rapidly, because dollar holders preferred to convert dollars to gold, at the guaranteed price of 35 dollars an ounce, instead of running the risk of a dollar devaluation.⁴

The increasing US difficulties in maintaining parity between the dollar and gold seemed to render material the paradox elaborated by the Belgian economist Robert Triffin in 1960, which pointed out that the use of the dollar as a global reserve currency would soon create imbalances in the American balance of payments, as the number of US dollars in circulation exceeded the amount of gold that was backing them.

On the other side of the Atlantic, the Western European countries were at the peak of their postwar economic growth. They were not involved in

³ Harold, J., *Rambouillet, 15 novembre 1975. La globalizzazione dell'economia*, Bologna, Il Mulino, 1999; Basosi, D., "The US, Western Europe and a changing monetary system 1969-1979", p. 99-116.

⁴ Zimmermann, H., "Unraveling the ties that really bind", p. 128-9.

expensive conflicts like the Vietnam War, they were benefiting from the stability of the international monetary system, and a large burden of their defense costs was financed by their strongest ally, the US. Since the end of the 1960s, the EC member countries have been particularly interested in strengthening their monetary cooperation as a way of preserving stability, especially after the monetary crisis of 1968, which forced the French franc to devalue and the deutschmark to reevaluate. Maintaining the fixed exchange rate system alive was considered a necessity, in order to safeguard the Common Market and its achievements, in particular its main common policy, the Common Agricultural Policy (CAP), which benefited France in particular.⁵

So, the debate on the stability of the international monetary system deeply affected US–Western European relations. From the European point of view, the US had abused its exorbitant privilege of having the dollar as the world’s main currency. One of the favorite themes of Charles de Gaulle’s challenge to the US was the overrated role of the dollar as a legacy of the Bretton Woods system and his decision in 1965 to convert 600 million dollars into gold.⁶

Charles de Gaulle’s resignation as French President in April 1969 raised new expectations among the advocates of European integration. His successor, Georges Pompidou, decided to relaunch the European integration project and to convene a conference at the Hague in December 1969, with the aim to solve the thorny issue of the UK’s entry into the European Community.⁷

Pompidou summarized the objectives of the conference in the so-called “tritych”: “completion, deepening and enlargement” of the integration process. Concerning deepening, one of the most important results of the Hague Conference was the agreement to set up the EMU step by step, a proposal put forward by the German Chancellor Willy Brandt, which was enthusiastically accepted also by the French President Georges Pompidou.⁸ At the Hague, the Six decided to work out for October 1970 a plan for the setting up of the EMU, as a means of deepening the

⁵ Basosi, D., “The US, Western Europe and a changing monetary system”, p. 100.

⁶ Bussière, E., “France, European monetary cooperation and the international monetary system crisis 1969-1973”, p. 171-88; Vaïsse, M., *La grandeur. Politique étrangère du général de Gaulle 1958-1969*, Paris, Fayard, 1998, p. 400-7.

⁷ On the Hague Conference see Guasconi, M. E., *L’Europa tra continuità e cambiamento. Il vertice dell’Aja del 1969 e il rilancio della costruzione europea*, Florence, Polistampa, 2004, and the monographic number of the *Journal of European Integration* (Vol. 9, No. 2, 2003), ed. J. Van der Haarst.

⁸ Zimmermann, H., “Unraveling the ties that really bind”, p. 134.

Common Market and safeguarding the achievements of the integration process from the turmoil of monetary instability, due to speculation on the dollar, which had put the deutschmark under pressure.

Germany considered EMU essential for assuring a Community of stability and economic growth for the EC countries, and gave priority to the harmonization of economic policies before moving to monetary cooperation.⁹ Despite insurmountable differences of opinion among the governments, the Werner Plan was worked out in October 1970 and enlisted the steps to achieve EMU for 1980.

The plan was the result of an intense effort to mediate between the divergent positions of the “monetarist” countries, headed by France, which considered as a priority the establishment of common constraints on monetary policies, and the “economist” ones, headed by West Germany and the Netherlands, which instead gave priority to the harmonization of economic policies before moving to monetary cooperation. It proposed proceeding in parallel with economic and monetary union within ten years, through a gradual and flexible process, marked by a series of steps that included the harmonization of economic policies, budget and taxes, the reduction of fluctuations in exchange rates, and the setting up of a European monetary cooperation fund.¹⁰

On the other side of the Atlantic, Richard Nixon, who entered the White House in January 1969, inherited from the Johnson administration a “lost war, a deteriorating trade balance, a collapsing currency and domestic stagflation”.¹¹ Following its first weeks in office, the Nixon administration debated the issue of pursuing a unilateral monetary policy, as a way of solving the economic problems threatening the US economy. It was an option which was highly criticized by the State Department and by Henry Kissinger, at that time National Security Adviser, who warned that such a decision “would trigger currency speculation and damage relations with the Europeans, who would have to cope with the effects”.¹²

As regards the US attitude towards European integration, the Nixon administration displayed an ambivalent feeling and an increasing uneasiness towards the European relaunch promoted at the Hague.

⁹ Heipel, C., “In search of the greatest common denominator. Germany and the Hague Summit Conference 1969”, in Van der Haarst, J. (ed.), p. 79.

¹⁰ Fauri, F., *L'integrazione economica europea*, Bologna, Il Mulino, 2006, p. 150-1.

¹¹ Calleo, D., *The Imperious Economy*, Cambridge, MA, Harvard University Press, 1982, p. 5.

¹² Zimmermann, H., “Unraveling the ties that really bind”, p. 135.

In a speech given in Bonn to the German Foreign Policy Association on February 12, 1970, Robert Schaetzel, at that time US representative to the European Community in Brussels, described the development of an increasingly critical attitude towards European integration, shared by the economic Departments inside the Nixon administration. “Unfortunately, conventional wisdom in America”, affirmed Shaetzel,

has judged the Community protectionist and inward-looking. There is an exact correlation between awareness of the Community and awareness of a European agriculture policy that had reduced American exports to the Community and has led to massive subsidies of surpluses to compete our traditional markets elsewhere in the world.

He concluded:

In sum the wide enthusiasm for the Community in America of the Eisenhower and Kennedy periods, the rosy expectations of rapid and brilliant progress towards unity has largely evaporated and been replaced by irritation, frustration and a brooding sense of apprehension as to what the future will hold.¹³

In October 1970, a European delegation, headed by Ralph Dahrendorf, European Commissioner in charge of Foreign Relations and Foreign Trade, visited Washington and met with US officials from the State Department and the Departments of Agriculture, Treasury and Commerce. The consultations focused mainly on trade legislation, EC enlargement, agriculture and preferential EC arrangements towards the Mediterranean, but did not cover monetary issues, a signal that the US probably did not believe that European efforts to increase monetary cooperation would succeed and that Washington did not intend to negotiate with the Europeans the reform of the international monetary system.¹⁴

During the visit, it was clear that, in spite of the traditional political support towards European integration, shared by the State Department, the economic sphere of the Nixon administration viewed the European Community as a rival, not as a partner, an inward-looking bloc that was trying to erode US market shares.¹⁵

¹³ National Archives, Kew Gardens, London, Prime Minister Records 13/3542, Remarks by Robert Schaetzel, US representative to the European Communities, before the German Foreign Policy Association, February 12, 1970.

¹⁴ National Archives (NA), College Park, USA, Nixon Presidential Material staff, National Security Council (NSC) Files, European Common Market, Box 322, Memorandum for the President, October 20, 1970, limited official use. See also Grygowski, D., “Les États-Unis et l’unification monétaire de l’Europe”, in *Journal of European Integration History*, No. 1, 2007, p. 111-31.

¹⁵ Basosi, D., “The US, Western Europe and a changing monetary system”, p. 103.

This increasing criticism of the Common Market reflected the Nixon administration's strong preoccupations with European policies in the field of agriculture and trade and was made explicit in April 1971 during the visit of the President of the European Commission, the Italian Franco Maria Malfatti, to the US. Malfatti visited Washington, his goal being to "propose a constructive dialogue" to the Nixon administration in order to solve these transatlantic misunderstandings.¹⁶ The journey, preceded by an explorative mission headed by Renato Ruggiero, did not achieve the aimed-for results.

Malfatti, unlike his predecessor Jean Rey, was received by Richard Nixon and had important meetings with the secretary of State, William Rogers, and with members of the Council on International Economic Policy. Nonetheless, the US officials expressed their concerns over the high level of agricultural protectionism implemented by the Community and criticized the conclusion of preferential trade agreements with a widening circle of countries in the Mediterranean, such as Israel and Spain.¹⁷ As Hubert Zimmermann has argued, "The Bretton Woods system fell victim to the doubts about Europe prevailing in Washington".¹⁸

In March 1971, the Europeans adopted the first measures to reduce the currency fluctuations and tighten their exchange rates as suggested by the Werner Plan, but two months later, in May, an enormous flux of foreign currencies, especially dollars, forced the German government to close the foreign exchange markets and to float the deutschmark, a decision that threatened the achievement of the Werner Plan and showed how difficult the goal of strengthening European monetary cooperation was.

In the same period, the Nixon administration was slowly moving towards its monetary breakthrough, strongly advocated by the new secretary of the Treasury, John Connally. Connally, a former Democrat governor of Texas, had been appointed secretary of the Treasury a few months earlier, in December 1970, with the task of ameliorating the problems of growing rates of inflation (6%) and unemployment (6.2%) which were threatening the US balance of payments. Described as "an elephant in a china shop",¹⁹ Connally gave voice to the critical anti-European perspective existing inside the Nixon administration and played

¹⁶ Guasconi, M. E., "La Commissione Malfatti e le sfide degli anni Settanta", in Morelli, U. & Pistone, S. (eds.), *L'Italia e l'unità europea dal Risorgimento a oggi. Idee e protagonisti*, Padua, CEDAM, 2015, p. 321-38.

¹⁷ Historical Archives of the European Union, Florence, Franco Maria Malfatti Papers, Folder 23, Visit to the United States, Entretien Rogers-Malfatti, April 4, 1971.

¹⁸ Zimmermann, H., "Unraveling the ties that really bind", p. 137.

¹⁹ Basosi, D. *Il governo del dollaro*, p. 162-5.

a relevant role in the decision-making process aimed at abandoning the Bretton Woods system.²⁰

In late July and early August, another dollar crisis forced Nixon and Connally to move quickly. During a secret meeting held at Camp David on August 13, Richard Nixon, John Connally and a group of top financial and economic advisers, including the President of the Federal Reserve Bureau Arthur Burns, the undersecretary to the Treasury Paul Volcker, the Director of the Office of Management and Budget George Shultz and the assistant for International Economic Affairs Peter Peterson, decided, without consulting the Europeans, to close the gold window and to impose a 10% surtax on all imports to the US.²¹ The decision was announced by the President on August 15, a Sunday evening and a holiday in most of Europe (with no newspapers), with a carefully crafted televised address.²²

2. The European Response

Nixon's speech shocked the European governments, which were taken by surprise, not even being able to coordinate a diplomatic reaction while their currencies started to float in a disorderly fashion. The first reaction was strong resentment and a sense of frustration over the unilateral character of the decision, taken without any consultation with European allies. Probably a better formula to express the feeling of frustration shared by the Europeans was that used by the Japanese press, which called the American decision to close the gold window "the Nixon Shock".

European governments had two unpleasent choices to make: they could hold unconvertible dollar reserves, or sell them in the currency markets, with a forced revaluation of their currencies. A devalued dollar helped American exports, and the balance of payments problems would be helped by the temporary 10% border tax, a measure which proved to be particularly irritating for the European governments.

The floating of the dollar created wild fluctuations among the European currencies, wiping out the Werner Plan and the planned monetary union, with severe consequences also for the European integration process. The Brandt government tried to propose a joint float against the dollar, with

²⁰ Becker, W., "The US and the search for a new monetary system", in Haftendorn, H., Soutou, G.-H., Szabo, F. & Wells, S. (eds.), *The Strategic Triangle*, p. 199-201.

²¹ Basosi, D., *Il governo del dollaro*, p. 162-5.

²² Becker, W., "The US and the search for a new monetary system", p. 199-201.

the aim of creating a European bloc against the US, but France insisted on a return to fixed exchange rates and tried with all means possible to avoid a revaluation of the franc. Italy found itself in the difficult position of chairing the EC Council of Ministers and developed a strategy aimed at finding a compromise between the US and the Europeans, with the goal of promoting an international monetary negotiation covering trade issues also.

Only on September 13, following strenuous debate, did the Council of Ministers publish a communiqué very critical of the US, which requested, as a condition prior to starting negotiations inside the International Monetary Fund and the Group of Ten leading industrialist countries, dollar devaluation, the lifting of the surcharge on imports, a renewed role for gold, the alignment of currencies, and, last but not least, a return to a fixed exchange rate.

At the same time, the Europeans opened a channel for negotiations: a European delegation visited Washington, headed by Renato Ruggiero, Sicco Mansholt and Ralph Dahrendorf. In the debate that developed inside the Commission on October 6, which focused on the results of the visit, Sicco Mansholt, at that time European Commissioner for Agriculture, stressed the need for stronger coordination among the European countries, a suggestion which was encouraged also by Raymond Barre, in charge of Economic and Monetary Affairs, who pointed out the American strategy of negotiating bilaterally with each Government with the aim of pitting one against the other without making concessions.²³

In spite of the European efforts, the US government did not propose any solution, apart from stating the need for a massive improvement in its trade account. As Henry Kissinger noticed, “Connally’s strategy was to put forward no specific American proposal to resolve the crisis”.²⁴ The government stopped supporting the exchange rate of the dollar, which started to float against the other major currencies.

In the debate which developed inside the Nixon administration on the best strategy to pursue in the following months, the US decided “to bring maximum pressures on the more intransigent negotiating partners, including the French (with regard to monetary issues) and the Common Market (on trade issues). This would be achieved by presenting the possibility of a package that might provide the basis for a *modus vivendi*

²³ Historical Archives of the European Union, Emile Noël Papers, Folder 1050, Compte rendu sommaire de la discussion de la Commission, October 6, 1971.

²⁴ Kissinger, H., *The White House Years*, New York, Simon & Schuster, 1979, p. 753.

by Christmas.”²⁵ The absence of convertibility was considered “central to the US position”, not only for the financial risks, but for the desire to maintain a strong hand in future negotiations about the monetary system.

However, maintaining such an assertive position for a long time could be dangerous. A memorandum worked out by Robert Hormats for Henry Kissinger warned of the risks of playing France off against Germany and stressed the fact that Secretary Connally could not fully appreciate the political implications of attempting to divide Common Market nations on economic and monetary issues.²⁶

In his memoirs, Henry Kissinger awarded himself kudos for having understood the limit beyond which this disagreement would generate a dangerous rift in transatlantic relations, which could be exploited by the Soviet Union, and for having convinced John Connally not to cross it. “We would”, wrote Kissinger,

have to tread a narrow path between maintaining enough pressure to provide an incentive for the adjustments we were seeking, and evoking a trade war as well as jeopardizing political relationships built up over decades. I sought to make my contribution in finding that balance.²⁷

Despite Kissinger’s words, the wish to repair such a dangerous cleavage was also European. Georges Pompidou did not want to start a monetary battle against the dollar and, thanks to the friendship which tied Michel Jobert, at that time General Secretary at the Élysée, to the American Ambassador in Paris, Dick Watson, decided to engage a deal with the Nixon administration.²⁸

A compromise was found at the meeting in the Azores between Nixon and Pompidou, which took place on December 13 and 14, 1971. Before the meeting, the French President had met the German Chancellor, Willy Brandt, in Paris at the beginning of December, and had agreed on a common scheme of a concerted floating of European currencies vis-à-vis the dollar, which represented the basis of the deal. The new monetary order agreed in the Azores established that most of the major currencies

²⁵ National Archives, College Park, USA, Nixon Presidential Material Staff, National Security Council (NSC) Files, Box 356 Monetary Matters, Memorandum for Henry Kissinger, Lunch with President, Connally, Shultz, November 24, 1971. Secret.

²⁶ National Archives, College Park, USA, Nixon Presidential Material Staff, National Security Council (NSC) Files, Box 356 Monetary Matters, Memorandum for Henry Kissinger from Robert Hormats, Economic Policy at the Summit, December 9, 1971. Secret.

²⁷ Kissinger, Henry, *White House Years*, p. 755.

²⁸ Roussel, E., *Georges Pompidou*, Paris, Lattes, 1994, p. 462.

would appreciate against the dollar, while the US would lift the 10% surtax on imports and would adopt more flexible margins for exchange rates.

In spite of the triumphalistic press communiqué released at the end of the summit, Pompidou was not able to obtain from the Nixon administration a return to dollar convertibility into gold, and was perfectly aware that the deal was particularly favorable to the US.²⁹ Richard Nixon, during a Cabinet meeting held on December 15, declared that the Azores meeting could be considered “a good deal”.³⁰ And really it was a good deal for the US, which had unleashed the dollar from the Bretton Woods constraints, maintaining at the same time its centrality in the international monetary system.

On December 18, the US, Western European governments, and Japan came to an understanding via the so-called Smithsonian agreement, which adopted the Azores deal. To salvage a semblance of fixed exchange rates, the participants agreed to widen the band within which the currencies could fluctuate: the range was extended to 2.5% from the 1% allowed by Bretton Woods.

3. The Setting up of the “Snake”

In spite of the fact that the Smithsonian agreements were hailed as a new founding treaty for the international monetary system, they would very soon prove to be illusory.

At the beginning of February 1972 Georges Pompidou wrote a letter to Richard Nixon, complaining that the US was not defending the agreement as promised in the Azores.³¹ During a meeting held at the end of March in Washington, the German State Secretary Egon Bahr expressed to Henry Kissinger the need to avoid any further currency crisis in 1972, since the Europeans “would move away from the dollar completely and establish a separate reserve basis”.³²

²⁹ Guasconi, M. E., *L'Europa tra continuità e cambiamento*, p. 137-8.

³⁰ *Ibid.*, p. 138.

³¹ National Archives, College Park, USA, Nixon Presidential Material Staff, National Security Council (NSC) Files, Box 356 Monetary Matters, Letter from Georges Pompidou to Richard Nixon, February 4, 1972.

³² National Archives, College Park, USA, Nixon Presidential Material Staff, National Security Council (NSC) Files, Box 685, Germany, Memorandum of a conversation between Egon Bahr, Rolf Pauls, Henry Kissinger, Martin Hillenbrand and Helmut Sonnenfeldt, March 28, 1972. Secret.

In the following months the goal of achieving monetary cooperation became for the Europeans the “priority of priorities”, whose realization would condition the Common Market’s survival.³³ At the Paris summit of October 1972, the EC heads of state and government once again affirmed their determination to achieve the goal of establishing a European Monetary Union.

However, the achievement of stronger monetary cooperation was not around the corner. In spite of European efforts towards greater monetary cooperation, in the following months the Americans did very little to defend the new parities and the Smithsonian agreements, so that most of the efforts to resist speculation had to stem from the Europeans, in particular from West Germany. In July 1972, the German Minister of Finance, Helmut Schmidt, expressed very clearly to Henry Kissinger German concern and disappointment at the monetary policy pursued by the US. “Billions of dollars are floating about the world and Germany is taking in too many of them”, affirmed Schmidt. In particular Bonn was very worried about the risk of inflation and firmly asked the US to defend the Smithsonian agreements.³⁴

The instability of the international monetary system and US passivity in the international monetary area convinced the European governments to achieve an agreement on monetary cooperation.³⁵ In April 24, the six EC members decided to establish a “snake”, which linked their currencies and their central banks, in a common attitude towards the US. The snake represented a commitment by the Six to keep their exchange rates within 2.25% of each other by using periodic exchanges of assets linked to gold and to foreign exchange. This range of fluctuations reduced the range of flexibility among the EC currencies as well as between the EC currencies and the dollar.³⁶ In addition, the candidate countries which would enter the EC in January 1973, the UK, Denmark and Ireland, took part in the “snake”. One year later, in April 1973, a European reserve fund was established which required regular contacts between monetary decision-makers to coordinate their policies. The central banks of the snake members were bound to intervene and grant short term credit facilities in order to defend the exchange parities.

³³ Guasconi, M. E., *L'Europa tra continuità e cambiamento*, p. 140.

³⁴ National Archives, College Park, USA, Nixon Presidential Material Staff, National Security Council (NSC) Files, Box 685, Germany, Memorandum of conversation between Helmut Schmidt and Henry Kissinger, July 20, 1972. Secret.

³⁵ National Archives, College Park, USA, Nixon Presidential Material Staff, National Security Council (NSC) Files, Box 356 Monetary matters, Memorandum for Henry Kissinger from Robert Hormats, August 2, 1972. Secret.

³⁶ Bussière, E., “International monetary system crisis”, p. 181.

As a consequence, one of the major problems of the snake was the organization of solidarity among the European countries and their central banks. With the Americans which did very little to defend the new exchange parities, the burden to resist speculation weighed mainly on European and in particular on German' shoulders. For weak-currency countries, such as Italy, participation in the snake was simply too expensive, in terms of reserves to be spent to defend the parities and a heavy constraint in their domestic economic policy³⁷.

4. Conclusions

In a conversation with Richard Nixon and Henry Kissinger held on October 1, 1973, a few days before the Yom Kippur War, the President of the European Commission, François Xavier Ortoli, affirmed: "I think that the monetary question hangs above us like an atomic cloud. And it is very important that it be resolved, not just for us but for the rest of the world."³⁸

Ortoli's words expressed very clearly the worries shared by the European governments about the instability of the monetary system. In fact, the life of the snake proved to be very difficult. In June 1972 the British pound left the snake, followed by the Italian lira in February 1973 and the French franc in 1974. Only the deutschmark, the Dutch guilder and the Belgian franc remained inside the snake. In March 1973 the EC members (excluding Italy) decided on a joint float and on ceasing to buy dollars. Inflation was rampant and the commodity market was in chaos well before the oil shock of October 1973.

However, the final blow to the snake's life was represented by the oil crisis of October 1973, which diminished hope for a quick reform of the international monetary system and forced France to leave it in January 1974, thus transforming it in a deutschmark zone.

In spite of the snake's short and difficult life, this experiment represented a turning point for European monetary cooperation. The goal of stronger monetary cooperation would now be pursued energetically by the European leaders, especially by the two former Finance Ministers,

³⁷ Kreile, M., *The search for a New Monetary System*, in Haftendorn, H., Soutou, G.-H., Szabo, F. & Wells, S. (eds.), *The Strategic Triangle*, p. 163.

³⁸ National Archives, College Park, USA, Nixon Presidential Material Staff, National Security Council (NSC) Files, Box 322, European Common Market, Memorandum of conversation between Richard Nixon, Henry Kissinger and François-Xavier Ortoli, October 1, 1973. Secret.

the German Helmut Schmidt and the French Valéry Giscard d'Estaing, who would play a dominant role in the establishment in 1978 of the European Monetary System, which can be considered the first nucleus of the monetary union launched in 1999.

The European Monetary System¹

Giovanni Battista PITTALUGA

The European Monetary System has been an exchange rate agreement between the main European countries, in force from 1979 to 1992. The reasons for its creation were mainly political. With its establishment the founders wanted to give new impetus to the political cohesion among European countries and make a further step towards a European political union.

The initiative of the project was essentially Franco-German. The other founding countries, primarily Italy, joined this project mainly because they were linked to the two promoting countries by economic ties (the Customs Union) and foreign policy (the Atlantic Alliance).

Within the EMS two phases are usually identified. The one between 1979 and 1986, called the “flexible” EMS and marked by numerous realignment of parity, and that between 1987 and 1992, called the “rigid” EMS, in which realignments were substantially absent.

In this paper we try to give answers to two main questions: the EMS has been a success or a failure? What were the causes of the 1992 crisis of the EMS and its substantial collapse?

The first section discusses the reasons for the setting up of the EMS and its institutional architecture. The second section describes how the EMS actually worked. In the third section we try to answer the question whether the EMS has been a successful historical experience. The reasons of the 1992 crisis are dealt with in the fourth section. In the conclusion we briefly retrace the arguments made in the preceding sections and draw some policy indications.

¹ I want to thank Elena Seghezza for the comments on the first version of this contribution.

1. EMS Setting-up and Institutional Architecture

The idea of a monetary integration is already present in the Treaty of Rome of 1957 where, in art. 108, the policy of exchange rates is defined as a “matter of common concern”. In the late 1960s and early 1970s the Barre Plan and the subsequent Werner Report put forward the proposal to form a European monetary union.

This proposal was not implemented because, after the oil crisis, European countries faced this shock adopting very different economic policies. Because of these differences, the so-called currency snake, which included limits on exchange rate fluctuations, failed.

The first impetus to the establishment of the EMS came from Roy Jenkins, President of the European Commission from 1977 to 1981. In a Jean Monnet lecture delivered in October 1977, he asked for a new Community initiative in the monetary sphere.²

Such a solicitation was endorsed by French President Giscard d’Esteing and German Chancellor Helmut Schmidt who started contacts and negotiations in order to initiate this project.³ The EMS became operational on March 13, 1979. The countries that at the beginning gave their adhesion to this exchange rate agreement were eight (France, Denmark, Belgium, Luxembourg, Ireland, Netherland, Germany and Italy).

The EMS have been given different interpretations. A first interpretation leads back the monetary agreement to the desire of European countries to anchor their currencies to the Deutschmark and import the German anti-inflation credibility.⁴

The hypothesis just mentioned does not explain the wide support given by Germany, in particular by Chancellor Schmidt, to the establishment of the EMS. Why this country, with high anti-inflation credibility, should have had an interest in promoting an exchange rate agreement in order to reduce domestic inflation? Similar considerations can be done for the other founding countries who enjoyed a low inflation rate.

A second interpretation of the EMS leads back its creation to interest groups’ pressures. According to Frieden (2002) cross-border investors, financial actors and export-competing producers of specialized manufactured goods are in favor of fixed exchange rates. These interest

² See Jenkins (1977).

³ See Ludlow (1982).

⁴ On this aspect see Giavazzi and Pagano (1988), Weber (1991), Broz (2002) and Fratianni and Von Hagen (1992).

groups exerted pressure in European countries for the establishment of a fixed exchange rate system that in some way, at least in a limited area, subrogate the Bretton Woods system ended in 1971.

This interpretation, however, does not explain why the pressures of the interest group just mentioned were higher than those of producers of standardized import-competing and export goods. Moreover, it does not take into account politicians and governments. The latter, of course, being interested in elections, care about the consequences of a particular exchange rate regime on output growth and on the distribution of income. They, however, besides to be subject to pressures, generally are political entrepreneurs: they have ideals and projects to pursue and realize. In a few words, their choices do not reflect in any way the preferences of interest groups.

A third interpretation of the EMS gives a primary role to political factors, *in primis* to international relations. In a phase of substantial retreat of USA compared to the growing influence of the USRR in different theaters of the world, it was felt by the major European powers the need to make progress towards a political union of Europe.

This behaviour would have allowed to deal with four main problems:⁵

- i. counter the military threat of the Soviet Union at a time of relative weakening of the United States;
- ii. consolidate the European economy, and thus its political and military force, by encouraging intra-European trade with the adoption of a fixed exchange rate system;
- iii. find a solution to the German question, anchoring the renewed economic strength of Germany to western Europe, in a context of friendly relations with France, its traditional enemy. This process would be facilitated by a fixed exchange rate system, which would have protected Germany from policies of beggar-thy-neighbour from the other European partners;
- iv. favoring a higher political stability in countries such as France and Italy, marked by a pronounced distributive conflict and high inflation.

The political hypothesis just illustrated seems the most convincing explanation, even though on the founding countries' adhesion decision also other factors, such as those evoked in the other interpretations, may have played a role.

⁵ See De Vries (1980).

It should, finally, be remarked how in the political hypothesis, the exchange rate agreement was promoted by Germany and France not so much with the intention of encouraging the emergence of a third Power, an alternative to the United States and Soviet Union, but rather to strengthen the Atlantic Alliance's role in Europe at a time of weakening US.

The validity of the political hypothesis is confirmed when one considers the way in which Italy decided to join the EMS. The debate in our country was very eager.⁶ A large part of the political parties, trade unions, entrepreneurs and economists⁷ believed that Italy had no convenience to join the EMS. This opinion was shared by the government led by Giulio Andreotti.

Also the governor of the Bank of Italy, Paolo Baffi, believed that Italy, given the high growth in labor costs and the heavy imbalances in the public finances, was not able to maintain a fixed exchange rate with countries, such as Germany, marked by a low rate of inflation.⁸

In early November 1978, however, Chancellor Schmidt met the Italian Prime Minister in Siena. The terms of that meeting are still unknown. The fact is that after this meeting Andreotti changed his mind, and in this way also changed the government line.⁹ The result was a upheaval in the Italian political equilibrium, and a change of the majority political coalition.¹⁰

The above arguments lead us to conclude that the underlying political reasons for the construction of the EMS were dominant over economic ones.

The decision to set up the EMS, taken at a European Council meeting in Brussels in December 1978, foresaw a system of fixed, but adjustable, exchange rates (Exchange rate mechanism, ERM).

The main components of ERM were four pillars:¹¹

- a. parity grid;
- b. mutual support;

⁶ A survey of the debate among economists can be found in Masini (2004). Some important contributions were by Andreatta (1978), Modigliani (1978), Ossola (1978) and Masera (1980).

⁷ See, for example, Monti (1978) and Padoan and Rodano (1978). Spaventa (1978) in an important parliamentary speech gave expression to the point of view of the political opposition, arguing that EMS would have determined in Italy a slow-down of GDP growth and an increase in the unemployment rate.

⁸ See Baffi (1978a; 1978b).

⁹ See Ludlow (1982) and Varsori (2004).

¹⁰ See Gualtieri (2004: 189).

¹¹ A description of the way the EMS worked can be found in Gros and Thygesen (1992).

- c. joint management of exchange rate realignments;
- d. the European currency unit.

The *parity grid* was a matrix-like table collecting all pairwise central parities and their associated margins.

All currencies were fixed to each other, with a band of fluctuation of ± 2.25 around the central parity (ECU).

The responsibility of maintaining the bilateral parity was equally divided between the two countries concerned. With the mutual support, it was expected that when the bilateral parity of a currency is threatened the central banks of both countries would undertake unlimited interventions to defend the fixed parity.

In order to avoid “beggar-thy-neighbour” behaviours, EMS member countries committed to a *joint management of exchange rate realignments*. In this way it was categorically excluded the possibility of unilateral realignments.

The last pillar was represented by the creation of a unit of account, the ECU. The latter was a basket of the currencies of all countries participating in the EMS. Each currency was weighted with the GDP and the share of trade of the country.

2. The Way the System Worked

The EMS, at the time of its constituency, was in many ways similar to the Bretton Woods system.¹² As the latter, it was a system of fixed, but adjustable, exchange rates, that, thanks to the existence of limits on capital movements, allowed a fair monetary autonomy.¹³ As the latter, it was the result of an agreement among countries that undertook to respect certain rules.

Compared to the Bretton Woods system, however, it presents some important differences. First, none of the member countries' currency was pegged to a commodity money. As known, in the Bretton Woods system, the dollar was pegged to gold, and the other currency to the dollar. This put the dollar in a privileged position compared to other currencies and gave the opportunity to the United States to enjoy the right of seigniorage. The EMS, being based on bilateral parities, posed no currency in a privileged position compared to others.

¹² See Giavazzi *et al.* (1988), “Introduction”.

¹³ On the structure of Bretton Woods system see Gazzo and Seghezza (2012).

Second, the parity realignment, while in the Bretton Woods system could be decided by a single country (given the IMF consent), in the EMS it had to be shared by all member countries.

Apart from these differences, the analogy between the EMS and the Bretton Woods system was high, particularly in the first phase of the EMS, that from 1979 and 1986. The phase was called by Giavazzi and Spaventa (1990) the “flexible” EMS.

In this phase, in fact, member countries, given the existence of restrictions on capital movements, enjoyed a certain degree of autonomy in monetary policy. These margins were then increased by the fact that at this stage frequent realignments of exchange rates were possible.

The situation gradually changed after the removal of capital controls required by the Treaty of 1986 on the Single Market.

In the late Eighties and early Nineties all member countries liberalized capital markets. In the new situation, it was difficult to reach multilateral agreements on parity realignments without arousing currency speculation and encourage financial market tensions.

This helps to explain why, between 1987 and 1992 (that is in the “rigid” EMS phase),¹⁴ it was decided not to conduct realignments despite significant changes in the real exchange rates of some countries.

In this context, EMS member countries saw gradually shrink their monetary policy discretion and emerge a leader country, Germany, which, enjoying lower inflation than the others, was able to impose its monetary policy.

In a nutshell, the so-called “n-1 problem” faced by fixed exchange rate regimes came out. This problem implies that, since there are only n-1 exchange rates among the n countries participating in an exchange rate agreement, either a country becomes the leader and sets monetary policy for all, or monetary policy is set by all countries together, in a cooperative way.¹⁵

The consolidation of the leadership of the mark meant a strong squeeze of other countries’ monetary sovereignty.¹⁶

Since the convergence process of inflation rates was not completed, this would inevitably favored the emergence of macroeconomic imbalances and the final collapse of the system.

¹⁴ According to the definition given by Giavazzi and Spaventa (1990).

¹⁵ On this aspect see De Grauwe (1997).

¹⁶ See Fratianni and Von Hagen (1990; 1992).

It was the awareness of this problem and its negative consequences that led the Authorities of European countries to think about the adoption of a single currency and to design the institutional architecture that would allow a collective management of the monetary policy.

3. Was the EMS a Success or a Failure?

Behind the establishment of the EMS there was the intent to strengthen Europe's political unity, by stabilizing the exchange rates of the European countries.

In fact, as shown by several scholars,¹⁷ the variability of exchange rates among EMS countries plummeted. By contrast, non-EMS exchange rate variability increased significantly after the establishment of the EMS.

The reduction in the exchange rate volatility within EMS countries was mainly due to the reduction of inflation differentials (Table 1).

Table 1 – Consumer price inflation

	1978	1983	1987	1992
Germany	2.7	3.3	0.2	4.0
France	9.1	9.6	3.3	2.4
Italy	12.1	14.7	4.7	5.3
UK	8.2	4.6	4.1	3.7

Source: Banca d'Italia (1988; 1993).

The decrease in the inflation rate between 1978 and 1987 was particularly high for countries that, at the time of their adhesion to the EMS, were suffering from high inflation rates.

In these countries the rate of inflation decreased a lot between 1983 and 1987, i.e. when the effects of the second oil shock were finished. In this span of time, for example, the inflation rate was reduced by 10 percentage points in Italy and 6.2 percentage points in France.

There is a debate, not yet conclusive, on the question whether the EMS has been a determining factor in encouraging the reduction of inflation for those member countries characterized by high inflation. Some empirical studies confirm this hypothesis,¹⁸ others reject it.¹⁹

¹⁷ See, among others, Ungerer *et al.* (1986) and Artis and Taylor (1989).

¹⁸ See among others Giavazzi and Giovannini (1988), Gressani *et al.* (1991) and Bini Smaghi (1994).

¹⁹ See Ungerer *et al.* (1986), De Grauwe (1990) and Eichengreen (2000).

The fact remains that by joining the EMS countries marked by high inflation rates could adopt an exchange-rate based stabilization process.²⁰ They could, therefore, benefit from the advantages that a disinflation process of this type involves, in particular, of the gradualism with which it acts on output.²¹

The relatively low costs in terms of output loss that accompany an exchange-rate based disinflation policy imply lower political costs than those involved by a money-based disinflation policy.

Countries characterized by a high social conflict and uncertain political majorities may find it difficult to undertake a money-based disinflation process, i.e. to take responsibility for decisions that involve a drastic reduction in output and rising unemployment.

As shown by the cases of France and Italy, at least in the short-term, the costs of disinflation in terms of decrease of real GDP²² were limited and, in any case, much lower than those suffered by the UK, which used a money-based disinflation process (Table 2).

Table 2 – Output growth since the beginning of disinflation⁽¹⁾

	In the following three years	In the following four years	In the following eight years
Italy	+1.1	+2.4	+11.8
France	+2.8	+6.0	+13.0
UK	-3.3	+1.3	+14.6

⁽¹⁾ Sum of output growth in the period after the peak of inflation of 1979.

Source: Banca d'Italia (1988).

We have to wonder if the comparison between the costs of the two different disinflation processes considered, i.e. money-based and exchange-rate based, should only relate to the loss of output and not even to changes in the production structure they entail.

For example, it is likely that an exchange-rate disinflation process, when it determines a protracted appreciation of the real exchange rate, significantly penalizes the producers of import-competing and export goods. In the “flexible” phase of the EMS this distorting effect

²⁰ Generally we distinguish between two different paths of disinflation: the *money-based stabilization* (MBS) and the *exchange-rate-based stabilization* (ERBS). The difference between these mechanisms of stabilization lies in the selection of the nominal anchor to bring inflation down.

²¹ See among others Calvo and Végh (1994).

²² See Okun (1978).

was avoided thank to frequent realignments of exchange rate parities (Table 3).

Table 3 – ERM realignments

	Mar 79	Sept 79	Nov 79	Mar 81	Oct 81	Feb 82	Jun 82	Mar 83	Jul 85	Apr 86	Aug 86	Jan 87	Jun 89	Jan 90	Oct 90
Belgian franc	En 2¼%					-8.5		+1.5	+2.0	+1.0		+2.0			
Danish krone	En 2¼%	-2.9	-4.8			-3.0		+2.5	+2.0	+1.0					
German mark	En 2¼%	+2.0			+5.5		+4.25	+5.5	+2.0	+3.0		+3.0			
French franc	En 2¼%				-3.0		-5.75	-2.5	+2.0	-3.0					
Irish pound	En 2¼%							-3.5	+2.0		-8.0				
Italian lira	En 2¼%			-6.0	-3.0			-2.5	-6.0					B 2¼%	
Dutch guilder	En 2¼%				+5.5			+3.5	+2.0	+3.0		+3.0			
UK pound															En 2¼%
Spanish peseta												En 6%			

Legend: - = % devaluation; + = % revaluation; B% = new band; En% = entry band.

Despite these frequent realignments, between 1978 and 1986, and even more between 1978 and 1992, the structure of the productive apparatus of our country has changed profoundly.²³ The share of services in GDP and even more the share of employed in this sector on total employment increased significantly (Table 4).

Table 4 – Employment by sector in Italy (in percentage)

	Self-employed	Employees			Total	Total	
		Agriculture	Industry	Services and other activities			
1979	28.3		5.5	32.2	34.1	71.7	100
1987	29.4		3.8	26.7	40.0	70.6	100
1992	28.3		3.5	26.4	41.8	71.7	100

Source: Banca d'Italia (1988; 1993).

The pronounced increase in the employment share of not-for-sale services suggests that the public sector has absorbed part of the employed expelled from the industrial sector. This suggest that part of the

²³ See Pittaluga and Seghezza (2012: 128-129).

disinflation costs have been absorbed in our country through an increase in current public spending.

The process of convergence of inflation rates within the EMS has been accompanied by a similar process in monetary growth (Table 5).

Table 5 – Money growth⁽¹⁾ during the “flexible” EMS phase

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Germany	11.0	5.7	6.2	5.0	7.2	5.5	4.5	7.8	6.8	6.0
France	13.4	13.1	8.2	13.6	11.9	13.6	9.5	5.9	4.0	4.3
Italy	22.6	20.8	12.7	10.0	18.1	12.3	12.1	11.0	9.4	8.4
UK	15.5	12.5	18.3	25.6	8.9	11.1	10.0	13.2	20.4	22.8

⁽¹⁾ For France and Italy M2; for Germany and UK, M3.

Source: Banca d'Italia (1988).

Because of the Fisher effect,²⁴ the process of convergence of money market real interest rates was slower than that of the inflation rate. In particular, in countries like France and Italy, characterized by high inflation rates upon entry into the EMS, these interest rates have become positive and growing since 1981 (Table 6).

Table 6 – Money market real interest rates⁽¹⁾

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Germany	1.4	5.4	4.7	4.5	1.3	2.2	3.4	2.6	5.0	3.4
France	-2.4	1.8	-1.9	1.9	0.9	2.6	3.3	3.2	5.4	5.5
Italy	-0.3	0.9	-4.2	3.6	2.6	2.3	3.9	3.9	4.4	7.0
UK	4.2	3.4	-3.3	3.6	1.9	3.8	4.8	5.7	7.0	4.6

⁽¹⁾ Deflationated using the Consumer price index inflation.

Source: Banca d'Italia (1988).

Based on the considerations and evidence discussed in this section we conclude that the EMS was an exchange rate arrangement which drew benefits to all participating countries. It created an area of stable exchange rates, prevented beggar-thy-neighbours policies, and, thus helped to consolidate the EU, while preserving the Common Agricultural Policy.

In addition, countries characterized by high inflation rates at the time of the establishment of the EMS, anchoring their exchange rate to the mark (i.e. the currency of a virtuous country under the inflation profile), could disinflationate their economies.

²⁴ See Ungerer *et al.* (1986).

The costs of disinflation were relatively low because it was an exchange-rate-based stabilization and because of the frequent realignments that occurred between 1979 and 1987.

4. The Crisis of 1992

At its establishment several scholars were skeptical regarding the long-term viability of the EMS.²⁵ This viability was severely undermined by institutional developments that came in after 1986 and mainly by the liberalization of capital movements and the decision not to proceed further realignments of exchange rates.

The approval of the Single Market Agreement in 1986 was a step to build a single European capital market. That agreement provided, among other things, the removal of controls on capital movements. Because of that, realignments of exchange rates became problematic. In fact, as soon as a rumor was leaked that authorities of member countries were negotiating an adjustment of parities, a speculative attack on the weak currencies would have developed.

It is primarily for this reason that between January 1987 and August 1992 there were no realignments. By contrast, between January 1979 and December 1986 there were eleven realignments. These two different periods of the EMS, therefore, have been defined “soft” and “hard” EMS.²⁶

The first turbulences within the EMS came out in June 1992, when Denmark in a referendum decided not to join the EMU project. The outcome of this referendum induced a public perception that the project to complete the monetary union of Europe would have been stranded.

The exchange rate of the currencies of the weaker countries of EMS,²⁷ *in primis* the Italian lira, reached the lower limit of the oscillation band.

Currency tensions increased as a result of the uncertain outcome of the French referendum on the Maastricht Treaty, established on September 20.

An Ecofin meeting was held in Bath in early September to give a coordinated response to these tensions. The outcome of this meeting was, however, a failure, since, during the meeting, it emerged that member countries had very different positions.

²⁵ See De Grauwe and Peeters (1979), Vaubel (1979) and Cohen (1981).

²⁶ See Giavazzi and Spaventa (1990).

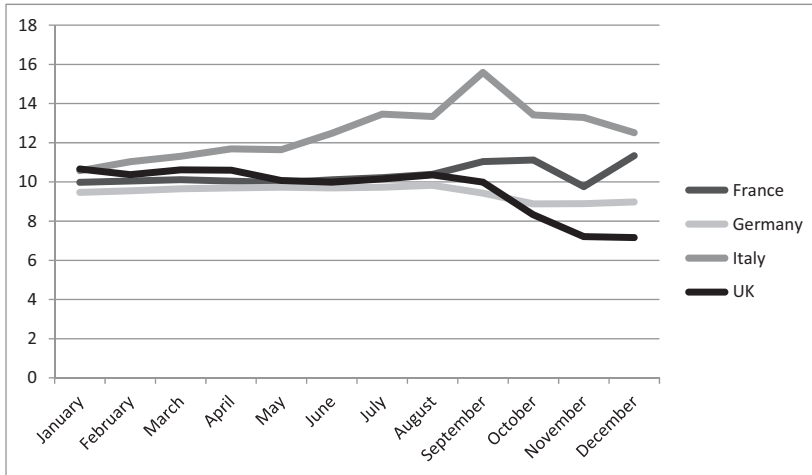
²⁷ That is the Italian lira, sterling, the peseta and the escudo.

In particular, Germany refused to reduce its domestic interest rate, raised after 1989 to counter the inflation rate acceleration due to unification. In most other countries, given the economic slowdown, an adjustment of the interest rate to the German one became unsustainable.

This stalemate of the negotiations, together with the event just described, led to a change in investor expectations.

In the presence of large outflows of currency induced by this change of expectations and the deregulation of capital movements, the exchange rates of the weaker countries were pushed to the relevant intervention margins. The authorities of these countries decided to counter speculative attacks bringing interest rates to unusual levels (Figure 1).²⁸

Figure 1 – Money market interest rates – 1992



Source: Banca d'Italia (1993).

This rise in interest rates had limited effects. On September 13 the German and Italian authorities proposed a realignment of parities. The Bundesbank undertook to simultaneously reduce domestic interest rates. None of the other countries participating in the EMS accepted the proposal.

Despite on September 14 the German Central Bank reduced the official interest rate, the weaker countries of the system, in particular UK and Italy, were affected by large capital outflows.

²⁸ For a narration of the 1992 crisis see Eichengreen (2000).

Two days after UK decided to abandon the exchange rate arrangement. Following this decision, Italy decided to suspend interventions to defend the lira. Such interventions, since the beginning of the crisis, had cost to our country the depletion of 29 billion liras of foreign reserves.

On August 2, 1993, the countries still part of the EMS decided to widen the allowed fluctuation range of the exchange rate from ± 2.25 to ± 15 per cent, leaving central parities unchanged. To this date can be traced the effective conclusion of the experience of the EMS. Starting from January 1, 1994, began the second phase of the European Monetary process, as outlined in the Maastricht Treaty.

Prevailing interpretations of the 1992 EMS crisis are essentially two and make reference to the currency crisis models of first and second generation.²⁹

As it is known, in the first generation of models, foreign exchange crisis are traced back to macroeconomic imbalances, in particular persistent current account deficits, generated by wrong policy choices.³⁰

In the second generation models, currency crisis is attributed to self-fulfilling expectations:³¹ the expectation of the currency depreciation forces authorities to counter the outflow of capital and foreign reserves through a rise in the domestic interest rate. At some point, however, further increases in the interest rate become unviable given the economic and social costs that they entail.

Those who interpret the 1992 crisis on the basis of the first generation models, insist on the fact that several countries pursued through the EMS an exchange-rate stabilization process. In processes of this type, since the nominal exchange rate is fixed and the deceleration of inflation is slow, the real exchange rate tends to appreciate. Consequently, a country that pursues an exchange-rate based stabilization loses competitiveness: its trade balance goes in deficit.

Between 1987 and 1992 the real exchange rate³² of Italy appreciated by 8.5 per cent. An analogous appreciation happened in UK (8.1 per cent) (Table 7).

²⁹ A survey of these interpretations is in Eichengreen and Wyplosz (1993).

³⁰ See Krugman (1979).

³¹ See Flood and Garber (1994) and Obstfeld (1986).

³² Measured with respect to unit labor costs.

Table 7 – Real exchange rates⁽¹⁾

	France	Germany	Italy	UK
1983	96.9	85.1	104.4	117.1
1984	98.0	83.8	102.4	112.1
1985	100.0	82.5	99.9	113.2
1986	101.0	89.6	101.2	103.7
1987	100.0	100.0	100.0	100.0
1988	95.3	100.3	99.3	106.4
1989	90.7	99.5	105.6	105.5
1990	92.8	103.3	110.0	109.5
1991	91.1	101.8	111.3	112.6
1992	92.2	105.5	108.5	108.1

⁽¹⁾ Based on unit labor costs.

Source: Banca d'Italia (1993).

Always between 1987 and 1992, Italy and UK had persistent and sizeable current account deficits (Table 8).

Table 8 – Current account balances (billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
France	-5.2	-0.9	-	2.4	-4.4	-4.8	-5.6	-13.8	-6.1	2.4
Germany	5.4	9.6	17.0	40.1	46.3	50.6	57.6	46.3	-19.5	-25.1
Italy	1.5	-2.4	-3.4	2.8	-1.5	-5.9	-10.9	-14.4	-21.4	-25.4
UK	5.5	2.1	3.9	-	-7.6	-28.8	-35.6	-29.4	-11.4	-20.9

Source: Banca d'Italia (1993).

If it is true that both Italy and UK between 1987 and 1992 were affected by a significant appreciation of the real exchange rate, it is equally true that in other countries, then hit by the crisis, this phenomenon did not occur.

Uncertainties about the validity of the interpretations of the 1992 crisis based on first generation models led some economists to believe that this crisis can best be interpreted in the light of the second generation models.

In this perspective, they emphasize that, between 1987 and 1991, countries such as Italy and Spain, marked by an inflation rate higher than EMS countries' average inflation, having higher nominal interest rates, were affected by strong capital inflows.

The negative outcome of the Danish referendum led to a change in expectations regarding the completion of monetary union. The weaker countries were affected first by a decline in capital inflows, and then by capital outflows.

Attempting to counter these outflows with increases in domestic interest rates proved, beyond a certain limit, impractical. The defence of the exchange rate would require interest rates so high as to compromise the solidity of the economy and social cohesion. This intolerable cost explains the collapse in 1992 of the EMS.

5. Conclusions

In the introduction it was said that this contribution is meant to answer two questions. At the first of these questions, namely whether the EMS has been a success, we are given a substantially positive answer.

The exchange rate arrangement, in fact, strengthened the cohesion among member countries along two lines. On the one hand, providing for fixed, although adjustable, exchange rates, it encouraged a growth of within Europe trade and eliminated the risk of competitive devaluations and their negative impacts on the custom union.

On the other hand, the EMS fostered a process of convergence of inflation rates in member countries, facilitating the subsequent monetary integration.

To the second question, that is the causes of the 1992 crisis and the EMS collapse, we are given an answer within the first generation currency crisis models. In fact, the crisis of the pound, and especially that of the lira, seem to be mainly derived from macroeconomic imbalances, particularly by persistent current account deficits. This does not mean that the crisis of these currencies then resulted in a lack of confidence in the whole system and in its collapse.

The 1992 crisis has clearly highlighted the limits of fixed exchange rate regimes. In particular, it showed that the policy of “tie one hands” by adopting a fixed exchange rate has short-run effects, since it constrains a country marked by high inflation to adopt the monetary policy of the virtuous country. This policy, however, is not able to promote appropriate convergence of the institutional structure and the “culture” of different countries.

Beyond the short term, the persistence of institutional and cultural differences between countries determines the emergence of real exchange rates different from the equilibrium ones and, consequently, current account imbalances. Therefore, as Loureiro (1996; p. 128) writes, in the medium-long period “the hope that pegging the exchange rate do makes good intentions credible remains an illusion”.

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The Role of Giulio Andreotti in the Birth of the EMS and of the Monetary Union

Daniela PREDÀ

Giulio Andreotti played an important role in the European monetary unification process, whose key moments occurred when he was head of the Italian government. He was Prime Minister in two consecutive governments, from 1972 to 1973, at the time the Snake was born and during the instability of the Bretton Woods system and the international monetary disarray following the Nixon Administration's decision to suspend the convertibility of the U.S. dollar into gold in August of 1971. He was Prime Minister again from July 1976 to August 1979, when the EMS was born, as well as foreign Minister during the Craxi governments and the successive Fanfani, Gorla and De Mita governments, from August 1983 to July 1989, during the negotiation and approval of the Single European Act. Finally, he was Prime Minister from July 1989 to June 1992, when the Economic and Monetary Union was launched.

He was a key player as both Prime Minister and foreign Minister in the various European negotiations leading to the creation of the EMS; while steadfastly defending Italy's interests, he gave priority to European political integration, remaining faithful to De Gasperi's line, even though he adopted different methods and strategies.

This paper will focus on Andreotti's role in the birth of the European Monetary System (EMS) – including an appendix on the inception of the Monetary Union – emphasizing the relations with Europeanist and federalist economic study groups and bringing to light the close connection afforded monetary, political and economic integration by the Italian government.

1. Toward the EMS. The Contribution of the Study Groups

The decision by Andreotti's centrist government to withdraw the lira from the monetary Snake in February 1973 led to growing misunderstandings between Italy and its European partners, opening the

way for the practice of “competitive devaluations”, which was unpopular in Brussels. The commitment of the Europeanists, who, after Italy had left the Monetary Snake had doubled their efforts to gain the government’s support for the monetary issue, was in vain.¹

After the Paris Summit midway through the Seventies, the prospects for the direct election of the European Parliament appeared to make politically feasible an institutional development that would achieve and manage monetary unification, thereby guaranteeing the strengthening of the mechanisms of community solidarity needed to allow the weaker countries to abandon exchange rate maneuvers in an attempt to compete with stronger ones. It was a hectic moment that presaged important changes in Europe. In February 1976, the European Movement, under the presidency of Jean Rey, convened a “Congress of Europe” in Brussels, participating in which were the most renowned Europeanist figures, among whom Andreotti. During the Congress, Willy Brandt stated that the Parliament “should view itself as the permanent constituent assembly of Europe”.²

As often occurred during the European unification process, several forces in favor of re-launching European unification had for some time been preparing fertile ground for European initiatives regarding monetary unification through an effective action of ‘tillage’. Ties were established among the most important economists through their common participation on official committees; in addition, informal groups were created at the European level, thereby creating a continual flow of ideas and proposals and focusing the attention of the political authorities and public opinion on the topics of monetary integration.

Beginning at the end of the Fifties, one of the most influential forums for the economic-monetary debate was Jean Monnet’s *Comité d’Action pour les États-Unis d’Europe*,³ which included distinguished members

¹ Among these efforts was the national convention organized by the Italian Committee of the European Movement in 1973, led by Petrilli Giuseppe. Cf. Orsello, Gian Piero, *I movimenti per l’unità europea*, in *I movimenti per l’unità europea 1970-1986*, edited by Ariane Landuyt and Daniela Preda, Bologna, Il Mulino, 2000, p. 1035-1051.

² Willy Brandt’s speech to the Congress of Europe organized by the European Movement in Brussels on 5-7 February 1976, in *L’Unità europea*, III (1976), No. 25, p. 9-12.

³ On the activities of the Monnet Committee see Dumoulin, Michel, *Robert Triffin, le CAEUE de Jean Monnet et les questions monétaires européennes (1969-1974). Inventaire des papiers Triffin*, Louvain-la Neuve,-Ciaco, 1988; Fontaine, Pascal, *Le Comité d’Action pour les États-Unis d’Europe de Jean Monnet*, Lausanne, Centre de Recherches européennes, 1974; Yondorf, Walter, “Monnet and the Action Committee. The Formative Period of the European Communities”, *International*

such as Triffin⁴, Uri, Delouvrier, Marjolin, Clappier and Carli. Another highly active, though less well-known network on monetary issues, in particular the topic of the “parallel currency”, was the Villa Pamphli group,⁵ created in 1976 through the efforts of Giovanni Magnifico. The Group included Lord Cromer, Geoffrey Denton, Armin Gutowski, Norbert Kloten, Alexandre Lamfalussy, Andrei Shonfield, Pierre Uri, Robert Triffin, Conrad Oort⁶ and J. Van Ypersèle. In 1977, the European Commission brought together an independent group of economists, under the leadership of MacDougall, including among others Michael Emerson and Francesco Forte.⁷

These groups are already known to historiography.⁸ Other initiatives could be added in this regard in which the Italian presence is significantly scarce, in particular the group of young economists that gravitated

Organization, 19 (1965), p. 885-912; Meynaud, Jean, Sidianski, Dusan, “Le Comité d’Action pour les États-Unis d’Europe”, in *Annuaire européen*, 13 (1965), p. 3-27; Varsori, Antonio, “Jean Monnet e il Comitato d’Azione per gli Stati Uniti d’Europa dalle origini ai Trattati di Roma (1955-1957)”, in Ciampani, Andrea (ed.), *L’altra via per l’Europa. Forze sociali e organizzazione degli interessi nell’integrazione europea (1947-1957)*, Milan, FrancoAngeli, 1995, p. 139-170; Id., *Jean Monnet e il Comitato d’Azione per gli Stati Uniti d’Europa tra MEC ed Euratom*, in *I movimenti per l’unità europea 1954-1969*, edited by Sergio Pistone, Pavia, PIME, 1996, p. 349-371; Melchionni, Maria Grazia, “Le Comité d’Action pour les États-Unis d’Europe : un réseau au service de l’union européenne”, in Bossuat, Gérard et Wilkens, Andreas (dir.), *Jean Monnet, l’Europe et les chemins de la paix*, Paris, Publications de la Sorbonne, 1999, p. 221-251.

⁴ On Triffin see Koeune, Jean Claude, Lamfalussy, Alexandre (eds.), *In search of a New World Monetary Order*, Bruxelles, P.I.E. Peter Lang, 2012; Montani, Guido, “Robert Triffin and the Economic Problem of the 20th century”, in *Il Federalista*, Vol. XXXI (1989), No. 3. See also the essay by Ivo Maes in this book.

⁵ In 1977 the Group published a Manifesto. Cf. Balossa, B., “Riforme monetarie e Mercato Comune Europeo. Manifesto di Villa Pamphili”, in *Moneta e Credito*, No. 118, 1977, p. 131-148. See also Masini, Fabio, *SMemorie della lira. Gli economisti italiani e l’adesione al Sistema monetario europeo*, Milan, FrancoAngeli 2004.

⁶ Oort, Conrad J., *Steps to International Monetary Order*, Washington D.C., Per Jacobsson Foundation, 1974.

⁷ The Group is also responsible for the famous Mac Dougall Report – *The Role of Public Finance in European Integration* – published in 1977. An advisor of Jenkins and of the Treasury, Mac Dougall was head economic advisor of the British industrial federation. Members of the committee included professors Dieter Biehl, Arthur Brown, Francesco Forte, Yves Fréville, Martin O’Donoghue, Theo Peeters, and the collaborators Wallace Oates and Russell Mathews, in addition to several executives from the European Commission’s Directorate General of Economic and Financial Affairs, including the director, Paul Van den Bempt, and Michael Emerson, the division head.

⁸ See in particular Ludlow, Piers, *The Making of the European Monetary System*, London, Butterworth Scientific, 1982; Ludlow, Piers, Spaventa, Luigi, *The Political and Diplomatic Origins of the European Monetary System: July 1977-March 1979*, Florence, European University Institute, 1979.

toward the President of the *Union européenne des fédéralistes* (UEF),⁹ Mario Albertini:¹⁰ professors Guido Montani, Alberto Majocchi, Dario Velo, the director of planning and management control of Holding Fiat, Antonio Mosconi, the head of the research service of the Istituto Bancario San Paolo of Turin, Alfonso Jozzo, and Domenico Moro, an executive in the economic studies group of Fiat.

Already in 1969 federalists had raised the issue of how to respond to the crisis in the Bretton Woods system, organizing two conventions in Turin, where the proposal was made to create a European reserve system.¹¹ In December of 1976, the European Federalist Movement (EFM) organized a convention in Pavia¹² on the topic of “A currency for Europe”, in which supporters and detractors of the single currency participated, among whom the Director General of the Ministry of Finance in the Federal Republic of Germany, Manfred Lahnstein, who at that time was among the sceptics, and the economic advisor of the Bank of Italy, Giovanni Magnifico, who was among the supporters.¹³ Two other federalist conventions would follow: the first in Turin on March 24, 1977, and the second in Paris on March 26 of the same year. In Turin, the supporters of the single currency included, in addition to Magnifico, Robert Triffin, Cesare Romiti and the Treasury Minister, Gaetano Stamatì. In Paris, Pierre Werner joined Magnifico and Triffin among the supporters.

The support of federalists for the EMS was based on the conviction that this represented a fundamental break with the disintegrative tendency exemplified by the dangerous rise of economic and monetary nationalism in Europe in the seventies. With the direct election of the

⁹ On the UEF see Pistone, Sergio, *The Union of European Federalists: from the foundation to the decision on direct elections of the European Parliament (1946-1974)*, Milan, Giuffrè, 2008.

¹⁰ See Albertini, Mario, *Tutti gli scritti*, edited by Nicoletta Mosconi, 9 volumes, Bologna, Il Mulino, 2006-2009; Terranova, Flavio, *Il federalismo di Mario Albertini*, Milan, Giuffrè, 2003; Preda, Daniela, *Per una biografia di Mario Albertini: la formazione, la scelta europea e l'autonomia federalista*, Pavia, Jean Monnet Centre of Pavia, 2014.

¹¹ See Montani, Guido, *The action of the European federalist movement for the European currency*, in this volume. Presented to the conferences was a document drafted by Alfonso Jozzo and Antonio Mosconi entitled “Pour un système européen de réserve”, subsequently published in *Le Fédéraliste*, 1969, No. 2, p. 71-78. Among those present at the second convention were Robert Triffin and Rinaldo Ossola.

¹² The proceedings of the conference, which took place on December 10 and 11, 1976, were published in *Thema – Quaderni di Economia e Finanza dell'Istituto bancario San Paolo di Torino*, 1977, No. 1, under the title “L'unione monetaria europea nella prospettiva dell'elezione europea”.

¹³ Magnifico, Giovanni, *L'Europe par la monnaie – Une nouvelle approche*, preface by Guido Carli, Paris-Limoges, Lavanzelle, 1974.

European Parliament, the EMS could represent a solid foundation for the creation of true monetary unification.

Given the prospects that a relaunching of the European integration process could be favored by the monetary initiative, the President of the IRI (the Institute for Industrial Reconstruction), the Christian-Democrat Giuseppe Petrilli,¹⁴ in his role as President of the Italian Committee of the European Movement, organized a convention in Rome on June 17-18, 1977, with European repercussions. Among those participating at the convention were Giulio Andreotti, Valéry Giscard d'Estaing and Leo Tindemans. The topic was: "The economic union and the problem of the European currency".¹⁵ Prepared by working groups of economists from the EFM and introduced by reports by Petrilli, Werner and Majocchi, the convention saw the participation of a founding father of Europe, Dirk P. Spierenburg, along with a numerous turnout of academics and politicians involved in European actions, such as the President of the European Parliament, Emilio Colombo, the Minister of the Treasury, Gaetano Stammati, the Hons. Luigi Granelli, Mario Ferrari Agradi, Silvio Leonardi, Luciano Barca, and three representatives from the Bank of Italy: the economic advisor Giovanni Magnifico, the head of the office of monetary and financial issues, Rainer Masera,¹⁶ and the vice-director of the research service, Ercole Tuccimei.

To underscore the harmony and common commitment to struggle of the Federalists, in November of 1977 the President of the European Commission, Roy Jenkins, gave a speech at the re-unified UEF Congress in Brussels.¹⁷

2. Italy on the Eve of the EMS

In this climate, which saw a strong convergence of views among academics, experts and politicians on the topic of Economic and Monetary Union, Roy Jenkins, the President of the European Commission, decided

¹⁴ On Petrilli's position see Caraffini, Paolo, *Un grand commis e la dimensione internazionale: Giuseppe Petrilli e il processo di integrazione europea (1950-1989)*, Milan, Guerini e Associati, 2015. In particular, regarding the EMS, see p. 169-176.

¹⁵ The proceedings of the conference are found in *L'unione economica e il problema della moneta europea. La moneta come elemento di divisione o di unità dell'Europa*, edited by the European Movement and the European Federalist Movement, Milan, FrancoAngeli, 1978.

¹⁶ Masera, Rainer, *L'unificazione monetaria e lo SME*, Bologna, il Mulino, 1980.

¹⁷ See *L'Unità Europea*, 1977, No. 45 (November).

to become the leader of the group in favor of a single currency.¹⁸ On October 27, 1977, during Jean Monnet's by-now historic lecture at the European University Institute in Florence,¹⁹ Jenkins re-launched the political debate on the advantages of a monetary union, which would have forced the governments to undertake stricter economic policies, slowed down inflation and favored price stability. Jenkins re-affirmed his convictions during both a lecture in Bonn²⁰ the following December and before the European Parliament in January 1978, emphasizing also that a monetary union could represent a potent stimulus to growth, and thus to employment, allowing Europe to avoid an excessive dependence on a dollar in clear crisis.

The prospects for a re-launching of Europe came at a time when Italy was experiencing deep political and institutional instability during the dark days of terrorism. After Andreotti resigned, there was a succession of three governments between 1973-74 – the fourth and fifth governments led by Rumor, and Moro's fourth government – in which Rumor and Moro alternated as Foreign Minister, while Andreotti strengthened his competence in the monetary area as Budget Minister from 1974 to 1976 in Moro's government. The economic situation in the country was dire: a spiral of recession was leading to the closure of thousands of companies, inflation was continually growing (reaching 17% in 1976), youth unemployment had reached its maximum levels, and there was a strong deficit in the trade balance. Economists agreed that inflation was a necessary means for maintaining high levels of employment, while currency devaluation was viewed as the most valid instrument for guaranteeing competitiveness.

In 1976, Giulio Andreotti was charged with forming a government, and on July 23 he presented the "Ideas for the Government program", which held that the "community bond" created "an intertwining of rights and duties not to be underestimated". The abstention of the Communist

¹⁸ On the launching of the EMS see Ludlow, Piers, *The Making of the European Monetary System*, cit.; Ludlow, Piers, *Roy Jenkins and the European Commission Presidency, 1976-1980. At the Heart of Europe*, Palgrave Macmillan, 2016; de Vries, Tom, *On the meaning and future of the European Monetary System*, International Finance Section, Department of Economics, Princeton University, 1980; Mourlon Druol, Emmanuel, *A Europe made of Money: the Emergence of the European Monetary System*, Ithaca and London, Cornell University Press, 2012.

¹⁹ Jenkins, Roy, *Europe's Present Challenge and Future Opportunity*, the First Jean Monnet Lecture, Florence, October 27, 1977.

²⁰ Jenkins, Roy, "The integration of the Community in the Face of Enlargement", speech to the Deutsche Gesellschaft für Auswärtige Politik, Bonn, December 8, 1977, in *Europa-Archiv*, 1, 1978, p. 1.10.

group²¹ allowed Andreotti to form a one-party government: the ‘non-no-confidence government’, which would govern from July 29, 1976, to January 16, 1978,²² with Arnaldo Forlani as Foreign Minister. For the PCI, the Communist Party, which had reached 34.4% of the vote in the June elections, reducing to a historical minimum the gap with respect to the DC (the Christian Democrats) in the polarized party alignment, it was the end of the *conventio ad excludendum*. On March 11, 1978, a few days before Aldo Moro’s kidnapping by the Red Brigades, the new Andreotti government (the fourth) received a vote of confidence. In this government, Forlani remained as Foreign Minister, Pandolfi became the Treasury Minister, and the Europeanist Franco Maria Malfatti became Finance Minister. Once again the votes of the PCI were decisive.

The Governor of the Bank of Italy from August 1975 until October 1979 was Paolo Baffi,²³ who played a key role in the design and carrying out of the economic and currency measures that led to the overcoming of the crisis of 1976, restoring a balance in Italy’s current account. Nevertheless, Baffi was against the ‘external constraint’, which he felt would have dampened the growth of salaries and forced Italy to undertake a deflationary policy, convinced as he was that Italy was not ready to enter into a common monetary system without appropriate economic convergence policies with the other countries. Even the Confindustria, a large number of economists, trade unions, and vast assisted economic sectors, fearful of losing the competitive advantage from exchange rate maneuvers, opposed monetary unification and fixed exchange rates.²⁴ Between 1976 and 1978 Italy took advantage of the operating space afforded by the absence of exchange rate constraints to improve its balance of payments, at the same time reducing internal monetary instability, although the worry existed that an inflationary-currency depreciation spiral could be triggered.

Therefore, the conditions for Italy’s participation in the new agreements was a radical inversion of the tendencies in economic policies and a real change in its mentality toward inflation and devaluation, and their consequences, as well as a re-launching of productivity as the engine of competitiveness and employment.

²¹ The federalist Altiero Spinelli would instead vote against this, contesting Andreotti’s government program.

²² The Foreign Minister was Arnaldo Forlani, the Finance Minister Filippo Maria Pandolfi, and the Treasury Minister Gaetano Stamatì.

²³ See Baffi, Paolo, *Testimonianze e ricordi*, Milan, Scheiwiller, 1990.

²⁴ See Spaventa, Luigi, *Italy joins the EMS. A political History*, in Research Institute, The John Hopkins University, Bologna Center, Occasional Papers, No. 32, 1980.

3. Andreotti's Role in the EMS Negotiations

Jenkins' statements were shortly followed by the decision by the nine Heads of Government of the EC, meeting in Copenhagen in April of 1978, to create a zone of European monetary stability, thereby beginning the rapid process that would lead in a few months to the birth of the European Monetary System.²⁵ At Copenhagen, Andreotti, who also had a one-on-one meeting with Schmidt,²⁶ had a wait-and-see attitude.²⁷

It is known that the most important decisions were taken – after a meeting between Giscard d'Estaing and Jenkins at the Élysée Palace on June 22 and one between Giscard d'Estaing and Schmidt on June 23 in Hamburg, where the content of a common unit of measure was defined as an “embryon d'une future monnaie européenne”²⁸ – at the European Council in Brema on July 6-7, where a “scheme for the creation of a closer monetary cooperation (European monetary system) leading to a zone of monetary stability in Europe”²⁹ was discussed. In addition to the focus on exchange rates with narrow margins of fluctuation, the Scheme called for the creation of both an initial fund containing a significant part of the central bank reserves of the European countries, destined to become the initial nucleus of a European central reserve, which would be the basis for a European monetary unit – the European Currency Unit (ECU) – as well as a European Monetary Fund, to be created within two years of the start of the System.³⁰ The currencies outside the Snake were

²⁵ The European Council in Copenhagen, The Presidency's Conclusions concerning the Economic and Social Situation, Draft, April 7-8, 1978, ASILS, AGA, Europa, b. 355, cart. “Consiglio Europeo (Copenhagen, April 7-8, 1978)”.

²⁶ Anonymous note for Andreotti, ASILS, AGA, Europa, b. 355, cart. “Consiglio Europeo (Copenhagen, April 7-8, 1978)”.

²⁷ “The long discussion [...]” he notes, “focused almost exclusively on the monetary issue. [...] Giscard hinted at a return to the Snake, though without insisting. He appeared quite interested in Schmidt's *own* proposals. The crux of Schmidt's ideas is the pooling together of the reserves of the nine countries, with the creation of a European Monetary Fund”. This was a hand-written note of Andreotti's on the evening of the conversation at Copenhagen, in ASILS, AGA, Europa, b. 355, cart. “Consiglio Europeo (Copenhagen, April 7-8, 1978)”. See also Varsori, Antonio, *La Cenerentola d'Europa? L'Italia e l'integrazione europea dal 1947 a oggi*, Soveria Mannelli, Rubbettino, 2010.

²⁸ Giscard d'Estaing, Valéry, *Europa: la dernière chance de l'Europe*, preface by Helmut Schmidt, Paris, XO Éd., 2014.

²⁹ The Results of the European Council in Bremen, in “Bulletin of the European Communities”, 1978, No. 6. See also Conclusioni del Consiglio europeo di Brema, July 6-7, 1978, in ASILS, AGA, Europa, b. 356.

³⁰ In reality the EMS would never reach the second stage of fixed exchange rates decided at Brussels within two years of the inception of the System.

invited to gradually reduce their fluctuations ahead of their entry into the new System.

At Bremen, Andreotti asked for clarification regarding the link between currencies and economic policy. He explained that for some time the situation in Italy would remain unfavorable compared to the other member states of the Community and that “corrections” would be necessary to compensate for the difference in the average inflation rates of the nine countries. Moreover, his opposition to Giscard d’Estaing’s proposals to set specific dates and deadlines for the EMS was clearly evident. “We have come here,” he stated, “with several indications from Clappier (and from Schmidt personally). However, we also have a document from the Monetary Committee that has not been discussed. The Finance Ministers must examine everything and make conclusive proposals”.³¹ In response to Schmidt’s question: “What would you propose?”, he answered: “The Council, viewing the indispensability of a system of closer monetary cooperation for the growth of the Community, charges the Finance Ministers with drafting concrete proposals by July which take into account both the discussions in the European Council of April 7-8 and July 4 and Ecofin’s recent conclusions”. To Giscard d’Estaing, who insisted on giving clear instructions to the Finance Ministers, Andreotti responded: “If the document received tonight is published, it will seem as if the decision has already been made, making it difficult to gain the participation of other countries, which needs to be done gradually”.³²

The concluding speech by Schmidt finally led to a compromise: the following day the nine countries would approve a concrete and precise document, which, however, would be considered only as a commitment to study the issue, while the Irish representative Lynch would be charged with overseeing the drafting of a Scheme of Resolution which would include the commitment to the economic changes needed in the weakest countries.³³ Italy thus succeeded in getting the project to be considered as “modifiable”. It was also decided at Bremen that before the next meeting, planned for July 24, the Finance Ministers would draft a mandate to the Monetary Committee and the Board of Governors of the central banks

³¹ Notepad with Andreotti’s original notes, in ASILS, AGA, Europa, b. 356, “Brema 6-7-1978”.

³² *Ibidem*.

³³ “There will be – stated the conclusions at Bremen – concurrent studies of the action needed to be taken to strengthen the economies of the less prosperous member countries in the context of such a scheme; such measures will be essential if the zone of monetary stability is to succeed”. The Results of the European Council in Bremen, cit.

to develop a European Monetary System (EMS) project by October 31, to be voted on by the European Council in Brussels at the beginning of December.

Some days after the Bremen Summit, at a meeting of the Italian cabinet presided over by Andreotti, the Foreign Minister, Forlani, explained that at Bremen Italy had reaffirmed its allegiance to the Community and its wish for a strengthening of the economic and monetary union, so long as this occurred under acceptable conditions for those countries which, for a certain period of time, would have differentiated growth and inflation rates.³⁴ Re-proposing one of the main topics in Europe's political debate beginning with the Hague Conference in 1969 – the opportunity for a country to go it alone in the monetary area or in the monetary and economic areas contemporaneously – Forlani added that, along with the monetary proposals, at Bremen the need was recognized to also work toward economic cooperation, in particular as regards employment and energy policies and the reduction in regional imbalances.

Therefore, the Italian government's interpretation of the proposal for the creation of a European Monetary System was clearly wide-ranging, leaving ample room for considerations regarding the link between monetary, economic and political unification in the hope for new impetus in the Community's construction. This interpretation was confirmed on July 20 by the relations presented by the Foreign Minister Forlani and the Treasury Minister Pandolfi to the joint Foreign Affairs and Finance committee, under the presidency of the staunch Europeanist Carlo Russo.³⁵ Forlani spoke of an "ambitious and concrete project to relaunch Europe's construction, supported by a firm political will".³⁶ Pandolfi spoke of a process aimed at creating a more integrated economic zone, a European monetary policy, and greater political cohesion, adding that "the Italian government has stated that it attributes great importance, even political, to increased efforts to achieve closer economic and monetary cohesion".³⁷

³⁴ Minutes of the Council of Ministers meeting of July 14, 1978, in the historical archives of the Luigi Sturzo Institute (ASILS), and the Giulio Andreotti archives (AGA), Serie Europa.

³⁵ Russo was a staunch Europeanist member of both Monnet's Comité d'Action pour les États-Unis d'Europe and the European Federalist Movement. See Preda, Daniela, "L'Europa di Carlo Russo", in Preda, Daniela and Levi, Guido (eds.), *Genova, Liguria, Europa. Protagonisti del federalismo nel secondo dopoguerra*, Genoa, Genoa University Press, 2015, p. 87-101.

³⁶ Chamber of Deputies, "Bollettino delle Commissioni", July 20, 1978, Joint Foreign Affairs and Finance and Treasury Committee, presided over by the President of the Committee, Carlo Russo, p. 8.

³⁷ *Ibidem*, p. 10.

Pandolfi emphasized that, in order to avoid the age-old quarrel between ‘monetarists’ and ‘economists’ it was necessary to adopt a “pragmatic approach” and show “strong political will”, at the same time. He added that “the real heart of the question is the fact that the Italian government views its decisions within the community structure favoring monetary discipline as part of its general internal economic policy”.³⁸ Therefore, the European option was directly linked to the domestic economic one.

A document drafted by the Government on August 31 succinctly stated:

“Everything, cultural tradition, popular sentiment, political orientation, leads us toward Europe. However, much of our economic reality tends to push us toward the perimeter. This represents a contradiction we must resolve. The road that leads us toward Europe is the same one that leads us toward the objectives of growth with stability [...]. To remain in Europe it is necessary to reduce the gap between the increase in prices and the cost of labor that exists between us and the other Community countries”.³⁹

Not by chance, in August the Treasury Minister would present a draft proposal that would become, with the appropriate changes, the *1979-1981 Three-Year Plan*, known as the Pandolfi Plan.

During the summer the discussions on European monetary integration continued at a brisk pace. On October 26, during a joint meeting of the finance and treasury committee, Central Bank Governor Baffi spelled out Italy’s position in a blueprint pamphlet distributed by the Bank of Italy on October 2 to the other EEC governors, “aimed at the construction of an exchange-rate system which was able to adapt to the specific conditions of our country and usefully contributed to the convergence process”⁴⁰ of the Italian economy toward the conditions prevailing in the other member countries. Three priorities were indicated: the rigorosity of exchange rates, the centrality of the ECU System, and the possibility for countries outside the Snake to take advantage of wider margins of fluctuation during an initial transitional phase.

Fundamental to convincing the Italian government to join the new monetary system was a meeting in Siena on November 1-2, 1978, between Andreotti and the German Chancellor Schmidt.⁴¹ On that

³⁸ *Ibidem.*

³⁹ This document is mentioned in Pandolfi’s speech to the Senate on December 7, 1978, 345th and 346th session, summary account.

⁴⁰ Speech by the Governor of the Bank of Italy, Paolo Baffi, to the joint session of the Senate finance and treasury committee, October 26, 1978, in ASILS, AGA, Europa, 1/A/8, b. 399.

⁴¹ On the Siena meeting, see ASILS, AGA, Europa, b. 451.

occasion, during an event organized by the Federalists Andreotti received a delegation led by the Tuscan regional secretary, Gastone Bonzagni, and the regional secretary of Emilia, Marco Bondesan. The Federalists were also received by the Minister Pandolfi, who would later write an article significantly entitled *Non possiamo perdere l'autobus dei Nove* (*We Cannot Miss the Bus of the Nine*)⁴². After the meeting of the Federal Committee of the UEF on November 4-5, 1978, the European federalists would also write to Andreotti through Caterina Chizzola, urging him to accept the EMS “as a transitional phase toward an economic and financial union”, through an increase of at least 2.5% of Community GDP, as called for in the Mc Dougall Report, “in order to make possible the support measures needed to reduce the structural imbalances among the European states”.⁴³

Nevertheless, at the beginning of November Italy's disappointment at the results of the Committee's activities was tangible, as shown by the “political observations on the European monetary discussion under way” preserved in the Andreotti archives, a part of which is handwritten.⁴⁴ The Prime Minister mentions that the Bremen proposal to stabilize the currencies of the European countries had been “presented with the prospect of a leap in quality for an authentic policy of equal distribution among the various economies and situations”. Emphasis had been placed “in general on the transfer of resources, obtainable in different ways (a substantial increase in the Regional Fund and the Social Fund, loans by the European Bank, etc.)”, and the creation of a sizeable Guarantee Fund had been called for, one that would represent an important technical as well as symbolic element. This point now seemed less clear-cut to Andreotti. Moreover, also envisaged were elastic margins of fluctuation, which would take into account the different starting points of the countries involved. After Bremen, despite the fact the political importance of a step forward for Europe toward the unification of the monetary system was not questioned, all the political features had been de-emphasized, with everything boiling down to a re-proposal of the Snake. Andreotti underscored, on the one hand, the pressure by Germany and France for Italy to participate in the new Monetary System (given the

⁴² Pandolfi, Filippo Maria, “Non possiamo perdere l'autobus dei Nove”, *Corriere della Sera*, December 3, 1978. The article was first published in Jozzo, Alfonso (ed.), *Thema. Quaderni di Economia e Finanza dell'Istituto bancario San Paolo di Torino*, 1978, No. 2.

⁴³ Resolution on the European Monetary System by the Federal Committee of the UEF, sent to Andreotti in a letter by Caterina Chizzola, November 7, 1978, in ASILS, AGA, Europa, b. 400, cart. “Movimento federalista europeo”.

⁴⁴ Political observations on the European monetary discussion under way, November 8, 1978, in ASILS, AGA, Europa.

fact it was a founding state), and on the other Italy's interest in Britain's participation.⁴⁵ In fact, if all the countries did not participate in the new system, then how could the Community take on the burden of loans from the European Bank to redistribute resources?

The prospects were clear: Italy could not stay out of the EMS without admitting its weakness, and the repercussions of this on the lira in terms of speculation were easy to imagine. It was necessary to make an effort to find a solution satisfying all of the countries.

In order to find allies to support Italy's position, meetings were soon organized with representatives of the Benelux countries, and immediately afterwards with Ireland and Denmark. At the same time, the hope was that, in advance of the meeting in Brussels, Italy's political parties could agree on a common stance.

The preparatory notes for the meeting with the Benelux Prime Ministers showed the central importance of Italy's concerns about the proceedings for the creation of the EMS. In particular, the need to avoid a tapering off of the 'political plan' to relaunch European construction that was foreseen in Bremen was reaffirmed, along with the need for this plan to entail diverse starting points for the various countries.⁴⁶ Italy was clearly concerned that, under the hypothesis of a "two-speed Europe", it would be relegated to the second group. It was thus essential "to find solutions for the Community which would allow our country to participate in the EMS right from the start", while at the same time undertaking "all that was necessary for a similar participation by Britain",⁴⁷ in part to avoid political and psychological divisions within the Community, with its attendant weakening. The EMS could not be considered "a simple exchange-rate accord, accompanied by a strengthening of the credit system", but instead "the start of a renewal of the European integration process".⁴⁸ This accounts for Italy's disappointment with the technical solutions called for up to that point, based on the reduced amount of credit resources made available for the transitional phase and the scarce progress regarding economic measures in support of the weakest economies.

⁴⁵ Pandolfi and Baffi went to London, where a close relationship developed between Hearley and Pandolfi, marked by daily phone calls. In addition, a meeting between Andreotti and Callaghan was set for November 22.

⁴⁶ Foreign Ministry, classified. Notes on the meeting with the Benelux Prime Ministers in Luxembourg on November 11, 1978, "Sistema monetario europeo e misure economiche per aiutare le economie meno prospere nel quadro di tale sistema", in ASILS, AGA, Europa 1/A/8, b. 399.

⁴⁷ *Ibidem.*

⁴⁸ *Ibidem.*

An additional element of concern also emerged, which cannot be ignored. If the will of the partners to correct the budget imbalances and undertake the needed transfer of resources to favor the convergence of the economies was not clear, not only would the prospects of support by all the national political parties be undermined, but it would also be difficult to explain to the public that the EMS sought to strategically strengthen the Community, with clear-cut consequences regarding consensus for the plan.

The notes in preparation for Giscard d'Estaing's visit also reaffirmed that the EMS was to represent an occasion for strengthening the entire Community, thus making it a serious problem if, on the contrary, the system impeded the participation of some countries, thereby isolating them, or the proper measures were not taken to ensure the weakest countries were not forced to abandon the EMS after they had joined. Evidently still vivid for Italy was the memory of the monetary Snake, which the government did not want repeated. Moreover, it was emphasized that the EMS should not compromise the national plans for economic recovery but instead support these through ad hoc economic measures in favor of the less-well-off economies. Such measures would aim at producing an effective economic convergence and should be adopted by the European Council at the same time as the EMS. Fundamental among the plans to be safeguarded was the medium-term plan for economic recovery prepared by the Treasury Minister, Filippo Maria Pandolfi, which aimed at reducing the budget deficit and maintaining the real cost of labor, thereby keeping down the inflation rate. Currency reserves would be needed for Italy's economic recovery, which would risk being compromised by too rigid a monetary mechanism. Therefore, Italy was in favor of a wider band of fluctuation than that proposed under the snake during a transition period of adequate length; the adoption of a flexible procedure for the exchange-rate parities, in which exchange rates would reflect real economic disparities and could be modified before strong speculative movements occurred; and the creation from the system's inception of a European Monetary Fund.

On November 28, at Palazzo Chigi, Pandolfi illustrated the technical difficulties that still needed to be overcome in the negotiations under way for the EMS. For his part, Andreotti added a report on the contacts he had had, the last of which, with President Jenkins, had occurred that very same morning.⁴⁹ He positively reflected that, during his November 22nd meeting

⁴⁹ Minutes of the Council of Ministers meeting of November 28, in ASILS, AGA, Europa.

with British Prime Minister Callaghan,⁵⁰ an agreement had been reached between Italy and Britain regarding the text of a final communiqué on parallel economic measures that could be adopted by the European Council. The Council expressed the hope for a positive crowning achievement to the negotiations from all the Community countries.

The preparatory notes of the Ministry of Italian Foreign Affairs for the European Council debate in Brussels on December 4-5 underscored that the hoped for achievement of measures to strengthen the less prosperous economies implied a gradual increase in the Community budget, to the point of reaching “the critical mass necessary to support and accelerate in an incisive manner”⁵¹ the efforts these countries would have to make. In other words, Community policies would have to contribute to the convergence of economic results. On this point Italy sought a clear commitment from the European Council. In the near future it requested the strengthening of existing financial instruments, in particular the “Ortoli facilitation”⁵², in order to distribute 15-year loans, the increase of the Regional Fund’s endowment for 1979, and the adjustment of the Community’s structural funds (the Social Fund and the Agricultural Guidance and Guarantee Fund).

4. Italy’s Participation in the EMS

As is widely known, at the European Council meeting in Brussels Italy decided not to immediately join the EMS, due to the fact that several “parallel measures”⁵³ had not been adopted (in particular, the decision

⁵⁰ Ministero degli Affari Esteri (MAE), Direzione generale Affari Economici (DGAE), Rome 29 November 1978, Notes, “meeting with a British delegation on the European Monetary System”. The meeting is also mentioned in the European Monetary System Talks, Hansard, 28 November 1978, <http://hansard.millbanksystems.com/lords/1978/nov/28/european-monetary-system-talks>.

⁵¹ MAE, Notes from 30 November 1978, classified, in advance of the European Council meeting in Brussels, 4-5 December 1978, on “Parallel measures to strengthen the less prosperous countries in the European Monetary System framework”, in ASILS, AGA, Europa, b. 355.

⁵² This was a new loan instrument to finance projects for industrial restructuring, large infrastructures and energy projects, which was thought to be useful for dealing with several specific problems in the Mezzogiorno (the South).

⁵³ On this question, there was a true division in the Council between Andreotti and Giscard d’Estaing, while Schmidt had a more open attitude. See Extracts from the statements by Chancellor Schmidt to the Bundestag, in ASILS, AGA, Europa, b. 400, cart. “SME Partiti”. See also the “Schmidt Helmuth, Correspondence with Giulio Andreotti” folder in b. 310.

not to increase the Regional Fund) and the delicate situation regarding internal politics. Italy asked to be allowed a brief period for reflection.

The reservation was withdrawn by the time of the next European appointment on December 18. In order to understand Italy's position, it is useful to examine several comments made to the Italian Prime Minister on December 9th regarding the outcome of the European Council meeting, which are preserved in the Andreotti archives.⁵⁴ These clearly show Italy's support for the EMS, even with the reservations discussed above. In fact, the first point to emphasize is that the creation of a zone of monetary stability was an objective shared by all member countries as well as all the Italian political parties: "We need a strong Community to emerge from the economic crisis," it was stated. Italy had to deal with unemployment and industrial restructuring only "through Community solidarity"; otherwise, protectionist and nationalist impulses would be strengthened in both the economic and political areas. The EMS was to be seen as part of "a strategy aimed at combating stagnation and the involution in Europe's construction". It was emphasized that Italy's joining the EMS was coherent with the Government's commitment to the country's economic recovery. "If we do not immediately join," it was feared, "our very own will to achieve the objectives we have been fighting for will be doubted".⁵⁵ Of course there were concerns, but the decision to join had to objectively and clearly take into account the results achieved by Italy during the negotiations. Given the prospect that all countries would be allowed to join the EMS in a lasting manner, Italy had supported the need for the System to be flexible, thereby obtaining for itself a wider band of fluctuation (6%) than the snake allowed.⁵⁶ The request was made that, unlike the snake, there should be "a balance between the responsibilities of the strong currencies and those of the weaker ones" through the creation of "an indicator of divergence based on the shield that indicated the currency which deviated from the weighted average of the other currencies, in order to determine whose responsibility it was in the first place to intervene on the exchange-rate market, to adopt economic measures and to change the central rate".⁵⁷ This objective was also achieved. Other requests that were granted were that the short-and medium-term credit system resources be set at 25 billion ECU; that

⁵⁴ To the Hon. President of the Council, "Creazione del Sistema monetario europeo. Risultati del Consiglio Europeo. Elementi di intervento", Rome, 9 December 1978, in Asils, AGA, Europa.

⁵⁵ *Ibidem*.

⁵⁶ It was Paolo Baffi who, during a discussion with Giscard d'Estaing, obtained the 6% band.

⁵⁷ "Creazione del Sistema monetario europeo. Risultati del Consiglio Europeo. Elementi di intervento", cit.

15 billion of this amount go to short-term credit (granted unconditionally) and 10 billion to medium-term financial aid (granted conditionally, and with the actual sums amounting to 14 and 11 billion, respectively); and that the regulations among the Central Banks for the very short-term mechanism (unlimited in amount) occur 60 days after the end of the month in which the intervention took place (the agreement settled on 45 days). Italy, along with Britain, had also sought a precise commitment on the measures to support the less prosperous economies, which were defined as “essential” at Bremen, in order to ensure that the Community policies as a whole, including the Common Agricultural Policy, contributed to the convergence of the economic results. The text prepared by Callaghan was not adopted in this case. Nevertheless, the question was still open since the European Council, in its final communiqué, had delegated the Commission “to study the relationship between a greater convergence of the economic results of the member states and the use of Community instruments, in particular the funds aimed at reducing the structural imbalances. The results of these studies were to be discussed at the next European Council meeting”.⁵⁸ Moreover, acting on strong pressure from Italy for an increase in the credit availability of the Community’s financial instruments, in particular in favor of the Mezzogiorno, the European Council decided to request that the Community’s institutions and the European Bank for Investment make available in Italy ($\frac{2}{3}$) and Ireland ($\frac{1}{3}$), over a five-year period, additional loans on special terms, for a maximum of a billion units of account per year. However, agreement was not reached on an increase to the Regional Fund. Finally, the document brought to light that, after the British decision not to participate in the EMS, in the event Italy also decided not to join, the alternative would be the creation of a Monetary System of six states, which would in fact have created a two-speed Europe, which Italy had always fought against. In conclusion, after reaffirming that there was no contradiction between the creation of the EMS and the stability of the dollar, promptly joining the EMS was defined as “an act of faith in ourselves”.⁵⁹

On December 7, in preparation for the debate in the Chamber of Deputies on the EMS, a meeting was held at the Christian-Democrat Senate Group headquarters,⁶⁰ introduced by Minister Pandolfi, in which two alternatives emerged: seize the opportunity on December 18 to

⁵⁸ *Ibidem.*

⁵⁹ *Ibidem.*

⁶⁰ Notes on the meeting held on December 7, 1978, at the Christian-Democrat Senate Group headquarters in preparation for the debate on the European Monetary System, in A.A.

join the EMS as an essential condition both for behaving in a manner coherent with domestic policies and for facing the economic crisis with the support of international solidarity, or note the absence of the domestic conditions for participation and thus identify the necessary binding pre-conditions regarding economic policy. Supporters of the first alternative emphasized that non-participation might appear to have been conditioned by the behavior of the PCI, as a result weakening the position of the Christian-Democratic government; the supporters of delaying participation emphasized the fact that the EMS could have represented a healthy impetus toward more rigid anti-inflation measures, a precondition for subsequent participation and for the immediate taking on of unilateral commitments. In the event of an immediate participation in the EMS which was not tied to stringent domestic agreements, the danger that the Christian-Democrats could be held responsible for any future devaluation was underscored.

Between December 11-13 the final hectic meetings were held between Andreotti and Baffi, Pandolfi and Forlani, along with telephone conversations with Giscard d'Estaing (on the 11th) and Schmidt, who promised his support (the 13th). On December 12, Andreotti and Pandolfi gave a lengthy report⁶¹ on the results of the Brussels meeting and on the subsequent contacts and meetings. The report was approved by the Council of Ministers. Debate on the EMS began in Parliament on December 12, with a report by Pandolfi in which the economic policy proposal was firmly tied to the Europe option. The "new monetary system," Pandolfi stated, "is the point of arrival for the objective of greater integration among the Community members".⁶² Andreotti stressed the link between joining the EMS and the government's commitment to restoring the economy. On the same day the EFM approved a motion of support for Italy's immediate entry in the EMS,⁶³ at the same time requesting that Baffi step down.⁶⁴ A rally was held that day in Rome, during which Andreotti received a delegation of Young European

⁶¹ Minutes of the meeting of the Council of Ministers, December 12, 1978, in A.A.

⁶² Debate in Parliament on the EMS, *Atti parlamentari*, 382^o session, 12 December 1978, in ASILS, AGA, Europa 1/A/8, b. 399, p. 22050.

⁶³ Motion of the European Federalist Movement "L'Italia e il Sistema monetario europeo", 12 December 1978, in ASILS, AGA, Europa, b. 400, cart. "Movimento federalista europeo".

⁶⁴ The President of the EFM sent a telegram to Andreotti which contested the policies of the Governor of the Central Bank of Italy in light of the expression used by Triffin to define the EMS: "the most important monetary agreement after Bretton Woods". Telegram of the President of the EFM to Giulio Andreotti, December 11, 1978, in ASILS, AGA, Europa, b. 400.

Federalists of Italy that included Domenico Moro, Franco Spoltore and Maria Teresa Brigazi.

Carlo Russo played a fundamental role in gaining support from the DC deputies for the monetary agreement. This support allowed Andreotti to formally bring Italy into the EMS.⁶⁵ At the end of the discussion the Chamber of Deputies assented to Italy's immediate entry in the EMS with 270 votes in favor, 228 against and 53 abstentions. The PCI, in a moment of complex transition to Europeanism,⁶⁶ voted against entry, while the Socialists abstained. The EMS came into effect on January 1, 1979, while the adoption of the European Exchange Rate Mechanism (ERM) would take effect on March 13, 1979. A European Currency Unit (ECU) was created, to be used as a means of regulation among the Central Banks. A system of fixed, though adjustable parities was also created among the currencies. The member states were granted the right to vary their central exchange rates after consulting with and gaining the approval of the other participatory members. The EMF thus limited monetary sovereignty. A very short-term mechanism of unlimited amount was created and a common reserve fund was to be instituted (though this never came to fruition) in the final stage, made up of 20% of the gold and dollar reserves of the member-state Central Banks. It was thus clear that a monetary agreement of this breadth could only be sustained through a broad strategy to improve the prospects of economic growth which intensified the convergence of the economic policies of the various states in the attempt to produce greater stability. Therefore, measures in support of the weaker currencies were also called for, including loans at favorable conditions.

For Italy, joining the EMS from the start would have represented a significant change from past monetary policies, enabling the country, through the persuasive action resulting from its being obliged to follow the virtuous model of "external constraint", to adopt unpopular policies for economic recovery.

⁶⁵ Testimony from Duccio Grassi, in Preda, Daniela and Levi, Guido (eds.), *L'europeismo in Liguria. Dal Risorgimento alla nascita dell'Europa comunitaria*, Bologna, Il Mulino, 2002, p. 412-417.

⁶⁶ On the CP's transition to Europeanism, see Maggiorani, Mauro, *L'Europa degli altri: comunisti italiani e integrazione europea, 1957-1969*, Rome, Carocci, 1998; Maggiorani, Mauro and Ferrari, Paolo (eds.), *L'Europa da Togliatti a Berlinguer: testimonianze e documenti, 1945-1984*, Bologna, Il Mulino, 2005, with an afterword by Giorgio Napolitano.

5. From the EMS to the Single Currency: Elements of Continuity

If Andreotti's role was fundamental in Italy joining the EMS, it would be equally so in the country's entry into the monetary union.

Historiography has in large part reconstructed the main stages that led the Italian government to join the single currency.⁶⁷ However, in concluding this paper, it is useful to recall a couple of important episodes that place Andreotti's actions regarding the EMS within the context of a vaster and lengthier project of his for the economic and monetary unification of Europe.

An important decision in the negotiations for the EMU was taken at the extraordinary session of the European Council in Rome in October 1990. The meeting was called by Andreotti to determine the contemporaneous start of two intergovernmental conferences: one on the economic union, the other the political union. As in the case of the EMS, the objective here was clear: maintain a close connection between supranational progress in the area of economic and monetary authority and transfer the relative powers of management and control to the political union. In particular, Foreign Minister De Michelis,⁶⁸ supported by Andreotti, asked for a broadening of the European Parliament's powers and the extension of the majority vote to the Council.⁶⁹

At Rome Andreotti succeeded in getting the entire substance of the Delors Report to be considered in the Council's concluding statement. The strongly supranational approach of the Italian government was manifested by the repeated request for the creation of an independent European Bank. However, the Italian presidency pushed above all for the monetary unification process to become automatic and irreversible, thereby laying a solid basis for setting a precise date (1994) for

⁶⁷ Varsori, Antonio, *L'Italia e la fine della guerra fredda. La politica estera dei governi Andreotti (1989-1992)*, Bologna, Il Mulino, 2013; Neri Gualdesi, Marinella, *L'Italia e la CEE: la partecipazione italiana alla politica d'integrazione europea, 1980-1991*, Pisa, ETS, 1992; Neri Gualdesi, Marinella, "Il contributo dell'Italia alle riforme istituzionali. Dall'Atto Unico al Trattato di Lisbona", in Morelli, Umberto and Preda, Daniela (eds.), *L'Italia e l'unità europea dal Risorgimento a oggi. Idee e protagonisti*, Padua, CEDAM, 2014, p. 447-468; Id., "L'Italia e l'Europa negli anni Ottanta: tra ambizioni e marginalità", in Craveri, Paolo and Varsori, Antonio (eds.), *L'Italia nella costruzione europea. Un bilancio storico (1957-2007)*, Milan, FrancoAngeli, 2009, p. 79-108.

⁶⁸ See Giulio Andreotti's letter to Jacques Delors, 24 October 1990, in Asils, AGA, Europa – Consiglio Europeo di Roma, 27-27 October 1990, b. 383.

⁶⁹ Letter from Gianni De Michelis to Giulio Andreotti, 23 October 1990, in *ibid.*

transitioning to the second stage of monetary unification (which it held had to be decided by majority, not unanimous vote) and succeeding in getting the Council to recognize in the end the objective of the “single” currency, as opposed to the “common” currency, as many had suggested.⁷⁰

In this regard, it is worth mentioning an episode recounted by Tommaso Padoa-Schioppa that is not well known. On the morning of the approval, Andreotti re-opened a chapter which apparently had been closed: the dilemma, long discussed in the preceding weeks by the representatives of the European countries during numerous meetings, of having to choose between the “common currency” and the “single currency”. The Italians had sought to get the latter accepted, but to no avail. During a meeting of the Italian delegation before the summit, Andreotti again raised the question: “What does common currency mean? Let’s use single currency. You say you have already tried unsuccessfully? No matter; I’ll speak with Kohl”. And so he did. When he arrived at the summit, Andreotti read the conclusions sentence by sentence. “When he came to the word “single”, the meticulous Prime Minister said: “Why ‘single’? Hadn’t we decided on ‘common’?”. Andreotti said nothing, making only a small gesture by spreading out his hands and tightening his lips, as if to say: ‘What does it matter; we won’t discuss such things here!’. The text was approved”.⁷¹

During the negotiations leading to the accord, Italy fought “for a full political union that included justice, internal affairs and foreign and defense policy, and which would give greater powers to the Assembly at Strasbourg.”⁷² Moreover, in April 1991 it promoted, along with Germany, a declaration in favor of strengthening the powers of the European Parliament through a legislative co-decision-making procedure regarding a limited number of questions.

Of significant importance even when the Maastricht Treaty was signed on December 1991 were actions by economists from the federalist school to clarify the situation. As well-reconstructed by Alfonso Jozzo in an interview, Tommaso Padoa-Schioppa, who along with the Governor of the Bank of Italy, Ciampi, was part of the Italian delegation

⁷⁰ Dyson, Kenneth and Featherstone, Kevin, *The Road to Maastricht: negotiating Economic and Monetary Union*, Oxford, Oxford University Press, 1999, p. 514-517.

⁷¹ Padoa-Schioppa, Tommaso, “La costituzione economica europea”, *Il Federalista*, XLIV (2002), No. 3, p. 200. On the EMU, see also Id., *The Road to Monetary Union in Europe*, Oxford, Clarendon Press, 1994.

⁷² Fagiolo, Silvio, *L’idea dell’Europa nelle relazioni internazionali*, Milan, FrancoAngeli, 2009, p. 163.

led by Andreotti, met a friend, Gianni Ruta,⁷³ finance director of the STET telephone company, in front of the Central Bank headquarters in Rome. Ruta, who was very active in the EFM, heading the Rome section of the organization, indicated the decisive point to work on in the negotiations: the setting of the date for transition to the third stage, which was not included in the preparatory documents. During the flight to Maastricht, Padoa-Schioppa spoke of this with Andreotti: without the date the project would not have survived. Once he had arrived in the Netherlands, Andreotti spoke of this first with Mitterand and then again the following morning at breakfast with Kohl, before the start of the meeting. The German Chancellor agreed with Andreotti, but asked both his interlocutors: “Do you know what the date means to you?”. “It was clear,” Jozzo commented, “that he would say that we would have to begin to balance our trade accounts”. Andreotti answered: “Yes, I understand”.⁷⁴ At the meeting shortly afterward the date would be set for 1997, in any event, no later than 1999. Jozzo also recalls that, at around 9 p.m. on the evening the Maastricht Treaty was drafted, Padoa-Schioppa telephoned him to say that the federalist line had passed.⁷⁵

⁷³ Secretary of the federalist section in Rome, Ruta conceived of and carried out the first issuance of ECU-denominated bonds, an important step toward the European currency. See *Europa moneta sviluppo. Scritti di Gianni Ruta*, Rome, Cisu, 1991.

⁷⁴ Interview by Renaud Dehousse with Alfonso Jozzo, 16 October 2012, in www.CVCE.eu.

⁷⁵ *Ibidem*.

La présidence Mitterrand, fer de lance de l'Union monétaire européenne (1988-1992) ?

Jean-Marie PALAYRET

Maastricht a marqué le terme d'une longue bataille pour l'Union monétaire initiée avec le sommet de La Haye en décembre 1969 et intensifiée à partir de 1988 suite aux pressions françaises exercées sur une Allemagne réticente.

L'Union monétaire, telle qu'elle avait été définie dans le rapport Werner, exigeait des parités de change fixes et la mise en œuvre d'une politique monétaire commune gérée par une Banque centrale européenne indépendante des gouvernements. Quelles motivations ont pu induire les socialistes français alors au pouvoir à accepter des concessions qui s'écartaient ainsi de la tradition « interventionniste » et keynésienne ? Les dirigeants français avaient plusieurs raisons de souhaiter une telle union. En premier lieu, ils voyaient en elle un élément indispensable à une politique de croissance économique au niveau européen ; en second lieu, ils l'estimaient utile pour se mettre à l'abri des mouvements erratiques du Dollar sur le marché des changes ; en troisième lieu, ils l'envisageaient comme un moyen de briser la position dominante dont la République fédérale d'Allemagne et la Bundesbank disposaient *de facto* dans les processus de décision monétaire en Europe occidentale¹.

Les efforts répétés des Français en faveur d'une réforme du SME se heurtaient à une forte résistance de la part des Allemands qui n'avaient pas grand' chose à gagner d'une union monétaire. Les réticences des autorités de Bonn résultaient de la crainte ancestrale d'un modèle « institutionnaliste » d'union, synonyme à leurs yeux d'inflation et de laxisme budgétaire, ainsi que de l'attitude intransigeante de la Bundesbank, dont les directeurs ne voyaient aucune raison de réduire leur liberté de manœuvre². L'élite économique et politique d'Outre-Rhin marquait un attachement indéfectible au Mark, monnaie forte devenue

¹ Szasz, André, *The Road to European Monetary Union*, London, Macmillan Press, 1999, p. 147.

² Loth, Wilfried, « Negotiating the Maastricht Treaty », *Journal of European Integration History*, 1-2013, p. 67-83.

le symbole de la prospérité retrouvée du pays et à la stabilité monétaire, considérée comme un élément important de la *Soziale Marktwirtschaft*. L'indépendance de la Banque centrale du processus politique était une composante essentielle de cette culture de stabilité. Suivant les principes de l'*ordo-libéralisme*, seule une Banque centrale indépendante des gouvernements, fédéral et régionaux, était en mesure de garantir la stabilité des prix. Le financement de déficits publics par des crédits de Banque centrale était prohibé par la *Bundesbankgesetz*³.

1. Premières escarmouches franco-allemandes sur la voie de l'UEM

Sur le plan de la stratégie, la politique française au sein du SME était en effet soumise, à la charnière des deux septennats de François Mitterrand, à la forte domination de la « zone Mark » en Europe et à une dépendance croissante à l'égard des décisions prises à Francfort. Les fréquents réajustements monétaires montraient les limites du SME tel qu'il fonctionnait depuis 1979. La baisse du Dollar se traduisant, sur les marchés internationaux, par une hausse du Deutsche Mark, la devise allemande était sans cesse tirée vers le haut, toute réévaluation de la monnaie allemande risquait de se traduire, sur les marchés européens, par une dévaluation des monnaies les plus faibles, sans rapport avec la situation macro – économique des pays concernés. Ce fut ainsi que neuf mois à peine après une dévaluation de 6% en avril 1986, le 12 janvier 1987 le Franc était à nouveau déprécié de 3% par rapport au Marc et au Florin. Face à une opinion publique qui assimilait « le moindre ajustement du Franc par rapport au Mark à une défaite nationale »⁴, les autorités françaises se sentaient chaque jour plus dépendantes des décisions de la Bundesbank. En outre, l'injection – par la nouvelle équipe dirigeante RPR conduite par Jacques Chirac – d'une certaine dose de libéralisme dans l'économie nationale, l'intérêt accru porté aux mécanismes du marché, firent de la stabilité des prix l'un des objectifs prioritaires du gouvernement de cohabitation et le conduisirent à envisager l'opportunité d'accepter la libéralisation des mouvements de capitaux réclamée par Bonn et par Londres, sans renoncer pour autant à protéger les intérêts

³ Thiemeyer, Guido, « Economic Models in France and Germany and the Debates on The Maastricht Treaty », *Journal of European Integration History*, 1-2013, p. 85-103.

⁴ Fonteneau, Alain, Muet, Pierre-Alain, *La Gauche face à la crise*, Paris, Presses de la Fondation nationale des Sciences politiques, 1985.

nationaux⁵. Ceci accrût la crainte de devoir conformer plus encore la politique économique française à l'orientation monétaire de la monnaie d'ancrage⁶.

Aussitôt après ce qui s'avéra être la dernière dévaluation française au sein du SME, le gouvernement français réagit. Il réclama un réaménagement du Système monétaire européen visant à le rendre moins asymétrique. Au Conseil ECOFIN de Bâle – Nyborg de septembre 1987, les Allemands acceptèrent le principe d'une meilleure coordination sur le plan des interventions intra-marginales, c'est-à-dire une politique d'interventions précoces, pratiquées conjointement par les pays à monnaie forte et par ceux dont la monnaie faisait l'objet d'attaques spéculatives. Les Allemands avaient toutefois subordonné leur aide à la suppression par la France des contrôles financiers aux frontières. Mais cet ajustement technique « n'impressionna guère le marché financier et la spéculation contre le franc continua de plus belle »⁷. Paris essaya ensuite de porter la question au niveau politique. Le 22 juin 1988, à l'occasion de la visite officielle du Chancelier allemand à Paris, et sur l'insistance du Premier ministre Jacques Chirac, François Mitterrand et Helmut Kohl signèrent des protocoles au Traité de l'Élysée de 1963, établissant un Conseil de Défense et un Conseil économique et financier franco-allemands. Ce dernier était censé examiner périodiquement les politiques monétaires menées dans chacun des deux pays dans le contexte national, européen et international en vue de leur rapprochement et de leur coordination, l'accent étant mis sur la réforme du Système monétaire européen⁸. L'initiative jeta l'alarme à Francfort, où l'on craignit qu'un organe tirant ses prérogatives du Traité n'empiétât sur l'autonomie de la Bundesbank

⁵ En France, la politique monétaire fut menée par l'élite politique et technocratique. Les milieux économiques étaient favorables, mais peu actifs eu égard à l'UEM : les directeurs de certaines grandes entreprises, dont Rhône-Poulenc, avaient bien créé une association pour une Union monétaire européenne en 1987, mais le CNPF ne produisit aucune étude d'impact sur l'EMU avant le sommet de Maastricht. Pour les groupes exportateurs, le développement d'une UEM était jugé moins important que la réalisation d'un Marché unique, cf. Howarth, David, « EMU, Integration Theories, and the Annoying Complexities of French policy Making », in Verdun, Amy (ed.), *The Euro. European Integration Theory and Economic and Monetary Union*, Oxford, Rowman and Littlefield Publishers, p. 179-199.

⁶ Archives nationales de France (ANF) Archives de la présidence François Mitterrand (AG5) 4/86/EG (Elisabeth Guigou) d.3, Compte-rendu de réunion de l'« Atelier Europe », Groupe d'experts (François Auvigne, Géraud Guibert) sur l'union monétaire européenne, 14 mars 1987.

⁷ Howarth, David J., *The French Road to European Monetary Union*, London, Macmillan, 2006, p. 91.

⁸ ANF, AG5 4/86/EG d.3, Note d'Elisabeth Guigou a/s « Conseil franco-allemand économique et monétaire », 1987.

inscrite dans la *Grundgesetz*. Après quelques tiraillements entre Francfort et Bonn, le Bundestag trancha la question en adoptant un préambule au décret d'application du protocole, stipulant que le Conseil n'aurait qu'un rôle consultatif et que ses recommandations n'affecteraient en rien l'autonomie de la Bundesbank⁹.

Les efforts déployés par Paris pour influencer la politique monétaire de la RFA par des mesures techniques ou par la coopération politique apparaissaient donc vains. Pour la France, la seule possibilité desserrer l'étau du Mark résidait désormais dans le transfert du processus de décision monétaire du niveau national au niveau européen, en d'autres termes dans la création d'une Union économique et monétaire.

De ce point de vue, l'adoption en 1986 de l'Acte unique qui prévoyait un important train de mesures destinées à achever le grand espace sans frontières favorisait le déploiement de la nouvelle stratégie française. Le marché unique agissait comme un levier en faveur de l'UEM, car sa réalisation supposait des parités fixes entre les devises des Douze. La levée des derniers obstacles à la libre circulation des capitaux créait une dynamique encourageant l'UEM tout en levant le préalable posé par Bonn à l'ouverture de négociations sur le sujet¹⁰. Le 8 janvier 1988, sans avoir consulté au préalable l'Élysée¹¹, le ministre de l'Économie et des Finances Édouard Balladur adressait un mémorandum à ses partenaires de la Communauté européenne. Se référant aux tensions qui avaient récemment agité les marchés financiers (Lundi noir) il écrivait : « En 1992, l'Europe sera un espace économique complètement intégré [...] La logique voudrait qu'une zone à monnaie unique soit alors créée [...] dans laquelle il y aurait une institution centrale commune et des banques fédérales dans chaque pays »¹². Deux jours auparavant, il avait porté le sujet sur la place publique en déclarant à l'émission télévisée « L'heure de vérité » : « Le moment est venu d'examiner la possibilité de créer une

⁹ Dyson, Kenneth, Kevin Featherstone, *The Road to Maastricht. Negotiating Economic and Monetary Union*, Oxford, Oxford University Press, 1999, p. 324.

¹⁰ James, Harold, *Making the European Monetary Union, The Role of the Committee of Central Banks Governors and the Origins of the European Central Bank*, Londres, Harvard University press, 2012, p. 214 ; Howarth, « EMU, Integration Theories, and the Annoying Complexities of French policy Making », in Verdun (ed.), *The Euro. European Integration Theory and Economic and Monetary Union*, cit., p. 179-199.

¹¹ ANF (AG5) 4/86/EG d.3, Note d'Elisabeth Guigou pour le Président « Observations sur le mémorandum de Monsieur Balladur », 10 Février 1988. Dans cette note, E. Guigou dénonce l'attitude du ministre des Finances en ces termes : « M. Balladur ne vous a pas consulté, ce qui est inadmissible. Il vous a envoyé son mémorandum au moment où il était publié dans *Le Monde* ».

¹² ANF, AG5 (4) 86 EG d.3, Edouard Balladur, « Mémorandum sur la construction monétaire européenne », 8 janvier 1988, p. 17-20.

Banque centrale européenne qui contrôlera une monnaie commune, l'ECU »¹³. En lançant cette idée, Balladur contournait l'obstacle de la symétrie : une union monétaire donnerait aux autorités françaises une possibilité accrue d'intervenir contre la spéculation facilitée par la libéralisation des mouvements de capitaux à l'intérieur de l'Europe¹⁴. Elle permettrait de partager le pouvoir de décision monétaire avec les Allemands et de fixer collectivement les taux d'intérêts à des niveaux moins élevés, compatibles avec les besoins de la croissance économique française¹⁵.

2. Stratégie française et réactions allemandes face au projet d'UEM

La conversion personnelle de François Mitterrand à l'idée d'une plus grande intégration monétaire datait de la décision qu'il avait prise en mars 1983 de ne pas sortir le franc du SME. Ce fut d'abord l'instabilité du système monétaire international qui, pour le chef de l'État, justifia « la création d'un organisme monétaire européen chargé simplement de gérer les parités extérieures des monnaies européennes, et de lutter contre l'emprise hégémonique du dollar »¹⁶. Il écarta en un premier temps l'idée de créer une Banque centrale européenne de type fédéral qui aurait supposé une remise en cause de l'assujettissement de la Banque de France au pouvoir politique. Deux évènements infléchirent cependant les idées du Président sur la question : la négociation de la conférence intergouvernementale de 1985, qui aboutit à la signature de l'Acte unique en 1986, et la crainte que l'Allemagne ne se laissât séduire par l'Union soviétique de Gorbatchev et n'acceptât de troquer son engagement à l'ouest en échange de la réunification. Mitterrand en vint ainsi à établir progressivement un lien entre le grand marché européen, l'union monétaire et l'union politique européenne, dans cet ordre. Cette vision historique le convainquit que le leadership européen dépendait de sa capacité à saisir toutes les occasions d'aller de l'avant dans l'intégration et de maintenir l'élan communautaire. Concernant la négociation, Mitterrand entendait agir en « animateur » inspirant les négociateurs par une vision historique des intérêts français en Europe et de la coopération

¹³ Balleix-Banerjee, Corinne, *La France et la Banque centrale européenne*, Paris, PUF, 1997, p. 27-28.

¹⁴ *Ibidem.*

¹⁵ Howarth, *The French Road to European Monetary Union*, cit., p. 118.

¹⁶ *Ibid.*, p. 34.

franco-allemande, et en observateur d'un processus dont le contenu technique lui échappait en grande partie. Il refusait toutefois de se laisser enfermer dans le conformisme de la « technostucture ». Il entendait exploiter l'expertise des technocrates tout en minimisant leur pouvoir : d'où son attitude méfiante à l'égard des fonctionnaires du Trésor dont il critiquait l'orthodoxie ou de Jacques Delors qu'il considérait comme un piètre promoteur des intérêts français ; d'où aussi sa tendance à confier la négociation à des intimes ou à de proches conseillers de la présidence : Roland Dumas, Jacques Attali ou Élisabeth Guigou¹⁷. Un autre thème récurrent se caractérisait par sa détermination d'intégrer une dimension sociale à l'Union économique et monétaire.

Pour les fonctionnaires et le ministre des Affaires étrangères, Roland Dumas, la stratégie française devait être subtile et indirecte. L'UEM ne devait pas procéder d'une proposition française. C'est à Bonn qu'il revenait de prendre l'initiative. Une première composante de la stratégie du Quai d'Orsay consista donc à encourager les Allemands à avancer des propositions, en identifiant le point le plus réceptif au sein du gouvernement Fédéral, en l'espèce le ministre allemand des Affaires étrangères, Hans Dietrich Genscher, qui avait appuyé la proposition de Conseil économique franco-allemand et voyait en l'UEM un pas essentiel sur la voie de l'unification de l'Europe¹⁸. Un autre élément tactique consista à appliquer le principe « diviser pour régner » entre Bonn et Francfort. Un troisième élément de la stratégie du ministère des Affaires étrangères consista enfin à « lier » la Bundesbank par des engagements préalables dans un système irréversible comportant un calendrier préétabli. Cette stratégie fut accompagnée par une politique des « dominos », c'est-à-dire par une démarche progressive visant à des gains partiels et successifs susceptibles d'éroder petit à petit l'indépendance de la Bundesbank.¹⁹

À la différence de Mitterrand et de Dumas, le nouveau ministre français des Finances, Pierre Bérégoovoy (en fonctions depuis mai 1988) ne cachait pas son scepticisme à l'égard du projet d'UEM. Bien que préoccupé par les taux d'intérêts élevés et le coût économique qu'impliquait déjà l'inféodation de la France à la zone Mark, en raison de l'impact négatif de celle-ci sur la politique nationale en matière de croissance et d'emploi, Bérégoovoy doutait de la volonté allemande de pousser la transition vers l'UEM jusqu'à son terme. Pour le locataire de la rue de Rivoli, le danger

¹⁷ Dyson, Kenneth, Featherstone, Kevin, *The Road to Maastricht. Negotiating Economic and Monetary Union*, Oxford, Oxford University Press, 1999, p. 97-98 et 207.

¹⁸ *Ibid.* p. 329.

¹⁹ Stark, Hans, *Kohl, l'Allemagne et l'Europe. La politique d'intégration européenne de la République fédérale 1982-1998* Paris, L'Harmattan, 2004, p. 79.

aurait été de faire des concessions, en cédant sur les préalables de la libre circulation des capitaux ou de l'harmonisation fiscale puis en acceptant l'indépendance de la Banque centrale européenne, sans être assurés que la République fédérale consentît au final à la mise en place d'une monnaie unique. Ces réserves s'atténuèrent au cours des négociations, sans jamais disparaître totalement. Bérégovoy était également partisan d'un « pôle politique » fort (gouvernement économique) capable d'équilibrer le pouvoir du « pôle monétaire » constitué par l'institution bancaire supranationale. Dans son esprit, une Banque centrale européenne n'était acceptable que si elle était coiffée par le Conseil des ministres de l'Économie et des Finances (ECOFIN)²⁰. Cette position était fondée sur l'idée républicaine de contre-pouvoir. Bérégovoy entendait enfin contrebalancer le leadership de la RFA par l'adhésion du plus grand nombre possible de pays membres – Royaume-Uni compris – au SME, avant d'envisager le passage à l'UEM. Les vues des fonctionnaires du Trésor prévalurent parfois au cours des négociations, mais résolument fidèle au Président, le ministre se soumit en dernier ressort aux volontés de ce dernier, et les reprécisa au sein des conseils ECOFIN.

La tactique française dans la négociation de l'UEM consista à « surveiller de près » l'Allemagne et à chaque étape s'assurer de disposer d'un accord solide avec ce pays. L'affaire pouvait être délicate dans la mesure où la RFA pouvait prendre des postures contradictoires²¹. Entraînés par la dynamique déclenchée par l'Acte unique, Kohl et Genscher soutenaient le projet. Le 26 février 1988, sous la forme d'un document de travail pour le Parti libéral, (FDP), Genscher proposa que le Conseil européen qui devait se tenir à Hanovre sous présidence allemande les 27-28 juin donnât « un signal en faveur de la création d'un espace monétaire et d'une Banque centrale européens ». Il devrait confier à un comité de 5 à 7 « sages » la charge d'étudier, dans un délai d'un an, les contours d'une union monétaire, le statut d'une institution monétaire centrale et l'établissement d'un calendrier comportant une période de transition²². Pour Helmut Kohl, le lancement de l'UEM rendrait l'union politique européenne irréversible. En 1987, avec l'arrivée de Gorbatchev au pouvoir en Union soviétique, les relations Est-Ouest changeaient, offrant à l'Allemagne de l'Ouest de nouvelles opportunités;

²⁰ *La Tribune de l'Expansion*, 8 février 1989.

²¹ Saunier, Georges, « La négociation de Maastricht vue de Paris », *Journal of European Integration History*, 1, 2013, p. 45-65.

²² Genscher, Hans-Dietrich, *Diskussion Grundlage : Memorandum für die Schaffung eines europäischen Währungsraumes und einer europäischen Zentralbank*, Bonn, 26 février 1988, 6 p.

les initiatives du gouvernement fédéral en direction de l'Est exigeaient le soutien de l'Occident et la coopération avec la France en matière de sécurité et de défense constituait l'une des clefs de ce soutien. Mais le ministre allemand des Finances Gerhard Stoltenberg ne l'entendait pas de cette oreille et l'UEM était loin d'avoir les faveurs du Président de la Bundesbank Karl-Otto Pöhl : s'il ne rejetait pas en bloc la progression vers l'union monétaire, ce dernier estimait que la future BCE devrait être dotée du même degré d'indépendance que la Buba et qu'il fallait que la future gestion monétaire assurât avant tout la stabilité des prix. Fidèle à la « thèse du couronnement » le Président de la Bundesbank soulignait également la nécessité d'aboutir à une plus grande convergence économique entre les pays membres de la Communauté avant de songer à la création d'une Europe monétaire. Il exigeait un ferme engagement sur ces points dès le départ, refusant de procéder par petits pas, sans objectif clairement défini²³. Quant à la population, elle n'était pas prête à abandonner le Deutsche Mark, symbole fondateur de la République fédérale »²⁴.

L'arrivée de Jacques Delors à la présidence de la Commission européenne s'avéra décisive. Delors, homme politique combinant une véritable vision pour l'Europe à un sens inné du compromis, avait été, comme ministre des Finances, l'un des leaders socialistes qui avaient, en mars 1983, convaincu un François Mitterrand hésitant à « faire le choix de l'Europe » en maintenant le franc dans le SME²⁵. Devenu Président de la Commission, il avait multiplié les incitations à compléter le programme du grand marché par des mesures visant à parfaire l'intégration. C'est dans cette perspective qu'il avait adopté – pour la Commission et pour son pays – l'objectif de la libéralisation totale des mouvements de capitaux, réclamée par les banquiers centraux et

²³ « Karl Otto Pöhl, Die Vision eines Europäischen Währungsraums », *Frankfurter Allgemeine Zeitung*, 28 mai 1988.

²⁴ Brand-Crémieux, Marie-Noëlle, « Une grande Allemagne au coeur de l'Europe », *Relations internationales*, 126, été 2006, p. 26-27.

²⁵ Au sein du parti socialiste, Delors était partisan d'une politique économique modérée, qualifiée de « troisième voie » qui permettrait au gouvernement de maintenir le franc au sein du SME, que le ministre des Finances considérait comme un utile garde-fou contre les tendances inflationnistes excessives. Cette politique visait à trouver un compromis entre la croissance économique, la redistribution des ressources et le contrôle strict de l'inflation. Il s'opposa aux options défendues par d'autres conseillers du Président qui, tels l'industriel Jean Riboud et l'économiste Jean Denizet, prétendaient « mettre les contraintes extérieures entre parenthèses » et songeaient à une importante dévaluation à l'extérieur du SME dans le but d'améliorer la compétitivité de l'industrie française vis-à-vis de la concurrence extérieure et de permettre d'abaisser sensiblement les taux de change.

fait insérer subrepticement un sous-titre à l'article 20 de l'Acte, faisant explicitement référence à une Union économique et monétaire, présenté dans ses Mémoires comme « un petit caillou blanc »²⁶. Il avait réalisé très vite que l'intégration monétaire aurait plus de chance d'aboutir si l'on parvenait à impliquer au moins partiellement la Bundesbank dans le processus. Il rechercha des appuis politiques en RFA. Les liens d'amitié qu'il avait tissés au temps de l'École Nationale d'Administration avec certains hauts fonctionnaires de la Chancellerie, comme Hans Bitterlich ou Johannes Ludewig, facilitèrent le rapprochement²⁷.

Dans le fil du mémorandum Genscher, Delors et le Chancelier Kohl coopérèrent étroitement pour préparer le terrain à un accord permettant d'avancer sur l'UEM au Conseil de Hanovre. Fraîchement réélu pour un second mandat, Mitterrand fut « briefé » par Delors sur l'importance qu'il y avait à saisir l'occasion offerte par l'initiative du ministre allemand des Affaires étrangères. Au sommet franco-allemand d'Évian le 2 juin 1988, le Président, passant outre aux craintes de la majorité du Parti socialiste sur les risques de fuite de capitaux et aux réserves exprimées par le ministère des Finances sur l'impossibilité d'influer désormais sur les taux de change, se rallia à l'idée d'accepter la complète libéralisation des mouvements de capitaux, de manière à faciliter la tâche à Kohl dans sa volonté de progresser sur le projet d'UEM²⁸. Lors du sommet de Hanovre – sous présidence allemande – qui suivit (27 et 28 juin 1988) les Chefs d'État et de gouvernement de la Communauté européenne décidèrent de s'engager sur cette voie en donnant leur aval à la création d'un comité d'experts qui aurait pour tâche « d'étudier et de soumettre, à l'occasion du sommet de Madrid en juin 1989, des propositions relatives aux étapes concrètes devant mener à la réalisation progressive de l'union monétaire »²⁹. Sa composition, différente de celle envisagée à l'origine par les Allemands, associait une majorité composée par les douze gouverneurs des banques centrales (qui fourniraient l'expertise technique), trois économistes de renom, nommés par les chefs d'État et de gouvernement³⁰, et le Président de la Commission (qui assurerait

²⁶ ANF, AG5 (4) 86 EG d.3, Intervention de Jacques Delors au Parlement européen, 20 février 1986 ; Delors, Jacques, *Mémoires*, Paris, Plon, 2004, p. 221.

²⁷ Szasz, André, *The Road to European Monetary Union*, Londres, Macmillan Press, 1999, p. 95-96.

²⁸ Dyson, Featherstone, *The Road to Maastricht*, cit., p. 178.

²⁹ Voir CEE, Conclusions du Conseil de Hanovre, *Documents d'actualité internationale*, n° 16, 15 août 1988, p. 310-311.

³⁰ Miguel Boyer, Président de la Banque extérieure espagnole, Alexandre Lamfalussy, directeur général de la Banque des règlements internationaux et Niels Thygesen, professeur d'économie à l'Université de Copenhague.

la direction politique). Les ministres des Finances étant écartés, Kohl et Delors eurent l'habileté d'impliquer les banquiers centraux ce qui accrût la crédibilité du projet. Au contraire de Margaret Thatcher, dont la stratégie consista à compter sur les gouverneurs de banques centrales pour tuer le projet sur les fonts baptismaux, celle mise en œuvre par Kohl et Delors eut le mérite de fonctionner³¹.

Le 17 avril 1989, au terme de huit réunions tenues à Bâle, le comité Delors [Comité pour l'étude d'une union économique et monétaire] présentait à l'unanimité un dispositif en trois étapes à partir du 1^{er} juillet 1990 : au stade 1, renforcement de la coopération en matière monétaire et adhésion des devises de tous les pays membres au mécanisme de change du SME ; le stade 2 était subordonné à la révision du traité de Rome et consisterait en une période transitoire au cours de laquelle coexisteraient des éléments du nouvel ordre monétaire européen (Système européen de banques centrales ou SEBC) et de l'ancien, puisque les autorités monétaires nationales seraient maintenues; le stade 3 serait celui du transfert de compétences en matière macroéconomique et monétaire des États membres à l'Union, de l'instauration irrévocable de parités fixes et de l'introduction d'une monnaie unique (et non « parallèle » circulant conjointement avec les monnaies nationales comme proposé par le gouvernement britannique). Le Comité insistait sur le fait que la création d'une union économique et monétaire devait être considérée comme un processus continu et irréversible. La décision d'entrer dans la première étape devait être considérée comme une décision de poursuivre le processus jusqu'à son terme³². Bien que les objectifs auxquels souscrivait la France y fussent clairement réaffirmés (parvenir le plus rapidement possible à une troisième étape caractérisée par une politique monétaire commune mise en œuvre par une banque centrale commune (Eurofed) au service d'une monnaie unique, l'ECU) le rapport Delors reflétait en grande partie les positions et préoccupations allemandes. Ainsi soulignait-il la nécessité de poursuivre de façon strictement parallèle la coopération monétaire et la convergence des politiques économiques des Douze, en particulier sur le plan budgétaire. Le SEBC proposé par le rapport s'inspirait clairement du modèle de la Bundesbank.

³¹ Margaret Thatcher avait insisté pour que les gouverneurs de banques centrales soient seuls chargés du rapport, sans doute dans l'espoir de voir ainsi enterrer le projet. Elle comptait surtout sur le gouverneur de la Banque d'Angleterre Sir Leigh-Pemberton et sur « le sceptique Herr Pöhl pour mettre un frein sur les roues du véhicule singulier de l'intégration européenne ».

³² Pour la Bundesbank cet engagement était essentiel pour s'assurer que la perspective de créer une UEM dans un avenir indéfini ne serait pas uniquement un leurre pour éroder son indépendance dans le présent.

La voie « maximaliste » choisie par le Comité Delors contrastait avec les ambiguïtés (volontaires ou non) de ceux qui, en France en particulier, avaient relancé le processus d'union monétaire. Le gouverneur de la Banque de France, Jacques de Larosière, avait joué un rôle important dans les travaux du comité. Il avait plaidé en faveur d'un projet d'institution monétaire supranationale et proposé la création, dès la première étape du processus menant vers l'union monétaire, d'un Fonds de réserve européen qui préfigurerait le futur Système Européen de Banques Centrales. Si le gouverneur de la Banque de France partageait l'avis de ses homologues, notamment celui de Karl Otto Pöhl, en faveur d'une « institution monétaire indépendante » qui interpréterait la stabilité monétaire de façon très stricte et restreindrait le financement des déficits publics, il souhaitait cependant la doter de prérogatives très larges dans les domaines des interventions sur le marché des changes vis-à-vis des devises extérieures (reflétant l'intérêt de Bérégovoy pour la dimension extérieure de l'EMS) et de la surveillance monétaire. De Larosière considérait également que le rôle du Conseil des ministres devrait être décisif pour la fixation des taux de change, susceptibles d'affecter les relations commerciales – et donc politiques – entre États. Il était convaincu que la préparation immédiate d'un Traité révisé restait le cœur du projet³³.

De Larosière avait maintenu ses distances avec le ministère des Finances. Au sein de celui-ci prévalait le sentiment, partagé par la puissante direction du Trésor, que le rapport, en mettant l'accent sur la stabilité des prix et sur la création d'une Banque centrale européenne, reflétait beaucoup trop les vues allemandes³⁴. Si le Trésor acceptait avec réticence que le gouvernement français ne s'opposât pas au principe d'une BCE indépendante³⁵, il se demandait si la Bundesbank constituait

³³ Balleix-Banerjee, *La France et la Banque centrale européenne*, cit., p. 77-79.

³⁴ Le 27 avril, au cours d'une réunion au Trésor, de Larosière s'était vu reprocher par Bérégovoy et Trichet d'avoir signé un rapport dont ils considéraient le contenu comme « trop germanique ». Selon eux, Larosière s'était prononcé, durant les travaux du Comité, systématiquement en faveur des formulations les plus radicales sur l'indépendance de la future Banque centrale européenne.

³⁵ De Larosière avait obtenu un semblant d'aval de François Mitterrand au cours d'un entretien privé le 1^{er} décembre 1988 : « Je dis [au Président] que si la France voulait un accord avec les Allemands, nous devrions accepter que la politique monétaire fut une politique unique, et que les banques centrales devinssent membres d'un système de banques centrales où elles devraient toutes être indépendantes des gouvernements. La Banque centrale européenne ne pourrait fonctionner que si sa politique n'était pas sujette à des négociations entre gouvernements. Subsidiairement, c'était une condition cruciale pour nos partenaires allemands. Le Président Mitterrand ne me répondit pas précisément. Ce n'était pas dans sa nature. Je craignais qu'il ne dise : "c'est hors de question". Mais il ne le dit pas. Il me fit un commentaire compliqué sur la façon dont le monde évoluait vers des systèmes de régulation qui n'étaient

le modèle le plus approprié pour assurer la gouvernance démocratique de l'intégration monétaire.³⁶ Le ministère des Finances souhaitait qu'on établît un contre-pouvoir politique face à celui de l'autorité monétaire au sein de l'UEM : il devait y avoir un « gouvernement économique » capable d'assurer un « *policy-mix* » au niveau de la Communauté. Pour tenir ce rôle, Trichet, De Forges, Hannon et les autres fonctionnaires du Trésor songeaient à un ECOFIN renforcé qui gèrerait les rapports entre les politiques structurelles, fiscales et sociales. Bérégovoy accordait d'autre part une attention particulière à la dimension extérieure du SME qu'il voulait protéger des turbulences provoquées par les fluctuations du Dollar et du Yen. Il soulignait donc l'importance d'une gestion communautaire de la politique des taux de changes³⁷. Enfin, pour le ministre promoteur du « Franc fort », la BCE et l'ECU comme monnaie unique européenne, n'étaient pas des perspectives à court terme. Il envisageait plutôt une évolution pragmatique, pas à pas, vers une politique monétaire commune, intégrant en un premier temps le Royaume-Uni dans le SME (pour éviter le face-à-face avec une Allemagne surpuissante) puis en renforçant l'ECU comme monnaie commune européenne sur les marchés mondiaux, en confiant sa gestion à un « Fonds de réserve européen » dont la première mission serait d'administrer les réserves de devises nationales et de veiller à la parité de l'ECU face au dollar et au yen. Le Président Mitterrand passa finalement outre aux objections de son ministre. Comme l'ont observé Dyson and Featherstone : « Il fit valoir à Bérégovoy l'intérêt vital qu'il y avait à gagner le soutien de l'Ecofin pour une application sans réserve du rapport Delors, pour la

plus directement sous le contrôle des gouvernements. Ce n'était pas une réponse technique; c'était une réflexion sociologique sur la gouvernance mondiale. Je me dis "Je vais prendre cela comme un feu vert de sa part" ». Interview de de Larosière, cité in Marssh, David, *The Euro. The Battle for the New Global Currency*, London, Yale University Press, 2009, p. 129.

³⁶ Mitterrand avait fait part de ses hésitations sur le degré d'autonomie de la Banque centrale européenne au Premier ministre italien Ciriaco de Mita à Taormina le 30 mars 1989 : « Je ne suis pas hostile à la Banque centrale, mais à certains de ses modes opératoires. La Bundesbank est totalement hors du contrôle des gouvernements. Notre Banque centrale est indépendante, mais c'est le gouvernement qui définit la politique économique et monétaire [...] J'hésite à faire cette concession. Il est dangereux que la Banque centrale puisse, en l'absence d'une autorité politique, disposer d'un pouvoir souverain. Le système monétaire européen est déjà une zone allemande. Mais la République Fédérale d'Allemagne n'a pas autorité sur nos économies, Avec la Banque centrale européenne, elle l'aurait », in Institut François Mitterrand, *Mitterrand et la réunification allemande – Une histoire secrète, 1981-95*.

³⁷ Dyson, Featherstone, *The Road to Maastricht*, cit., p. 181-182.

fixation d'une date pour la première étape et pour la convocation rapide d'une conférence intergouvernementale sur l'UEM. »³⁸

Pourtant, l'ambiguïté de la position française se manifesta au Sommet européen de Madrid (26-27 juin 1989) qui examina le rapport Delors. Si la délégation donna son accord à l'ouverture de négociations intergouvernementales en vue de la signature d'un nouveau traité d'intégration monétaire européenne « une fois que la première étape aura[it] commencé »³⁹ et demanda une convocation rapide de la CIG, elle se montra beaucoup plus circonspecte sur d'autres propositions comme l'automaticité du processus devant conduire à la création de la Banque centrale commune ou le rejet de l'option d'un ECU conçu comme monnaie parallèle (*parallel currency*). Ainsi, comme le soulignait Élisabeth Guigou : « Bien que la délégation française se montre favorable au projet d'intégration monétaire européenne, elle apparaît [...] indéterminée quant à son objectif final »⁴⁰. A Madrid, en dépit de l'opposition vigoureuse de Margaret Thatcher, Mitterrand obtînt ce qu'il voulait : les chefs d'État et de gouvernement adoptèrent le rapport Delors comme « base de négociation » et demandèrent aux organes compétents (Conseil des ministres, Commission, Comité des gouverneurs de banques centrales et Comité monétaire) d'adopter les mesures nécessaires pour le lancement de la première étape d'une Union économique et monétaire le 1^{er} juillet 1990 et d'engager les travaux préparatoires pour l'organisation d'une GIG censée établir les étapes ultérieures. Manquait toutefois une date pour la convocation de la CIG. Répondant aux instances de Bérégofoy qui prônait l'instauration d'un « pôle politique fort » au sein de l'UEM, le Conseil européen mit l'accent sur le renforcement de la coordination de la politique économique et de la surveillance mutuelle pour promouvoir la convergence. Mais les fonctionnaires du Trésor se montrèrent moins satisfaits lorsque le Conseil décida, sous la pression des Allemands, de fixer des critères de convergence pour évaluer les déficits excessifs et assurer une saine discipline financière. Le Conseil rejeta aussi le Fonds de réserve européen que de Larosière et Bérégofoy proposaient d'instaurer pour permettre des interventions communes vis-à-vis du Dollar ou du Yen⁴¹.

³⁸ *Ibid.*, p. 188.

³⁹ Conseil européen de Madrid des 26-27 juin 1989, Conclusions de la présidence, *Bulletin des Communautés européennes*, n° 6, 1989, Bruxelles, Commission, p. 8-18.

⁴⁰ ANF, AG5 (4) 88 EG d.1, Note d'Élisabeth Guigou pour le Président a/s « Préparation de Madrid », 29 mars 1989 ; Corinne Balleix-Banerjee, cit., p. 58-59.

⁴¹ ANF, AG5 (4) 88 EG d.1, Note d'Élisabeth Guigou pour le Président a/s « Appréciation du rapport Delors », 10 mai 1989 ; *Ibid.*, « Conclusions de la présidence du Conseil européen de Madrid », 27 juin 1989 ; *Agence Europe*, Bulletin, 30 juin 1989.

La France, qui présidait les institutions communautaires durant le second semestre de 1989, souhaitait accélérer le processus et fixer aussi rapidement que possible la date de la Conférence intergouvernementale. Cet activisme français résultait de la pression constante que François Mitterrand exerçait pour s'assurer que la présidence française (de la CE) recevrait un mandat clair permettant d'amorcer la marche vers l'Union monétaire⁴². Il pouvait compter sur l'appui de la Commission et des pays méditerranéens (Italie et Espagne). Mais les dirigeants allemands, inquiets de voir le passage à l'UEM s'accompagner de l'abandon de la culture de la stabilité monétaire et provoquer, à l'échelle européenne, une politique monétaire laxiste, faisaient preuve d'une grande retenue et refusaient de s'engager sur un calendrier définitif. Mitterrand et Dumas entendaient rétablir le leadership politique sur l'UEM et neutraliser l'inclination de Pöhl à se dissocier du rapport Delors. Grâce au soutien de Genscher, ils obtinrent, à la réunion d'Antibes en septembre, la création d'un Groupe de hauts fonctionnaires pour entr'ouvrir la porte à la future conférence intergouvernementale. Composé de représentants des Douze, le Groupe, placé sous la présidence d'Elisabeth Guigou, conseillère spéciale du Président français, et piloté par Tomaso Padoa-Schioppa, Jean-Claude Trichet et Pierre de Boissieu, était censé aplanir le terrain dans la perspective du Conseil européen de Strasbourg en décembre qui aurait à se prononcer sur la convocation d'une CIG pour la révision du traité, qui devrait s'ouvrir avant la fin de 1990⁴³. Le 27 octobre le Groupe Guigou recensa une liste de questions qui devraient être traitées par la CIG : trois questions-clé devraient être traitées en priorité : le parallélisme entre politiques monétaires et politiques économiques ; la cohésion économique et sociale; le statut et la structure de la future Banque centrale européenne et ses relations avec les banques centrales d'une part, avec le Conseil des ministres et le Parlement européen d'autre part⁴⁴. Composé essentiellement de fonctionnaires des ministères des Finances et des ministères des Affaires étrangères, le Groupe se montra plus réticent que ne l'avait été le comité Delors – « qui portait la marque des banquiers centraux [et] était excessivement dominé par

⁴² ANF, AG5 (4) 86 EG d.1, Note de Roland Dumas pour le Président a/s « UEM : Procédure proposée par M. Dumas », 7 juillet 1989. Dans une rencontre avec Margaret Thatcher le 4 septembre François Mitterrand avait déclaré qu'« il avait l'intention de mettre le train sur les rails », in ANF, AG5 (4) 88 EG d.1. Note d'Elisabeth Guigou à Roland Dumas a/s « Rencontre entre le Président de la République et Mme Thatcher: UEM », 4 septembre 1989.

⁴³ *Financial Times*, 6 novembre 1989.

⁴⁴ ADMAE, Europe – CE, 1986-90, 1935 Inva, d. 5896, Tél. 18881, Boissieu à MAE a/s : « Réunion du Groupe à Haut niveau sur l'UEM », Bruxelles, 19 septembre 1989.

la Commission » – sur le principe d'une banque centrale largement indépendante et sur celui d'une coordination des politiques budgétaires au seul service de la stabilité monétaire⁴⁵.

3. La réunification allemande et les pressions françaises en faveur de l'UEM

Mais, à l'automne 1989, la perspective d'une réunification allemande plus rapide que prévue compliqua le processus. La soudaineté de la désagrégation des régimes communistes à l'Est prit Mitterrand, Dumas et le Quai d'Orsay par surprise⁴⁶. Les dirigeants français craignaient que le projet de construction européenne ne perdît de son attrait aux yeux des décideurs de l'Allemagne réunifiée. Confronté à l'évolution de la situation en Hongrie et en Pologne et à l'effondrement probable du régime en RDA, Helmut Kohl était décidé à faire admettre la nécessité de l'Union politique comme corollaire de l'Union monétaire. En proposant, dans ses dix points sur la réunification présentés au Bundestag le 28 novembre une union monétaire entre les deux Allemagnes sans consulter ses partenaires européens, le Chancelier ouest-allemand donna quelque temps l'impression d'un recul substantiel sur le dossier de l'UEM ! Or, plus que jamais, on misait à Paris sur l'intégration européenne pour encadrer et contrôler la renaissance de la puissance allemande : l'UEM, parce qu'elle créait justement un engrenage vers une véritable union politique, prenait valeur de test. Dumas et le Quai d'Orsay convainquirent alors François Mitterrand d'exiger de Bonn des contreparties à la réunification et à faire levier sur l'Union monétaire⁴⁷. L'effet fut de raidir la position du Président français et de lui faire accentuer sa pression sur Helmut Kohl afin d'obtenir qu'au sommet de Strasbourg, prévu en décembre, une date fut fixée pour l'ouverture de

⁴⁵ « Offensive française sur l'union monétaire », *Libération*, 7 novembre 1989 ; ANF, AG5 (4) 88 EG d.2, Note d'Elisabeth Guigou pour le Président a/s « Résultats des travaux du groupe Guigou sur l'UEM », 1^{er} novembre 1989 ; Balleix – Banerjee, *cit.*, p. 82, 192-196.

⁴⁶ A l'évidence, Mitterrand et ses conseillers envisageaient la transition en cours à l'Est comme un phénomène très progressif. Rappelant à Bush en mai 1989 sa conviction que l'empire soviétique s'effondrerait tôt ou tard, rendant la réunification allemande possible, le Président français estimait que ces deux événements « n'arriveraient pas avant dix ans », cf. Bozo, Frédéric, « Mitterrand's Vision and the End of the Cold War », in Bozo, Frédéric, Rey, Marie-Pierre, Ludlow, Piers (eds.), *Visions of the End of the Cold War in Europe, 1945-1990*, Oxford, Berghahn, 2012, p. 293.

⁴⁷ *L'Express*, « Union monétaire et suspense allemand », 10 novembre 1989 ; Dyson, Featherstone, *The Road to Maastricht*, *cit.*, p. 195.

la CIG sur l'UEM. Lors d'un échange téléphonique avec le Chancelier l'après-midi du 28 novembre, Mitterrand se fit menaçant : la France n'accepterait le plan Kohl de réunification que si l'Allemagne prenait auparavant trois engagements distincts : l'ouverture de négociations sur l'Union monétaire, la reconnaissance définitive de la frontière germano-polonaise, la confirmation du renoncement par l'Allemagne fédérale aux armes nucléaires⁴⁸. Le 30 novembre Mitterrand fut encore plus rude avec Genscher : il considérait désormais l'Allemagne non plus comme un moteur, mais comme un frein à l'unification européenne. Il appelait l'Allemagne à engager des négociations sérieuses sur l'UEM avant la fin de 1990, allant jusqu'à pointer le risque de reconstitution d'une « triple alliance » qui isolerait l'Allemagne en Europe⁴⁹.

Kohl et Genscher multiplièrent les déclarations rassurantes sur leur attachement inébranlable à la construction européenne. Pour le Chancelier, la réunification allemande et la construction européenne étaient « les deux faces d'une même médaille ». Il réaffirma son intention d'avancer en parallèle vers l'union monétaire et vers l'union politique⁵⁰. Pour marquer sa solidarité avec Paris, le gouvernement de Bonn renonça début novembre à plaider en faveur d'une réévaluation unilatérale du Mark qui aurait constitué un affront pour Bérégoïov dont toute la politique s'articulait autour de la stabilité de la parité Franc-Mark. Une semaine après la chute du Mur de Berlin en novembre 1989, le Chancelier annonça son intention de débiter la CIG avant la fin de 1990⁵¹. À Strasbourg, lors du déjeuner des Douze le 8 décembre, Helmut Kohl approuva une proposition franco-italienne, demandant au Conseil de prendre un engagement ferme sur la date d'ouverture de la conférence intergouvernementale sur l'UEM à la fin de l'année 1990, indépendamment des résultats des travaux préparatoires. Le lendemain, François Mitterrand fit rédiger par Dumas et Genscher un texte, approuvé plus tard par les Douze, reconnaissant aux Allemands le droit à l'autodétermination tout en l'inscrivant dans le respect de l'esprit d'Helsinki (respect des frontières) et dans la perspective de l'Union européenne⁵². Aucune décision ne fut prise concernant l'Union politique,

⁴⁸ Attali, Jacques, *Verbatim*, t. 3, Paris, Fayard, 1995, p. 349.

⁴⁹ Attali, Jacques, *C'était François Mitterrand*, Paris, Fayard, 2005, p. 321.

⁵⁰ Tietmeyer, Hans, « L'Europe de la Bundesbank », *Limes*, numéro *La France en question*, p. 297-316.

⁵¹ ANF, AG5 (4) 88 EG d.2, Note d'E. Guigou pour le Président « Calendrier UEM », dans laquelle la chargée d'Affaires française faisait état du message qu'elle reçut de Bitterlich l'informant que Kohl pourrait accepter de fixer la date de l'IGC au second semestre 1990, 13 octobre 1989.

⁵² Stark, Kohl, *L'Allemagne et l'Europe*, *op. cit.*, p. 155-156.

Mitterrand craignant que des divergences de vues sur la configuration institutionnelle ne retardent la mise en place de l'Union monétaire.

Ce ne fut que le 19 avril 1990, sur les instances de Jacques Delors et d'Élisabeth Guigou⁵³, que Mitterrand accepta de se joindre à Kohl pour adresser une lettre publique commune à leurs homologues européens, proposant la convocation, à la fin de l'année, de deux conférences intergouvernementales, l'une sur l'UEM, l'autre portant sur la création d'une Union politique⁵⁴. Au Conseil européen de Rome II les 27 et 28 octobre 1990, les chefs d'État et de gouvernement s'accordèrent sur le mandat de deux CIG parallèles sur l'UEM et l'UP (Union politique). Bénéficiant de la préparation soignée de Tomaso Padoa-Schioppa et Umberto Vattani, et fort du plein appui de la délégation française, Giulio Andreotti parvint à faire en sorte que le sommet ne soit pas paralysé par le veto britannique, et à fixer le début de la seconde étape de l'UEM au 1^{er} janvier 1994⁵⁵. Il écartait ainsi la menace d'une « Europe à deux vitesses » en ménageant la possibilité de périodes transitoires. Les Italiens furent cependant moins heureux sur l'objectif de la mise sur pied d'une « institution monétaire forte » dès la seconde étape, les gouvernements de La Haye et de Bonn n'acceptant à ce stade qu'une institution aux pouvoirs limités⁵⁶. Le rapport Carli, qui fixait comme objectifs à la CIG l'adoption d'un programme conduisant à la création d'une Banque centrale européenne et d'une monnaie unique, fut approuvé par onze États sur douze, le Royaume-Uni, représenté par John Major, s'abstenant. Les conférences parallèles débutèrent le 15 janvier 1991⁵⁷.

⁵³ ANF, AG5 (4) 35 GH (Guillaume Hannezo) Mémoire d'Élisabeth Guigou pour le Président, 6 février 1990. La conseillère du Président y faisait valoir la nécessité « d'inventer rapidement une armature institutionnelle susceptible de redimensionner et contenir le fait allemand de manière à ce que l'Allemagne détermine ses orientations à l'intérieur d'un cadre communautaire et non de façon autonome ».

⁵⁴ ANF, AG5 (4) 22 CDM (Caroline de Margerie), d.3, Essai d'E. Guigou dans la *Revue des Affaires étrangères*, qui inclut la « Déclaration commune du Président Mitterrand et du Chancelier Kohl », 19 avril 1990.

⁵⁵ La première étape de l'UEM connaissait au même moment ses premiers succès. En juin 1989, l'Espagne adhère au SME. Huit pays libéraient ensuite les mouvements de capitaux, avant que le Royaume-Uni n'adhère à son tour au SME.

⁵⁶ James, Harold, « Designing a Central Bank in the Run-Up to Maastricht », *Journal of European Integration History*, 1, 2013, p. 105-122 ; ADMAE, Europe – CE, 1986-90, 1935 Inva, d. 5914, « Conseil Européen, Conclusions de la présidence », Rome, 27 et 28 octobre 1990.

⁵⁷ ANF, AG5 (4) 21 CDM, d.2, « Communication de M. Pierre Bérégovoy devant le Conseil des ministres » à propos du conseil européen de Rome 4 décembre 1990.

4. Négocier l'Union économique et monétaire : la France se rallie à la Banque centrale européenne et aux critères de convergence, mais rend l'UEM irréversible

Ouverte à la fin de la présidence italienne (Rome II, 13 décembre 1990), la conférence intergouvernementale sur l'UEM se poursuit durant les présidences suivantes du Luxembourg et des Pays-Bas jusqu'à son heureuse conclusion à Maastricht en décembre 1991.

Le 28 janvier 1991, la délégation française présenta un projet de Traité sur l'intégration monétaire. Il avait été préparé par le ministère des Finances⁵⁸, qui avait profité d'un moment où l'attention de la présidence était détournée par la Guerre du Golfe. Présenté comme une « alternative » au projet présenté par la Commission européenne, le document réaffirmait la vision de Pierre Bérégovoy⁵⁹ et du Trésor : il était basé sur trois principes : l'union économique à créer devrait être « crédible, démocratique et européenne ».

Sa *crédibilité* découlerait du renforcement des instruments politiques dont se verrait doté un ECOFIN renforcé pour assurer la convergence économique. Ces dispositions incluraient des sanctions en cas de déficits budgétaires excessifs, l'interdiction du financement monétaire des déficits publics, et l'obligation de garantir la stabilité des prix, placée sous le contrôle d'un Système européen des banques centrales (SEBC). Elles reflétaient la position traditionnelle du Trésor, partisan d'une ferme discipline monétaire intérieure⁶⁰. Les chapitres 4 et 5 du document stipulaient l'engagement d'installer un SEBC dès le début de la période de transition. Il serait doté par les États membres du capital nécessaire à ses missions, et se verrait confier des tâches opérationnelles, incluant le renforcement de la coordination des politiques monétaires des États membres, la gestion des réserves de change extérieures et la supervision

⁵⁸ Dans une lettre à Roland Dumas, écrite quelques semaines avant la CIG, Pierre Bérégovoy déclarait : « Pour moi, les conclusions de Rome sont une grande déception. À mon sens, une UEM où nous n'aurions pas un pouvoir exécutif fort et démocratiquement légitime assurant la cohérence du bloc de souveraineté ne serait pas acceptable », in ANF, 5AG (4) 21 CDM, d.2, lettre de P. Bérégovoy à R. Dumas, 14 novembre 1990.

⁵⁹ Le ministre des Finances français avait partiellement changé d'avis lors du conseil économique franco-allemand de Tegernsee les 24-25 août 1989, grâce à une extraordinaire alchimie personnelle développée avec Théo Waigel et où, facteur décisif, Karl Otto Pöhl l'avait convaincu du sérieux des intentions de la Bundesbank à propos de l'UEM. Ancrer une Allemagne élargie à l'Europe devint un objectif prédominant de la politique de Bérégovoy à l'égard de l'UEM.

⁶⁰ Dyson, Featherstone, *The Road to Maastricht, cit.*, p. 240.

du développement de l'ECU. A noter que lors d'un entretien dramatique à l'Élysée le 26 janvier, Mitterrand avait enjoint Bérégofoy d'abandonner l'idée de garder à tout prix les Britanniques dans le processus et tout soutien à l'idée d'un ECU fort : « Il ne doit y avoir aucun retournement d'alliance. Notre alliée c'est l'Allemagne ! Les Britanniques sont alignés sur les États-Unis »⁶¹.

La *légitimité démocratique* de l'UEM dépendrait d'un « gouvernement économique » : le Conseil européen établirait les orientations générales des politiques de l'Union tandis qu'un « Conseil ECOFIN renforcé » (et non la Commission) déterminerait les lignes directrices de la politique des taux de change dans le respect du principe de stabilité des prix. En agissant ainsi, « les Français faisaient pression en faveur d'un modèle intergouvernemental de coordination des politiques économiques »⁶².

Le *caractère européen* s'incarnait dans le principe suivant lequel l'UEM devait être « une UEM à douze ». Pour Pierre Bérégofoy, si « aucun pays ne devait pouvoir bloquer le passage à la monnaie unique, aucun pays ne devait être exclu à l'avance ». Les autorités françaises, soucieuses de favoriser une participation aussi large que possible, défendaient fermement l'idée que le passage en phase institutionnelle de l'UEM fût décidée à douze, et non à six ou à sept États, pour éviter la constitution, au sein du SEBC, d'un « noyau dur » dominé par les pays de la zone Mark, d'où l'importance accordée par le ministre des Finances au vote à l'unanimité pour décider si et quand les États membres devraient entrer dans la 2^e étape. L'un des différends majeurs avec la délégation allemande portait en effet sur la transition et sur le contenu de la 2^e étape. Les Allemands avaient cherché à imposer des conditions drastiques à l'entrée des États membres dès la période de transition – en particulier le respect de critères de convergence. Les Français souhaitaient que le passage de la 1^{re} à la 2^e étape fût automatique au 1^{er} janvier 1994 et qu'il n'exclût aucun des États membres. Bérégofoy préférait des conditions moins contraignantes pour le passage à la 2^e étape, quitte à prévoir une plus longue période de transition qui permettrait aux pays ne satisfaisant pas encore aux critères requis de s'adapter à une discipline de convergence rigoureuse⁶³. Le ministre des Finances ne voulait pas courir le risque d'être isolé au sein d'une zone Mark élargie.

⁶¹ Quatremer, Jean, Klau, T., *Ces hommes qui ont fait l'Euro. Querelles et ambitions européennes*, Paris, Plon, 1999, p. 202-203.

⁶² Dyson, Featherstone, *The Road to Maastricht*, cit., p. 236.

⁶³ Agence Europe, Bulletin n° 5441, 28 février 1991 ; Howarth, David J., *The French Road to European Monetary Union*, cit., p. 123.

Ces prises de position reflétaient les préoccupations françaises traditionnelles à propos de l'UEM : une 2^e étape d'un contenu substantiel, la nécessité d'un pôle politique contrebalançant le pôle monétaire représenté par le SEBC, le refus d'une UEM « à deux vitesses »⁶⁴.

Bérégofoy et Trichet prirent la mesure de l'intransigeance allemande lorsque Theo Waigel et Hans Tietmeyer présentèrent les éléments d'un projet de traité (*nonpaper*) au Conseil ECOFIN de Luxembourg le 26 février. Le ministre des Finances et le nouveau gouverneur de la Bundesbank refusaient tout transfert de compétences au profit d'un SEBC avant que celui-ci ne se vît confier la conduite de la politique monétaire et avant l'achèvement du processus devant aboutir à l'indépendance des banques centrales nationales, c'est-à-dire au moment du passage à la 3^e étape. La nouvelle institution monétaire ne devait pas être « une coquille vide »⁶⁵. En outre, les Allemands continuaient d'insister sur l'application rigoureuse de critères de convergence pour déterminer le passage à la 2^e étape. Ce passage à la 2^e étape ne serait effectif que lorsque le Conseil européen, décidant à l'unanimité, aurait certifié que ces conditions étaient remplies par « la majeure part des États membres »⁶⁶. Les Allemands semblaient ainsi remettre en cause le principe de l'« automaticité » de l'entrée en vigueur de la 2^e étape de l'UEM au 1^{er} janvier 1994 et vouloir repousser aux « calendes grecques » l'entrée dans la 3^e étape. Ils semblaient n'envisager que la réalisation d'une « petite Europe monétaire » englobant les seuls pays à monnaie forte, c'est-à-dire la RFA, la France et le Benelux. Les États les plus pauvres (Espagne, Irlande, Grèce) et l'Italie dénoncèrent des mesures qui visaient selon eux à créer « une Europe monétaire à deux vitesses » et insistèrent pour que les États membres procèdent du même pas ou pas du tout. Pour les Français, le vote à l'unanimité présentait également l'inconvénient d'offrir aux Britanniques l'occasion d'exercer leur droit de veto⁶⁷.

Entre le début du mois de mars et la fin du mois de juin 1991, les questions relatives à la transition et aux compétences de l'institution monétaire durant la phase 2 firent l'objet d'une intense diplomatie bilatérale franco-allemande. Bérégofoy et Waigel travaillèrent de concert

⁶⁴ *Agence Europe*, Bulletin n° 5419, 28-29 janvier 1991 ; ANF, AG5 (4) 21 CDM, d.2, Tel. n° 69, DELFRA, Bruxelles (Vidal) à Roland Dumas, « Intervention de M. Bérégofoy à la CIG sur l'UEM du 28 janvier », 29 janvier 1991.

⁶⁵ ANF, AG5 (4) CDM 21, d.2, Tel. Bonn n° 545, DELFRA (Boidevaix) à Roland Dumas a/s « Réactions à Bonn après le dernier projet allemand du 26 février 1991 », 4 mars 1991.

⁶⁶ *Agence Europe*, Bulletin n° 5441, 28 février 1991.

⁶⁷ ANF, AG5 (4) CDM 21, d.2, Note de Guillaume Hannezo pour le Président « Position allemande sur l'Union économique et monétaire », 6 mars 1991.

à Paris et à Lille⁶⁸ ; Roland Dumas et Élisabeth Guigou se rendirent à Bonn et à Francfort pour des échanges de vues avec les représentants de la Bundesbank et de la Chancellerie. Mitterrand rencontra Kohl à Lille le 25 juin dans le cadre de la préparation du Conseil européen de Luxembourg pour discuter de l'ordre du jour de la CIG⁶⁹. Ces échanges discrets confirmèrent que le malentendu portait davantage sur des questions de détail que sur l'objectif commun, partagé par les deux gouvernements⁷⁰. Les Français reprirent la main lorsque la question de la transition vers la 2^e étape fut abordée à la CIG le 23 avril et le 6 juin : Jean-Claude Trichet insista alors sur l'« irréversibilité de la transition vers la 2^e étape » et proposa que le passage soit régi par trois principes : « Pas de veto, pas de contrainte, pas d'exclusion arbitraire », destinés à la fois à éviter un veto britannique en leur concédant une éventuelle dérogation et à s'assurer – à l'opposé – qu'aucun État membre ne serait exclu « *a priori* » de l'union monétaire. Sur le plan institutionnel, les dirigeants allemands refusaient de voir dans l'Institution monétaire opérant dans la deuxième phase plus que la simple continuation du Comité des gouverneurs des banques centrales. La position française était diamétralement opposée. Ils y voyaient un embryon de l'Institution monétaire supranationale finale qui disposerait de réserves propres, d'autant plus nécessaire que la seconde étape serait courte⁷¹.

Au conseil ECOFIN d'Apeldoorn le 23 septembre, les Allemands donnèrent leur agrément à la demande française de passage automatique à la 2^e étape, dont le début était fixé au 1^{er} janvier 1994. Mais ils autorisèrent seulement la création à ce stade d'un Institut monétaire européen (IME) « préfigurant » le SEBC. L'IME, sorte de « conseil des gouverneurs institutionnalisé », veillerait à la coordination des politiques monétaires entre les États membres et favoriserait la coopération entre les banques centrales. Il était censé préparer le passage à la 3^e étape en soumettant des opinions et recommandations à l'ECOFIN dans différentes matières – incluant l'utilisation et le développement de l'ECU – mais la mise en commun des réserves resterait facultative. À Apeldoorn les Français étaient également parvenus à faire admettre

⁶⁸ *Ibid.* Note Boidevaix (Bonn) to Roland Dumas « Compte-rendu du sommet Franco-Allemand : entretiens Bérégozovoy – Waigel à Lille les 29-30 mai 1991 », 31 mai 1991.

⁶⁹ ANF, AG5 (4) CDM 21, d.2. Note de Jean-Claude Trichet à Pierre Bérégozovoy a/s « Rencontre entre le Président Mitterrand et le Chancelier Kohl, 25 juin 1991 », 24 juin 1991.

⁷⁰ *Ibid.*, Note de Pierre de Boissieu à Roland Dumas, « UEM: les ambiguïtés franco-allemandes », 14 mars 1991.

⁷¹ Dyson and Fatherstone, *The Road to Maastricht*, cit., p. 395.

par leurs partenaires que la décision du Conseil européen de passer à la 3^e étape comporterait, dans l'interprétation des critères économiques objectifs, un élément de jugement politique⁷².

Les débats devenaient plus âpres également en raison de l'hostilité manifeste du Royaume-Uni à l'égard de tout mécanisme pouvant conduire à l'union monétaire. L'irritation française fut portée à son comble à la fin d'octobre 1991, lorsque la présidence néerlandaise du Conseil (le ministre des Finances Wim Kok) présenta les éléments d'un futur traité qui semblaient être basés sur la tentative de jouer les « honnêtes courtiers » en vue de satisfaire à la fois les Britanniques et les Allemands. Ils offraient la possibilité pour les États récalcitrants (Royaume-Uni et Danemark) d'user d'un « opt-out » général : durant les six mois suivant la décision du Conseil de passer à la 3^e étape, tout État pourrait s'exempter lui-même d'entrer dans la troisième phase et seule une « masse critique » de six pays sur douze serait requise pour ce passage. Ces dispositions furent ressenties à Paris à la fois comme une capitulation à l'égard des prétentions britanniques (s'agissant du principe de « non contrainte », le gouvernement français était d'avis qu'il pourrait être satisfait par l' « opt-out » concédé à certains pays et non par un « opt-in » généralisé) et comme la voie ouverte à une UEM à deux vitesses à l'allemande⁷³.

Le 28 novembre, Édith Cresson présida le seul comité interministériel consacré à la préparation du Sommet de Maastricht : concernant l'UEM, Mitterrand y imposa son arbitrage sur une initiative française alternative pour le passage à la 3^e étape, susceptible de briser l'opposition allemande et d'assurer simultanément la participation de l'Italie et de l'Espagne à l'UEM⁷⁴. Cela signifiait, d'une part, la résolution d'accepter les demandes allemandes sur les critères de convergence ; la possibilité, d'autre part, d'impliquer le plus grand nombre de pays possible tout en empêchant les États les moins rigoureux de bloquer ceux qui souhaitaient poursuivre vers la 3^e étape. Le ministère des Finances et le Président n'avaient pas d'objections de fond à l'égard des critères de convergence. Leur application était incontournable, non seulement parce qu'ils donnaient

⁷² Dyson, Featherstone, *The Road to Maastricht*, cit., p. 244.

⁷³ *Agence Europe*, Bulletin n° 5599, 30 octobre 1991; Europe Documents, 1740/1741 ; ANF, 5 AG (4) PHB (Philippe Bastelica) 10, d.3, Note de Caroline de Margerie pour le Président a/s « Entretien avec M. Lubbers », 27 novembre 1991.

⁷⁴ Lors d'une rencontre avec Carli à Viterbo les 17-18 octobre, Bérégovoy lui avait fait part de ses inquiétudes à propos de l'affaiblissement de la Lire. Il avait également insisté sur la nécessité, pour les Italiens, d'accepter des règles de convergence claires de manière à assurer un accord sur l'UEM avec les Allemands. Un signal similaire fut donné lorsque Mitterrand rencontra Andreotti à Pérouse ; cf. Dyson, Featherstone, *The Road to Maastricht*, cit., p. 511.

un certain contenu à la 2^e étape, mais également en qualité de test décisif de la capacité des États candidats de passer à la 3^e étape. L'acceptation de critères clairs et rigoureux manifestait aussi l'engagement de la France aux côtés des États pratiquant la stabilité monétaire, et sa prétention d'être au moins aussi « vertueuse » en matière de contrôle de déficit et de dette publics que ne l'étaient les Néerlandais ou les Allemands⁷⁵. Mais en même temps Bérégofoy était décidé à se prévaloir de la solidarité communautaire en recherchant une formule qui n'exclût pas à l'avance l'Espagne et l'Italie, ce afin d'éviter que l'ECU ne fût composé essentiellement de marks allemands. Les Français acceptèrent donc sans difficulté les critères de Maastricht exigés pour accéder à la 3^e étape de l'union monétaire : déficit n'excédant pas 3 % du produit national brut, dette publique n'excédant pas 60 % du produit intérieur brut, intérêts à long terme non supérieurs de 1,5 à 2 % à ceux des trois premiers pays de la Communauté. Bérégofoy était plus intéressé à la procédure d'accession à la 3^e étape qu'à la fixation d'une échéance. Mais l'Élysée et le Quai d'Orsay, soucieux de rendre l'UEM irréversible, regrettaient l'absence d'engagement juridique ferme. Fixer un calendrier s'avérait essentiel. À ce point, Elisabeth Guigou et Pierre de Boissieu soulevèrent la question d'une date butoir, à fixer au 31 décembre 1998, pour déterminer si une majorité d'États membres remplissaient les critères de convergence.

Un accord direct entre Mitterrand et Andreotti à la veille du Conseil de Maastricht le 8 décembre 1991 sur le mécanisme aboutissant au lancement de la 3^e phase régla les derniers détails. Les deux hommes s'entendirent sur une idée simple : en séance plénière, le lendemain, ils proposeraient de fixer, dans le traité, une date butoir à partir de laquelle les États membres respectant les critères de convergence passeraient, quoi qu'il arrivât, à la troisième phase, et ceci indépendamment de tous autres considérations ou votes⁷⁶. Au Sommet, le 9 décembre, la proposition franco-italienne emporta l'adhésion des autres délégations, notamment de l'Allemagne qui avait été prévenue à l'avance. Il fut décidé d'ajouter aux conditions à remplir pour la participation, deux dates pour le démarrage de la 3^e étape. Il aurait lieu en 1997 si une majorité de pays se qualifiaient (les chefs d'État et de

⁷⁵ Dans une note adressée au Président datée du 11 décembre 1991, intitulée « UEM, La France est prête », Guillaume Hannezo fixait comme suit la position de la France vis-à-vis de ses partenaires pour chacun des critères de convergence : inflation: France en troisième position avec 2,5 %, déficit budgétaire : troisième position avec 1,6 % du PIB, dette publique : seconde position avec 37 % du PIB, stabilité monétaire à long terme: aucune dévaluation depuis 1987, taux de change à long terme: troisième position ; in ANF, 5 AG (4) CDM 21, d.2.

⁷⁶ ANF, 5 AG (4) CDM 14, d.1, Sujets de Maastricht. Abordés entre le Président de la République et M. Andreotti. Résumé des discussions, 8 décembre 1991.

gouvernement en décideraient à la majorité qualifiée) ; dans l'hypothèse où, à la fin de 1997, la date de démarrage de la 3^e étape n'aurait pas été fixée, ce démarrage s'effectuerait au 1^{er} janvier 1999, la « masse critique » de sept États n'étant alors plus exigée⁷⁷. Les chefs d'État et de gouvernement manifestaient ainsi leur intention d'imposer des délais à la réalisation de l'intégration monétaire, renforçant la crédibilité du projet tant vis-à-vis de l'opinion publique que des marchés financiers⁷⁸. Mitterrand et Dumas cherchèrent également à restreindre le nombre de pays autorisés à choisir l'*opting-out* pour la participation à la phase 3. Ils s'opposèrent vivement aux propositions néerlandaises, britanniques et danoises qui visaient à étendre l'*opting-out* optionnel à l'ensemble des pays membres, ce qui aurait affaibli l'automaticité du processus que la France souhaitait graver dans le marbre du traité. Si la délégation française acceptait que les pays ne pussent être contraints à participer à la 3^e étape, ils devaient pour le moins être découragés d'exercer un tel droit : d'où l'inclusion d'une clause dans le traité de Maastricht exigeant des États membres qui remplissaient déjà les critères mais optaient pour la non participation à la 3^e étape de l'UEM, de justifier leur décision⁷⁹. Lors du marathon final de négociations à Scheveningen début décembre, l'*opting-out* généralisé fut finalement retiré et le projet de protocole français sur l'irréversibilité, qui bénéficiait du soutien des délégations de l'Italie (Giulio Andreotti) et de six autres pays membres, accepté.

Si l'acceptation du modèle de la Bundesbank avait constitué pour la délégation française une concession majeure, elle n'empêcha pas une réaction d'arrière-garde au moment de la rédaction des statuts de la Banque centrale : bien que le principe de l'indépendance de celle-ci et de la priorité de la stabilité des prix aient été clairement énoncés dans le traité, les termes étaient suffisamment ambigus pour donner prise à interprétation. La France tenta de limiter l'indépendance de la Banque centrale dans le domaine de la politique monétaire extérieure. Arguant de l'exemple des États-Unis, Bérégovoy et les membres français du comité monétaire prétendirent que la compétence de la BCE fût limitée à la politique monétaire intérieure, tandis que la politique monétaire extérieure demeurerait de la responsabilité des gouvernements. Pour les autorités monétaires allemandes et néerlandaises, une telle division des

⁷⁷ ANF, 5 AG (4) CDM 21, d. 2, Note de Caroline de Marjerie et Guillaume Hannezo pour le Président a/s « UEM: projet de traité résultant des discussions des ministres des Finances », 5 décembre 1991.

⁷⁸ Szasz, André, *The Road to European Monetary Union*, cit., p. 161.

⁷⁹ ANF, 5AG (4) 21 CDM, d.2, Note de P. Bérégovoy pour le Président : « Négociations sur l'UEM », 26 novembre 1991.

compétences était inacceptable. Il en résulta un compromis, figurant à l'art.109 du traité : le Conseil européen pourrait formuler des « orientations générales » (et non des directives) pour l'adoption ou la modification de la politique en matière de taux de change extérieurs⁸⁰. Theo Waigel et Horst Köhler parvinrent cependant à vider l'article de toute substance en faisant préciser que les deux compétences impliqueraient la consultation préalable de la BCE et qu'elles seraient « sans préjudice de l'objectif prioritaire qui restait la stabilité des prix » (article 109.3). Au final, la future BCE se voyait reconnaître une indépendance supérieure à celle dont jouissait la Bundesbank⁸¹.

5. Le débat français sur la ratification du Traité de Maastricht

Les chefs d'État et de gouvernement donnèrent leur accord pour amender le traité de Rome en y incorporant l'Union économique et monétaire les 10 et 11 décembre 1991. Le 7 février 1992, le traité fut signé à Maastricht. Le jour suivant le rejet du traité par les Danois, le Président Mitterrand annonça son intention de soumettre le traité à référendum. Celui-ci eut pour effet de réactiver un débat traditionnel en France depuis les années 1950. La « menace allemande » figura en effet parmi les thèmes de campagne récurrents et fut utilisée aussi bien par les partisans du « oui » que par les tenants du « non ». Pour les premiers, le traité représentait une garantie contre une Allemagne dominante, libre d'agir à sa guise ou de négliger l'Europe des Douze au profit de la *Mitteleuropa*. Pour les seconds, le traité transformerait la Communauté en un instrument au service de l'hégémonie allemande sur le continent. Mais, une fois encore, le fossé qui séparait les élites de la population était évident. Interrogés après le référendum, la majorité de ceux qui avaient voté en faveur du traité assurèrent que l'Allemagne n'avaient joué qu'un rôle marginal dans leur choix. Les principaux motifs invoqués étaient la paix en Europe et la poursuite de l'intégration. Parmi les opposants à la ratification, 41% évoquèrent la peur de l'Allemagne et surtout leur crainte que le traité ne se solde par un grave abandon de souveraineté de la part de la France. Les travailleurs de secteurs d'activité en déclin et les chômeurs représentèrent la majorité des opposants : ils nourrissaient un sentiment

⁸⁰ ANF, 5AG (4) PHB 10, d.3, Note de Guillaume Hannezo pour le Président : « Projet de modification du traité sur l'union économique et monétaire », 5 décembre 1991.

⁸¹ Szasz, *The Road to European Monetary Union*, cit., p. 151 ; James, *Making the European Monetary Union*, cit. p. 291.

de suspicion persistant à l'égard de la puissance économique allemande et de crainte face à une union économique et monétaire placée sous son contrôle. Le discours sur l'influence politique respective de la France et de l'Allemagne resta au niveau des élites et du gouvernement. L'étroite majorité en faveur du « oui » issue des urnes embarrassa énormément le Président et les cercles gouvernementaux, d'autant qu'elle n'avait été obtenue que grâce à l'appui des leaders de l'opposition.

6. Conclusion

Dans le processus de relance de l'UEM, les intérêts français ne furent jamais perdus de vue. Aux yeux des décideurs français, l'UEM fut d'abord conçue comme un moyen de rétablir partiellement l'équilibre dans les relations franco-allemandes, affecté par la puissance monétaire de Bonn. Les autorités françaises poursuivaient essentiellement deux objectifs : échapper à une dépendance croissante vis-à-vis de la Bundesbank et participer davantage aux décisions de politique monétaire en transférant les compétences à une institution monétaire européenne. Un autre avantage résidait dans la possibilité de fixer collectivement les taux d'intérêts à un niveau moins élevé et correspondant mieux aux besoins de la croissance économique du pays. Ces facteurs expliquent l'importance de l'enjeu que représenta pour les dirigeants français la création d'une union monétaire et l'étendue des concessions qu'ils étaient disposés à faire pour satisfaire les Allemands quant aux garanties nécessaires pour mener le projet à terme. Mettre une telle politique en pratique exigeait toutefois une dilution considérable du contrôle gouvernemental français sur la politique monétaire nationale : outre l'obligation de partager ce contrôle avec les autres pays adhérents, elle impliquait un transfert de compétences du plan gouvernemental à celui des gouverneurs des banques centrales indépendantes, et serait exécutée dans le cadre contraignant des bonnes pratiques macroéconomiques et financières figurant dans le nouveau traité.

Au sein des milieux décisionnels français, ces conditions furent plus ou moins bien acceptées. Durant la plus grande partie de la période considérée, Mitterrand et Bérégovoy (Bérégovoy plus longtemps que Mitterrand) s'opposèrent à l'indépendance de la Banque de France et à celle de la Banque centrale européenne et militèrent pour la limitation des compétences de cette dernière. Cependant, on doit distinguer les déclarations publiques du Président de ses objectifs stratégiques. Pour regagner quelque influence en matière de politique économique et

monétaire, Mitterrand décida, dès le début de son second septennat, de faire de l'UEM une priorité. Il calcula dès lors soigneusement les avantages qu'il pourrait tirer de l'évolution rapide des rapports internationaux en Europe et s'efforça d'exploiter au mieux les opportunités favorables à ce dessein. Soucieux de défendre les intérêts français, il n'était cependant pas disposé à permettre à l'intransigeance du ministère des Finances de bloquer l'avancée du projet. Bérégofoy et le Trésor soutinrent le projet mais se montrèrent beaucoup plus réticents que l'Élysée à accepter les contraintes générales qu'il impliquait. Il s'employèrent à limiter autant que possible les transferts de souveraineté monétaire et à éviter les risques de « vertige monétaire » par l'instauration d'un contrepouvoir politique à la Banque centrale supranationale. Ils s'évertuèrent également à soutenir l'approche – surtout mise en avant par Londres – en faveur d'une monnaie parallèle. Leurs efforts furent contrecarrés par de Larosière et les autres banquiers centraux qui estimèrent dès le rapport Delors que la stratégie consistant à étendre l'usage de l'ECU comme monnaie parallèle était problématique. Au cours des négociations de la CIG en janvier 1991, Mitterrand, conscient qu'un refus des Français de se conformer sur ce point aux recommandations des gouverneurs de banques centrales bloquerait la négociation, mit fin à toute opposition au sein du gouvernement. Bérégofoy et le Trésor ne purent plus plaider en faveur d'une monnaie parallèle. Ceci ne les empêcha pas de réintroduire une proposition similaire dans leur projet de traité de janvier 1991. Évitant l'usage des termes « monnaie parallèle », ils prônèrent désormais la mise en place d'une « monnaie forte et stable » constituant un premier jalon vers l'adoption d'une monnaie unique. La logique qui sous-tendait cette posture restait celle d'assurer l'extension la plus rapide possible de l'usage de l'ECU, afin de réduire l'importance économique du Mark et de prolonger la durée de 2^e étape. C'est dans cette perspective que le ministère des Finances insista constamment pour que l'on installât un SEBC dès le début de la 2^e étape (1^{er} janvier 1994). Celui-ci aurait en effet eu, entre autres compétences, celle de promouvoir et développer l'utilisation de l'ECU.

Tout au long de la conférence intergouvernementale, la relation privilégiée entretenue avec le partenaire allemand a constitué un atout pour les négociateurs français. Les deux délégations ont « pré-négocié » avec trois à quatre semaines d'avance sur les réunions de la CIG, des compromis qu'elles purent ensuite faire accepter par les autres pays membres. L'hypothèse d'un marchandage par lequel l'Allemagne aurait sacrifié le D-Mark en échange de la réunification est sans fondement. Mitterrand était convaincu dès le départ que la réunification allemande

était inévitable. Sa volonté était de la contrôler, pas de l'empêcher. Toutefois, la fusion des deux Allemagnes et la naissance d'une monnaie unique furent étroitement corrélées. En premier lieu parce que, si la réunification ne s'était pas réalisée, il eût été hautement improbable que Paris ait pu convaincre Kohl d'agréer le calendrier remplaçant le D-Mark par l'Euro. En second lieu parce que la réunification donnait de nouvelles raisons au Président d'imposer ses vues et de supprimer les dernières oppositions⁸². En effet, les effets économiques de la réunification et de la politique des changes allemande qui en découla renforcèrent les motivations françaises : les responsables de la politique financière française se montrèrent très préoccupés par les choix monétaires de Bonn et la montée consécutive des taux d'intérêts dans toute l'Europe. Le partage du pouvoir monétaire devenait plus que jamais le moyen privilégié d'empêcher les Allemands de poursuivre une politique perçue comme « irresponsable » à Paris⁸³. Les archives françaises suggèrent que Bérégoovoy et d'autres représentants du parti socialiste eurent dès lors moins de réticence à accepter l'idée d'une Banque centrale européenne indépendante (la loi établissant la pleine indépendance de la Banque de France fut signé en juin 1992) et d'autres garanties jugées jusque là indésirables, en raison de la nouvelle dynamique politique engendrée par la réunification. Bérégoovoy et les fonctionnaires du Trésor avaient aussi été déçus par la décision britannique de rester en dehors de l'union monétaire et par leur opposition à l'« imposition » d'une monnaie unique au terme de la 3^e étape. Ils comprirent alors que le projet d'« ECU fort » menait à une impasse⁸⁴.

⁸² Balleix-Banerjee, *La France et la Banque centrale européenne*, cit., p. 174.

⁸³ *Agence Europe*, bulletin n° 5425, 6 février 1991, Déclaration d'Edmond Alphandéry, Président de la délégation parlementaire française chargée du « monitoring » de la CIG-UEM.

⁸⁴ Dyson, Featherstone, *The Road to Maastricht*, cit., p. 232.

The Action of the European Federalist Movement for the European Currency*

Guido MONTANI

The time between the end of the common market's transitional period and the EU draft treaty, or Spinelli project, which culminated in the major demonstration at the European Council in Milan on 28-29 June 1985, was probably the MFE's peak period of intellectual fervour and political engagement. The European and global political events of those years, along with the initiatives of the MFE, are presented in a well-informed essay¹ by Sergio Pistone. I do not therefore wish to make a second historical reconstruction of those events, just to illustrate a number of crucial theoretical innovations in federalist strategy which developed in parallel in the arena of political action, and which remain relevant to the federalist cause today.

Although I do not intend to reconstruct the historical background to federalist ideas and political engagement in that period, I would like to mention one symbolic episode, when the decisions taken by heads of state and government intersected with the initiatives of the federalists, and the former were obliged to acknowledge and respond to this. The episode in question was the Hague Summit of 1 and 2 December 1969. This Summit signalled the resumption of the integration process, which had been stalled for many years after de Gaulle blocked any institutional progress. The EDC initiative failed in 1954 and the federalists had responded with the campaign for the European People's Congress, which was an attempt to arrive at a European constituent assembly by means of an elected European Congress. Yet by the early 1960s the MFE was forced to acknowledge that this attempt too had failed, and it was time to prepare for a long march in the wilderness. The 'Census of the European federal people' was a vehicle for this difficult transition. It was not until

* I would like to thank for their input regarding an early version of this article: Domenico Moro, Giovanni Vigo, Sergio Pistone, Dario Velo.

¹ Pistone, S., "I movimenti per l'unità europea in Italia", in Landuyt, A. and Preda, D. (eds.), *I movimenti per l'unità europea 1970-1986*, Vol. I, Bologna, Il Mulino, p. 39-119.

the second half of the 1960s that a more specific initiative took shape: the direct election of the European Parliament by universal suffrage, starting with elections for national delegates, given that while de Gaulle was in power it would have been unthinkable to succeed in getting all European citizens to elect the European Parliament in Strasbourg². The Italian MFE was in the front line of the fight for European democracy, thanks to the fact that the Italian Constitution enabled laws to be proposed by popular initiative. Indeed a popular initiative signed by 65,000 citizens was presented to the Italian Senate on 11 June 1969. It was a remarkable achievement in terms of popular mobilization, which had a direct effect on the Hague Summit, convened by the new French President Pompidou. At the Summit, Italy was represented by the Prime Minister Rumor and the Foreign Minister Moro. Both called for the direct election of the European Parliament, accepting in return, with reservations, the Franco-German proposal for an economic and monetary union³. While these discussions were going on in the Ridderzaal, outside it the first counter-summit was being held by the young federalists. This was a “remarkable event”, specifically “the biggest federalist rally ever to take place”, as one surprised historian of European integration commented. This is how he describes it: “Close to the venue of the Council meeting – *avant la lettre* – a group of about a thousand European federalists marched through the centre of the Hague, clashing with police and shouting for the need to revitalise Europe after years of stagnation. To attract attention to their cause, they carried a coffin with them: Europe was dead, and waited for resuscitation.”⁴ What the historian does not say is that the young federalists, from Italy, Germany and Holland, had presented a motion at the Summit which stated that they “were no longer prepared to tolerate Communities becoming technocratic superstructures,” and for this reason they “solemnly requested the heads of state and government gathered in The Hague, to finally give the people of Europe the power to decide their own destiny, giving citizens the right to vote directly for the European Parliament.”⁵ The federalists’ protest caused an immediate stir, and *The Times* devoted its front-page editorial to the event.

² With regard to the campaign for the direct election of the European Parliament, and its political significance, see Majocchi, L. V. and Rossolillo, F., *Il Parlamento europeo. Significato storico di un’elezione*, Naples, Guida, 1979.

³ Guasconi, M. E., “Italy and the Hague Conference of December 1969”, *Journal of European Integration History*, Vol. 9, No. 2, 2003, p. 101-116.

⁴ van der Harst, J., “The 1969 Hague Summit: a New Start for Europe?”, in *Journal of European Integration History*, *op. cit.*, p. 5-9, p. 5.

⁵ *Federalismo Europeo*, III, No. 6, December 1969.

The terse final communiqué of the Summit included both “the issue of direct elections” for the European Parliament, and the decision to produce a study, by 1970, for “a phased plan to create an economic and monetary union”. The process towards European democracy, a European currency and a European economic government, set to be longer and more arduous than anyone could have imagined back then, was finally under way. The demonstration in The Hague also deserves to be remembered for other reasons. The young people who organised it went on to produce a series of economic and political studies of an academic calibre much higher than would be expected for members of a voluntary political movement. They belonged to a generation of activists recruited in previous years, during the “long march in the wilderness”, drawn on by Mario Albertini to form a group of federalist leaders capable of challenging the dominant culture and academic perspective. Normally the struggle for power on a national level gives rise to a conformist mindset, the so-called Europeanism, which claims that the existing level of integration is the best of all possible worlds, and relegates the idea of a European federation into the realm of utopian thinking, a pipe dream far removed from political realism. By now the MFE was ready for the decisive battle.

In the following paragraphs, after examining Albertini’s strategic turning point (section 2), we will explore the crucial stages in the federalist battle for the European currency (section 3). In section 4 we will attempt to show how the strategy for the European currency and European democracy was bungled by the various governments, and the consequences of this on the current crisis of the EU; lastly (in section 5) we will draw a few critical conclusions, in light of federalist thinking on the relationship between economic theory and political theory, the modern origins of which date back to the birth of the sovereign nation-states, within whose *sacrosanct* boundaries they are still intellectually imprisoned.

1. Mario Albertini’s Strategic Turning Point: Constitutional Gradualism

In the battle for the EDC, the constituent strategy theorized by Altiero Spinelli was aptly applied and lucidly implemented, also thanks to the strong support of the Italian government led by De Gasperi⁶. After the

⁶ For an exhaustive analysis of the federalist struggle for the EDC see Preda, D., *Sulla soglia dell’Unione. La vicenda della Comunità Politica Europea (1952-1954)*, Milan, Jaca Book, 1993.

failure of the EDC, we should not, therefore be surprised if the relaunch of the integration process, decided by the Treaty of Rome in 1957, was harshly criticised by the federalists. In an article of September 1957 entitled *The Joke of the Common Market*, Spinelli wrote that: “to make the European common market we need a European political technique and political soul: in simple terms we need a European government, equipped with all the tools a government requires to be obeyed, and European laws according to which that government would act. The Common Market Treaty ignores this basic notion. The implementation of the Treaty is entrusted to the good will and harmony of six sovereign governments. [...] Currency, legislation, the armed forces and diplomacy all remain in the hands of the individual states.”⁷ In 1965, on occasion of an important stage in the creation of the Common Market, namely establishing a single price for grain, Albertini spoke in the same terms that Spinelli had used in 1957. Despite the observation that “the agreement on agriculture is probably a sign that Europe really has crossed the threshold of irreversibility with regard to the integration process,” Albertini maintained that: “economic integration now concerns not only the issue of currency, but also the general question of planning on a European level.”⁸ Yet for Albertini this advanced level of integration was a sign that a European government was now necessary, and that national political forces could no longer sidestep the challenge. National governments had followed a tortuous path. “Turning the question on its head, they reasoned in this way: as there can be no common market without a common currency, and no common currency without a common government, let’s gradually build the market and the common currency and common government will follow. Now most of the work has been done, it is time to take them at their word.”⁹ This therefore lent weight to the Federalists’ claim for the constituent power of the European federal people, supported by the citizens’ endorsement of the Campaign for the Census. Ultimately, the construction of the European market had reached the point where it was necessary to have a European currency and a European government: the European constituent represented the appropriate response to the contradictions within the process of integration.

Even when the campaign for the direct election of the European Parliament was launched, the MFE did not waver from its original

⁷ Spinelli, A., “La beffa del Mercato Comune”, in *L’Europa non cade dal cielo*, Bologna, Il Mulino, 1960, p. 282-287.

⁸ Albertini, M., *Tutti gli scritti*, Mosconi, N. (ed.), Bologna, Il Mulino, 2006-2010, Vol. V, p. 108-9 (hereinafter referred to as TS).

⁹ *Ibidem*, p. 111.

objective, namely the constituent assembly. In 1967, Albertini presented the Campaign merely as a change of direction with respect to the criticism previously directed at the European Parliament. He reasoned as follows: “The federalists have always maintained that, in order to found a European federal state it is necessary to convene a Constituent Assembly, and until recently they have taken a fairly sceptical view of the idea of European election of a parliament like that of Strasbourg, with no real powers.” Now it was time to acknowledge that: “with the European elections, the parties will have to take a stand on a supranational level, and that fact alone will transfer power from the national to the European level.” Given that the Common Market had reached the threshold of irreversibility due to the large number of interests involved, it was time for “the fuse to be lit.” The starting point could not be the Constituent Assembly; the endpoint, “albeit difficult to predict at present, would necessarily be constituent in nature.”¹⁰ The image of the “fuse” seamlessly connected the immediate action for direct elections to the European Parliament with the overall objective, namely the constituent Assembly.

It was only after the Hague Summit and its decision to formulate a project for economic and Monetary Union (EMU), that Albertini was forced to rethink the federalist strategy. The aim of creating a European currency could not be regarded as a political priority for the federalists, without first clarifying the links with the crucial aim of creating a European Federation and the constituent role of the European people. At a 1970 meeting, Albertini succinctly presented the strategic turning point, which later became known as constitutional gradualism. In economic terms, Albertini commented, “It was a question of transforming a group of national currencies, with limited opportunities on the international scene, into a national currency that would cover the entire area in question. In political terms the aim was to create a constitutionally defined public will in the same area. This can be summed up with the idea that we cannot plan for European monetary unification without planning for a European federal state”. However, this connection between economic and political issues was not permitted to develop in a linear way in the process of integration, due to the inability, or unwillingness, of the political class to call the framework of national power into question. It was therefore necessary to “shake up the mental torpor that makes people believe it is impossible to achieve things they are not aware of or don’t want to think about.” This was the way used to win over the reluctant political class and ensure it could not reject the final objective, a European

¹⁰ Albertini, M., “Il significato politico della campagna per l’elezione diretta unilaterale dei membri del Parlamento europeo”, TS, Vol. V, p. 351-355, cit. p. 352-353.

Federation. “One of the decisive points,” Albertini asserted, “is that we have to go against logic and propose a gradual operation of monetary union, prior to and not following the creation of a European political power, constitutionally defined, because those involved in process, on an executive level [...] do not behave according to logical criteria. It is a ruse to get those involved onto an “inclined plane” – as federal activists put it – towards the creation of a European power. If you can make someone do something that implies a precondition, that person might find themselves needing to create it.”¹¹

Albertini clarified the concept of the “inclined plane”, namely a situation brought about more by circumstances than the will of political forces, and the relationship between European elections, European currency and European government in an essay of 1976¹². Firstly he tackles the issue of the European constituent, which could not be likened to the constituent assembly of an existing state, in which it is possible to reorder the political basis of consensus without radically rethinking the foundations of the state, such as defence, justice, public administration, etc. As Albertini stated, “By its very nature, the European constituent cannot coincide with the work of a constituent Assembly, tasked with drafting a permanent Constitution in the space of a few months. In Europe there is no existing European state waiting to be given a constitutional form. In Europe the very state itself has to be created, in literal terms, which is why we need to appoint an authority to do it. And the one thing that the events of European integration should have taught us by now is that it is only with an initial form of European state (to be established by a dedicated constituent assembly) that the process of forming a definitive European state can be started. The paradox of ‘creating a state to create a state’ should not be cause for concern. Kant himself encountered a similar paradox (a state of states), but that did not stop him from using that very paradox as the basis of perpetual peace.”¹³ The historical situation of Europe, with an advanced level of economic integration and the prospect in the near future of citizens directly electing the European Parliament, meant that the issue of a European constituent could, and should, be addressed in a new way. “To decide whether the creation of a European state is possible,” Albertini wrote, “it is not a question of seeing whether it is possible to convene a constituent assembly in the traditional sense,

¹¹ Albertini, M., “Aspetti politici dell’unificazione monetaria”, TS, Vol. V, p. 775-786, cit. on p. 777-779.

¹² Albertini, M., “Elezioni europea, governo europeo e Stato europeo”, TS, Vol. VII, p. 159-171.

¹³ *Ibidem*, p. 162.

but whether a process like the one I have described, which should consist of individual constituent acts that strengthen the level of the constituent process, making further constituent acts possible and so on (with a European Parliament which would effectively play the role of ‘permanent constituent assembly,’ in the words of Willy Brandt), is about to begin or has already begun.”¹⁴

Albertini also clarified the close connection between the three objectives: the election of the European Parliament, the European currency and the European government. “As has been said and as was shown by the failure of the Werner Plan, the idea of creating a European currency before creating a European power capable of introducing a European economic policy is a contradictory one. Holding a European election for a powerless European Parliament is meaningless, just as a Union not represented by a genuine European government is meaningless. And it is wrong to take these three issues separately. In actual fact all three refer to the same thing: the current state of play of European integration. Together, they represent the platform for relaunching Europe.”¹⁵ The conclusion is that: “a Union which has already been given the right to vote for the Union, and not only for the states, is practically a federation, that is a constitutional system that determines the existence of a people. On the other hand, on this basis, i.e. on the path toward federation, the aim of creating a European currency and a real European economy ceases to be contradictory.”¹⁶

2. How the Action Developed

The action taken by the MFE towards a European currency was also made possible by working closely with Robert Triffin. It can be said that in the MFE Triffin found a political movement willing to back his proposals, and in Triffin the MFE found an authoritative international voice in favour of monetary reforms in a federalist perspective, both in Europe and worldwide. Robert Triffin was the economist who designed and directed the European Payments Union (EPU), an institution that was inspired by the Clearing Union proposed by Keynes in view of the Bretton Woods negotiations. The EPU, which was active from 1950 to 1958, made European currencies convertible, a precondition for the economic reconstruction of Europe and the functioning of the IMF.

¹⁴ *Ibidem*, p. 164.

¹⁵ *Ibidem*, p. 168.

¹⁶ *Ibidem*, p. 169.

Triffin is also known for his Dilemma, which predicted the breakdown of the Bretton Woods system.

With regard to European monetary integration, Triffin himself succinctly described his relationship with Jean Monnet, as initially characterised by “total disagreement.” In 1950 Jean Monnet was designing the ECSC and Robert Triffin was launching the UEP, which he considered superior to the subsequent EMS (European monetary system). Here, in summary, is the structure and the political effects of the monetary institutions created by Triffin: “The success of the EPU – recalls Triffin – quickly surpassed all hopes and defeated the initial scepticism of Jean Monnet and the objections of many other economists and financial and political executives. In 1957 Monnet enthusiastically supported my proposals to transform the EPU into a European fund of reserves where the central banks from each country in the Community would hold a common currency called the ECU, a growing proportion of their gold reserves and foreign currencies. In the final stage, the total conversion of their reserves into ECU would lead to the creation of the Central Federal Bank of the monetary, economic and political Union of Europe.” In 1969 Monnet phoned Triffin, then in Yale, to ask him to come to Paris urgently. In Paris, as Triffin recalls: “Monnet explained that he had convinced the Chancellor Willy Brandt to present our proposal to create a European fund of reserves at the first summit conference in The Hague. We had to get a move on and give the Chancellor all the documentation and economic statistics that the Ministry of Finance and the Bundesbank were stubbornly holding back”¹⁷. This brief summary given by Triffin of the role Monnet and he himself played at the summit in The Hague, is confirmed in Jean Monnet’s *Memoirs* in which he relates that despite the fact that currency “was still viewed as an almost magical expression of national sovereignty”, Brandt understood the proposal and “ensured that the proposal for Economic and Monetary Union and a European fund of reserves was accepted in The Hague,” as put forward by the Committee for the United states of Europe.¹⁸

The federalists of Turin were the first to react to the signs of crisis in the Bretton Woods system of fixed exchange rates. In a conference held in Turin in 1969, they presented a document entitled *For a European system of reserves*¹⁹ by Alfonso Iozzo and Antonio Mosconi. The same document

¹⁷ Ferrante, C. and Sloover, J., *Robert Triffin Conseiller des Princes*, Bruxelles, Editions Ciaco, 1990, p. 95-96.

¹⁸ Monnet, J., *Memoirs*, Paris, Fayard, 1976, p. 583.

¹⁹ Iozzo, A. and Mosconi, A., “Pour un système européen de réserve”, in *Le Fédéraliste*, No. 2, October 1969, p. 71-78.

was the basis for a conference, in 1970, in Turin, which was attended by Robert Triffin, Rinaldo Ossola and Mario Albertini²⁰. This was followed by a growing corpus of individual and collective theoretical contributions from “expert” federalists, up till the creation of the EMS (European Monetary System) in 1979. I will list the main ones here: the special edition of *Le Fédéraliste* in 1974, with texts by D. Velo, A. Majocchi, D. Moro, G. Montani; the conference “A currency for Europe”, held in Pavia in 1976, based on a preparatory document by G. Montani and D. Velo, with the participation of Giovanni Magnifico, economic adviser to the Bank of Italy and Manfred Lahnstein, director general of the Ministry of Finance of the FRG, Emil Claasen, economics professor at the University of Paris, Antonio Mosconi, director of the Fiat holding company, Giandomenico Celata from the CGIL trade union and Mario Albertini; the conference entitled “Monetary union with the prospect of a European election”, held in Turin in 1977, with the participation of Giovanni Magnifico, Robert Triffin, Gaetano Stamatì (Treasury Minister), Cesare Romiti (CEO of FIAT), Paolo Savona (Director of Confindustria), and Luciano Barca (PCI); the conference organized by the French section of the UEF, in Paris in 1977, with Robert Triffin, Giovanni Magnifico, Pierre Werner, Boyer de la Giroday, Rainer Masera and Michele Fratianni, and the conference organized in 1978 by the Dutch section of the UEF in Eindhoven on “A United and Democratic Europe, Now or Never”, with the participation of Henry Brugmans, John Pinder, Martin Bangemann, Pierre Werner, H. Vredeling and G. Montani.

This long list is by no means an exhaustive one, as can be seen looking through past issues of *Unità Europea* for that period, during which a host of initiatives were organised by local chapters of the MFE. Federalist pressure on the European political class culminated in the conference in Rome on 17-18 June 1977, entitled “Economic union and the question of the European currency” – organized by the MFE in collaboration with the European Movement, and chaired by Giuseppe Petrilli – by which time the direct election of the European Parliament had been decided. The personal relationship and mutual esteem between Albertini and Petrilli made for an outstanding collaboration between the two organizations, without which it would have been impossible to make the initiative a success. Over several months the two movements discussed both the topics and the guest list, which meant taking lengthy journeys abroad to present the aims of the conference to the various speakers. After the strategic success achieved with the direct election of the European

²⁰ All the reports were published in *The Federalist*, No. 1, 1971.

Parliament, the federalists set out to exploit the election to force the parties in the elected Parliament to give their immediate support to the proposed EMU.

The conference proceedings were published in full²¹, and one look at the contents page gives an idea of the intellectual and organizational effort that the Italian federalists put into it. In his introductory report Petrilli noted that the failed attempts to implement the Werner Plan, “should make us set aside the traditional opposition between economists and monetarists, as it no longer applies to the current situation,” referring to the division between those who wanted national economies to converge before the creation of the EMU and those who supported a fixed exchange rate regime as a condition of convergence. According to Petrilli, “the creation of the European currency must in the first place enable the globalization of the Community’s balance of payments, which in turn requires a set of income transfers within the integrated economic area. The latter are only conceivable in the presence of a European executive with autonomous spending power and powers to coin money, and therefore able to implement employment policies and investments on a European level, addressing the nodes connected to the presence of structural inequalities.”²² In his report Pierre Werner, after analysing the extrinsic and intrinsic causes for the failure of the plan he drew up in 1970, proposed breaking the deadlock by: “a) reconfirming the ultimate goal of Monetary Union, as described in the report of the Werner group, and setting a time limit for it, which could be extended by a few years if necessary. [...] b) deciding on a short-term state of ‘pre-monetary union’ characterized by a set of consistent measures to strengthen both economic and monetary solidarity, and policy convergence.”²³ In his report summarising the preparatory work carried out by the MFE study group, Alberto Majocchi framed the crisis in the process of European integration in the global context, namely the crisis of the Bretton Woods system. Europe contributed to this crisis, because “it was not able – in parallel with the growth of the Common Market – to take on a more active role in the system of international payments and by not taking part in financing world trade, it effectively sterilized monetary resources.” The system of generalized fluctuations, supported by economists like Milton Friedman, did nothing to solve the problems of Europe, or those of the rest of the world. In Majocchi’s view it was intended as a move towards a world “where the internal market

²¹ ME-MFE, *L’unione economica e il problema della moneta europea*, Milan, Franco Angeli, 1978.

²² *Ibidem*, p. 23-24.

²³ *Ibidem*, p. 39.

and the international market would self regulate effectively,” but this was not the case, because “the process of fluctuation, rather than reducing the imbalances that exist in the international market between weak currencies and strong currencies, tends to accentuate the gaps; [...] if there is not a democratic supranational authority with the power to control the economy and the currency, the result is the hegemony of the strongest state.”²⁴ In Europe the generalized fluctuation of currencies had disastrous consequences. “Fluctuation caused a sharp decline in the volume of trade in Europe and worldwide, and gave rise to a strong push for protectionism in our countries.” For this reason it was vital to relaunch the EMU. It should however be clarified that “in our analysis European currency does not mean a pure and simple return to a fixed exchange rate system. [...] We feel it is extremely important to strengthen the central budget of the EEC, devoting a quota of VAT income to the Community, [...] and making a commitment to use all Community funds for the purposes of equalizing and stabilizing cyclical trends.”²⁵

At the conference the MFE study group presented several introductory papers on key issues of an economic, social and political nature. The authors of these were: G. Montani, A. Majocchi, D. Velo, C. Romiti, A. Mosconi, A. Jozzo, G. Meroni, G. Usai and D. Moro. Communications at the Conference were presented by G. Magnifico (Economic Advisor to the Bank of Italy), R. Masera (head of the Monetary Department at the Bank of Italy), and E. Tuccimei (Vice Director of the Bank of Italy). I would like to mention just a few of the 27 addresses given, many by party representatives. Emilio Colombo, President of the European Parliament, after mentioning the increasing public attention to the direct election of the European Parliament, stated that he found “the approach to the elections for the European Parliament formulated by Professor Petrilli and put forward by the MFE, to be fair and just”; Gaetano Stamatii, the Treasury Minister, observed that in 1971 “there was no unified European response to the crisis of the dollar, and the snake in the tunnel construction revealed all its fragility, above all due to the fact that it fell to the weaker countries alone to support the weight of this construction, namely joint fluctuation.” Dirk Spierenburg, Chairman of the Dutch government’s Committee on “The European Union” stressed the crucial question of the relationship between monetary union and national budgetary policies. According to Spierenburg, “the Union would need to have regulatory powers over certain important elements of national budgets: a. annual admissible variations in the level of public spending; b. the permissible

²⁴ *Ibidem*, p. 46-7.

²⁵ *Ibidem*, p. 51, 53-54.

scope of budget deficit; c. the way the deficit could be financed. The Union's institutions should therefore establish the limits of fiscal policy, but governments would remain free to choose the items of the budget within these limits." Lastly, Spierenburg stressed the political importance of setting a date for the EMU, although its implementation could proceed in stages, "according to a previously established schedule." He concluded his speech with the following words: "I believe you were right to target the political parties, so that once the European Parliament is elected, its new members can immediately address the question of the EMU."

It is very difficult, perhaps impossible, to understand how and at what speed ideas travel among active politicians, namely those who are pressured by urgent issues and have to make decisions. The fact remains that in October 1977, in the European University of Florence, the then President of the European Commission Roy Jenkins, gave a speech on *Europe's present challenges and future opportunity*, which was decidedly in favour of creating the EMU. As he put it: "My belief is that we should use the period immediately prior to the first direct elections of the European Parliament, to re-launch a major public debate on what monetary union has to offer." He went on to pinpoint the issues, costs and benefits of Monetary Union. His observations on the relationship between monetary Union and European taxation were especially significant, observing that: "in the Community of today, we have a battery of financial instruments, but all of them rather small guns." Monetary Union required a quantum leap, namely a significant (but not impossible) increase in the European budget. As Jenkins recalled: "The overall magnitude of budgetary spending at the European level for this type of community has recently been estimated by a group of independent economists under the chairmanship of Sir Donald McDougall. As against present Community expenditure of the order of 1% of GNP, they estimated that very substantial progress on economic integration could be achieved with the aid of expenditure of 2 to 2.5% of GNP; they believed that a definitive monetary union might be viable with expenditure of the order of 5 to 7% of GNP. These are of course very large sums of money, which would have to be built up gradually by a transfer of some expenditure from national budgets and not by a superimposition, but they are quite small by the standards of the classic federations where the top tier of government takes 20 to 25% of GNP. There is therefore for the Community a new and realistic model for a highly decentralised type of monetary union."²⁶

²⁶ The speech by Roy Jenkins in Florence, his subsequent speech to the European Parliament and a summary of the McDougall Report were published in *Il Federalista*, No. 1, 1978.

The speech given by the President of the European Commission in Florence appeared to give further confirmation of that the political initiative conducted by the MFE had been successful. In the space of a few years the proposal for a European currency had been accepted by the Community's institutions. In addition to that the Commission, thanks to the McDougall Report, had provided a major missing piece in the general framework outlined by the federalists, by quantifying the minimum size of the EU budget, 2 to 2.5% of GNP, needed to create a pre-federal union, i.e. excluding defence spending. This proposal concerning the fiscal capacity of the Union, together with the strategy that emerged from the Conference in Rome, for a pre-monetary union, made the entire project even more realistic. It was time for the national governments to have their say and decide on the next steps to take.

A plan for "pre-monetary union" was in effect announced by the European Council in Bremen in July 1978, based on a joint proposal from the French President Valéry Giscard d'Estaing and the German Chancellor Helmut Schmidt. In December 1978 the European Council in Brussels finally decided to launch the European Monetary System (EMS), namely a system of fixed exchange rates between the European currencies, which aimed to make Europe (then with nine member states) a zone of monetary stability in a world of floating exchange rates. Overall, it was a proposal that fell far short of the indications in the Werner Plan for the EMU, and the demands of the federalists. The EMS was a system of fixed exchange rates in reference to a central rate, the ECU (European Currency Unit), which is a weighted average of European currencies. What was new about this was that the European currencies no longer had the dollar as their point of reference, but a basket containing only European currencies. It was a timid step towards the full monetary autonomy of Europe, which only came about in Maastricht. The EMS also included weak solidarity mechanisms between the different central banks and, in theory, the creation of a European Fund of reserves, as Robert Triffin and the federalists had requested. However, due to the opposition of the Bundesbank this Fund (which would have been the first step towards European monetary sovereignty) was never established²⁷.

The establishment of the EMS was the end of the first crucial stage of the federalist struggle for a European currency. In Italy it was rekindled once more in 1978, when the question of Italy acceding to the EMS arose. As it meant a return to fixed exchange rates and a policy of

²⁷ On the creation and development of the EMS, see Gros, D. and Thygesen, N., *European Monetary Integration. From the European Monetary System to European Monetary Union*, London, St. Martin's Press, 1992.

budgetary rigour, there were protests against Italy joining the EMS from the protectionist ranks, including Confindustria, various trade unions, certain economists (especially Keynesian economists), some political parties and even the Bank of Italy. The MFE reacted strongly, and counted on the support of Altiero Spinelli, who by then was a member of the Italian Parliament and did not hesitate to speak out against the PCI, which wavered between the new prospect of Eurocommunism and safeguarding the interests of national trade unions. In the end, however, Italy joined the EMS partly thanks to a special clause enabling a less stringent exchange rate constraint.²⁸

In the run-up to the first universal European elections, the European Union of Federalists (UEF) pointed out to Europe's citizens the close relationship between the European election and the construction of a European government. In a motion of March 1979 the UEF Federal Committee, having approved the report presented by its President, Mr Albertini, proposed: "a) the need to intensify propaganda for the European currency, for a Community budget appropriate to the situation, for the creation of a European government; b) the completion of an agreement between MEPs and federalist forces in order to raise the profile of the work of the European Parliament; c) a commitment to establish genuine European political parties."²⁹ A European currency, European budget and European government therefore became the central objectives of the federalist strategy for exploiting the new supranational democratic power gained with the direct election of the European Parliament.

From then on, until the end of the first term, the federalists focused their attention on the constituent project championed by Altiero Spinelli in the new European Parliament. The MFE and the UEF attempted to play an active role in terms of public opinion on a national level, re-launching the battle for the constituent initiated by the MEPs. The "Draft Treaty establishing the European Union", voted for by a very large majority in February 1984, on the eve of the second European election, effectively created a democratic government for the economic and monetary union, given that foreign policy and defence were still seen as a potential competence, temporarily to be handled by national governments. The Draft Treaty stated that "The Union shall have concurrent competence for the progressive achievement of full monetary union" (article 52); moreover it granted co-decision making power to Parliament and the Council (by majority vote) on its own financial resources, with the

²⁸ On the issue of Italy's accession to the EMS see Pistone, S., *op. cit.*, p. 96-99.

²⁹ The resolution was published in *Il Federalista*, No. 2, 1979, p. 142-143.

authority to issue loans (article 71). Ultimately, bearing in mind that the Commission would effectively become a government, supported by the majority vote of the European Parliament (article 25) it appears legitimate to conclude that the European Union would shortly become “the democratic government of the economic and monetary union,” therefore not yet a complete European Federation, but at least a “pre-Federal” union. Unfortunately, the differences within the European Council and the weakness of the countries in favour of the proposed European Parliament, especially France, Germany and Italy, enabled opposition from Britain and Margaret Thatcher to gain the upper hand. So a few years later, following the fall of the Berlin wall, the reunification of Germany and the disintegration of the Soviet Union, the European Union took faltering steps towards creating a precarious EMU with an institutional set up that was sorely lacking in democratic terms.

3. Taking Stock of the Past and Looking to the Future

Nearly half a century after the events discussed in the previous paragraphs, we can try to formulate a few considerations on the soundness of those strategic proposals and the effectiveness of the action taken by the MFE.

Within the MFE the strategy of constitutional gradualism has often been misunderstood. Some have misinterpreted it as a strategy of ‘small steps’. This interpretation is not correct because in this regard Albertini was very clear: the question regards making a (provisional) state to make the (federal) state. This means that constitutional gradualism is about coming up with institutional innovations that call national sovereignty into question, and therefore currency and taxation too, in terms of the economy; foreign policy and defence, in the context of collective security, and lastly a democratic government, in terms of the constitutional basis of the federal state. This needs to be clarified in order to understand the difference between constitutional gradualism and Monnet’s version of mere gradualism alone. Jean Monnet never connected the creation of the European currency to the constitutional role of the European Parliament. Of course small steps are possible within a constitutional process, such as creating a banking union after setting up the European currency and the European Central Bank. However, in this case it was merely a question of acknowledging the fact that European governments, in an awkward attempt to retain certain powers of control over their national credit systems, were not ready in Maastricht to do what economic theory and a

number of economists were proposing. In this respect, it is also incorrect to call the euro a “currency without a state” because the EMU is already a piece of a state, i.e. a state set up to make a state (i.e. the Federation). It would be more correct to say that the euro is a currency without a federal budget and a federal government: a limping EMU, a monetary area with no protection from opposing external forces, like the financial crisis of 2008, and internal contradictions, like the crisis caused by overly indebted national economies and clashes between European governments over the criteria for sharing the risks and the costs of convergence, as shown by the disputes between the German government and the Greek government.

Misunderstandings and heated debates have also arisen over the notion of the “inclined plane”, which has been interpreted as a deterministic conception of the integration process. Yet with regard to this notion too, Albertini explicitly clarified that it was the product of circumstances rather than political will. Political action, i.e. a project supported by political will, always arises in a context characterised by circumstances, events and forces that oppose change, and these have to be taken into consideration by those attempting to change the course of events. There is nothing deterministic about this idea. The notion of state is crucial to modern politics, because it defines a set of conditions that are destined to endure, like the institutional structures of government, the economy, the legal system, defence, etc. If we accept that currency is an essential component of the state, then it can also be said, without contradictions, that the creation of the EMU and the direct election of the European Parliament place the political process of integration on an inclined plane³⁰. This does not mean that the EMU, European Parliament and whole of the EU is destined to last forever. The Soviet Union disintegrated, the European Union may also break up at some point.

I believe that the proposals made and the experience gained during that period in terms of both the constitution and the architecture of government, are crucial when it comes to understanding the present crisis in European integration, and identifying what needs to be done to

³⁰ The expression “make a state to make the state” leaves a margin of ambiguity when it comes to interpreting the existing situation. To what extent can the EMU be described as a state? Here we have opted to see the creation of the European currency and the ECB as the embryonic form of the European state, because currency is not just the symbol of national sovereignty, but also an effective power of government. This interpretation was also adopted by the MFE which, after the Maastricht Treaty, approved a resolution affirming that: “the heads of state and government have acknowledged the construction of Europe to be state-like in nature” (*Unità Europea*, No. 215, January 1993).

complete it and identify the action required to introduced federalism on a global scale. To sum up the key elements: 1) constitutional gradualism, with the European Parliament as a permanent constituent, because the construction of a federal European state requires more than just a single act, but a constituent process; b) identifying the main objectives of the currency, budget and democratic government of the EMU as a preliminary step before foreign policy and security. These aspects of federalist strategy show us that national governments have succumbed to the forces defending national interests, confusing the protection of corporative interests with the protection of the common good of Europe's citizens. If we take the Schuman Declaration – which views the ECSC as the first step towards a European Federation – we would have to say that the national governments have betrayed the founding pact. Below I will list just a few of the 'compromises' with nationalism.

One of the first omissions was not having ratified the 'Draft Treaty' of the European Union approved by the European Parliament in 1984 on a national basis. It should be recalled that article 82 of the Spinelli Project stated that it should be ratified when "a majority of the member states of the Community, with a population representing 2/3 of the total population of the Community" had approved it. In other words, the European countries in favour of it, France, Germany and Italy in particular, could have decided to go ahead without Great Britain, but didn't. The consequence of this was that when the Berlin Wall fell, the Community lacked a government or effective tools to continue the process of expanding eastwards, including taking action to prevent the breakdown of former Yugoslavia. The second serious omission came about at Maastricht, when it was decided to create a monetary union without a European budget and a democratic government. The consequences of this were not immediately evident, but emerged strongly with the financial crisis of 2008, which we will discuss shortly. Lastly, the third omission was the convoluted procedure for ratifying the European constitution project formulated by the European Convention in 2003. The Constitution would have represented a step towards the creation of a European federal state, both symbolically and in view of a number of institutional innovations. First of all the governments decided to add a huge number of additional articles regarding the policies of the Union to the existing 59, basically making the Constitution incomprehensible to the citizens, and then they called for a unanimous ratification, ignoring the negative outcomes of this in the past. This gave the Eurosceptic parties or minorities, as was evident in France, a formidable weapon against their national governments. A process of ratification by majority,

as detailed in the Spinelli Project, would have highlighted the fact that the majority of citizens and states in the Union were in favour of the European Constitution. This procedure would finally have revealed the “will of the people of Europe”. Perhaps European governments feared that the spectre of a European people would finally materialise.

Before focusing on the fourth shortcoming, namely how the sovereign debt crisis was handled by the European Council – the real government of the EU – it is worth looking at the historical and political causes for the renewed vigour of nationalism in Europe, and the advent of political forces that are not only Euro-sceptic, but openly anti-European. Ultimately, since the outset, in the days of the ECSC, the European project has come up against explicit nationalist opposition, like that of de Gaulle, or a veiled form, like that of the political parties sensitive to national protectionism. Yet while the first stage in the process of constructing Europe took place in the context of the cold war, the current stage is unfolding in an entirely new global scenario: the decline of the American superpower and the rise of new powers like China, India and Brazil, in short, a multi-polar world order. We should remember that the end of the cold war was preceded by a period of *détente* between the superpowers, despite the fact that Reagan’s stance against the “evil empire” had rekindled the arms race. It was the arrival of Gorbachev that radically changed the terms of the problem. Perestroika and Glasnost would never have been successful *in the context of the cold war*. The path towards the democratization of the Communist system and of the Soviet Empire, together with the conversion of the command economy into a market system would not have been successful if the USSR had been forced to use growing portions of its production to cover unproductive expenditures, such as weapons spending. This was why Gorbachev consistently supported a plan of bilateral nuclear disarmament between the two superpowers and the transition from the Soviet imperial system towards the notion of a common European home, with the idea of opening up to peaceful cooperation with the European Union. This project failed, because after the first democratic elections of the Soviet Parliament and the republics, the conservative forces within the Soviet Union’s Communist Party, faced with drastically reducing their power and the transformation of the Empire into a confederal system, reacted with a coup d’état which fatally weakened Gorbachev. Shortly after that, the nationalistic revolt of the ‘sovereign’ republics marked the end of the USSR. The failure of Gorbachev’s reform had serious consequences internationally, because it reawakened the spectre of nationalism in Eastern and Western Europe, and Asian countries. The fall of communism meant not only the victory

of democracy over communism, but also that of nationalism over a project of peaceful cooperation in Europe and globally. It was this period that saw the creation of secessionist and anti-European parties, like Italy's Northern League, based around the mythical sovereignty of the Padania region.

The cold war and period of military standoffs between the US and the USSR were characterized by an ideological confrontation between democracy and socialism, two great ideologies of human emancipation. This relationship between the imperial power of the superpowers and ideology also helped curb – though in many cases hypocritically, as always happens when power politics are not reconciled with the values they claim to defend – the aspirations to domination of the two superpowers and their allies: in the various continents, from Latin America to Africa and Asia, they were forced, at least nominally, to pay tribute to the values of secularism, democracy and social justice. The end of the cold war spelled the end of respect for its ideological superstructure. The slow path towards a multipolar world dominated by a number of major powers (but no longer superpowers) gradually crushed political and social cohesion in the intermediate world, in areas where the formation of the modern state is more fragile, such as the Middle East and Africa. This has led to the creation of movements of buccaneers and tribal leaders that exploit the weak cohesion of the various states and the religious beliefs of the local people. Alongside nation-states seeking to assert themselves in the world there is now the adventurism of terrorist groups using modern war technologies to exterminate their opponents.

Europe's governments do not seem to realise that these structural changes are taking place. They have tackled the idea of extending the EU eastwards, asking NATO to extend its military protection to the East, and in the process angering Russia, which has responded by splitting the Ukraine, and also irritating the United States, increasingly reluctant to pay for defending wealthy countries. They have virtually ignored the hotbeds of tension in the Mediterranean, starting with the Israeli-Palestinian crisis, and the attempts of as yet weak democratic forces in Arab countries to break free from dictatorial regimes. Today European countries are facing massive waves of political and economic immigration. Despite the creation of the euro, European countries vote separately in the IMF, instead of presenting a unified front both in the IMF and the UN Security Council, to achieve effective European foreign policy on a global scale. Lastly, with regard to the ecological crisis, the EU has clung to the illusion that a sound European environmental policy would suffice to tackle what is actually a global issue, ignoring the fact that effective UN

action, based on a binding long-term plan for all Member countries, is the only way forward.

Against this depressing backdrop of misrule by arrogant national governments, it is not difficult to understand the reasons for the fourth shortcoming we mentioned. At the beginning of the financial crisis in 2008, European governments were convinced that the Treaty of Lisbon guaranteed the EU an almost definitive institutional structure. Following negative referenda against the draft European Constitution and the ratification of the Lisbon Treaty, governments were no longer willing to consider further institutional reforms, and the European Parliament passively accepted this stalemate. This consolidated the view that the EU was a stable, permanent confederation. A confederation of sovereign nation states.

So when financial crisis struck, the Union resolved to deal with it using the existing tools at its disposal. The Lisbon Treaty had partly increased the powers of Parliament and the Commission, but also those of the European Council, with the establishment of a permanent President. Soon the Commission and Parliament were confronted by the decisions taken by a Council increasingly determined to impose a severe policy of austerity. Within the Council, France, which had played a leading role since the Foundation of the European institutions, had to hand the reins over to unified Germany: nobody challenged the fact that when managing an economic crisis the strongest economic power should take charge. A hard line was therefore taken with spendthrift nations, namely those with excessive debts and deficits, despite the fact that some of the countries in crisis, such as Ireland, Spain and Portugal, had their accounts in order when the crisis first loomed. The objective was not to get the recovery process under way as quickly as possible, tackling the issues country by country, in the context of a European government supportive of the weaker countries – although Greece and Italy deserved a call to order – but only to impose a Nessus shirt on national budgets. The federalists immediately pointed out that monetary Union without a federal budget and a democratic government needed first of all to make the reforms necessary to address the shortcomings in European governance, in the first place the lack of a policy of sustainable growth and economic and social cohesion. Yet no governments heeded this message, despite the fact that many economists and political commentators were calling for the same things.

It cannot therefore come as a surprise that after six years of recession and mismanagement of the Union in all Member countries, Germany included, there are increasing popular protests against European

policies, and anti-European parties have formed. The economic crisis has turned into a political crisis and the future of the European Union is at risk. If we return to Albertini's strategic observation that introducing the European currency meant making a state to make a state, we can say that EMU is a badly designed state institution, because no monetary union, common to a group of democratic countries, with modern social policies, can work if member countries are not willing to sacrifice the average income of its citizens on the altar of monetary stability (with deflationary policies, namely consumer spending and wage compression, to regain competitiveness). A monetary union is not a system of fixed exchange rates: it is a pact between countries that decide to equip themselves with common tools, thus not only a currency but also federal taxation, in other words a European budget big enough to generate investments, growth, employment and economic and social cohesion.

For these reasons it can be argued that Europe's current architecture has produced a serious political crisis. European democracy is in crisis because it is no longer possible to solve national problems without democratic European institutions attentive to the criticism from and needs of Europe's citizens. On one hand, we have a state without democracy: the European Council cannot be challenged by a vote of no confidence by any parliament. On the other we have democratic European bodies, the European Parliament, with representatives of parties elected by the people, which cannot ask the Commission for effective policies because of the minuscule European budget. Perhaps it is also due to this that throughout the crisis the European Parliament passively accepted the guidelines imposed by the European Council. The paradox of European democracy, a state without democracy and a democracy without a state, generates obvious dystonic public debates. Let's take the case of Greece and its debt. There is no doubt that Greece has been badly governed in the past. Yet we are attempting to solve a political problem using only economic means: blackmailing lenders, which have forced the Greek government (right and left) to accept draconian measures, causing the GDP to fall by about a third over five years. The European Council should be reminded that the Greeks are also European citizens and as such are entitled to use the euro as their currency, as they have democratically opted to do. It is unlawful to threaten expelling them from the EMU. Sicily and Lazio are also poorly governed and deserve to default. It is one thing if the government collapses – a political event that should be taken into account in a constitution – but quite another to challenge one of the pillars of the Union, namely the integrity of the EMU. When the cities

of New York and Detroit defaulted, nobody called the integrity of the dollar, as a currency area, into question.

The European Union must become a democratic state, and it should become a Federation, to take on internal and international challenges. If this does not happen within the next few years the world's great powers will understand that the spirit of disunity prevails over that of unity, and will exploit these divisions to convince some of the member states to abandon the sinking ship: *divide et impera*. As classical Greece was plundered by the Macedonian and Roman Empires, the European Union will become a land of conquest.

4. Politics, Economics and Federalism

In this closing section I would like to talk about the resistance to and misunderstandings of federalists' action among both the political classes and in academic circles. In principle this issue is connected to the study of the ideology, and has long been discussed by federalists. In short, it could be argued that the power of the dominant ideology, namely the set of ideas supported by national governments to support their European policies – or lack thereof – relegate federalist thinking and proposals to the utopian realm, an illusion, or future scenario that will never come to pass. Karl Mannheim expresses this very clearly: “Whenever an idea is called utopian, it is almost always by a representative of a past era. [...] It is always the dominant group, in full agreement with the existing order, that determines what is to be regarded as utopian, while it falls to the group that is emerging or runs counter to the existing situation to determine what should be regarded as ideological”³¹. Another way of saying that history is always written by the victors, or at least by those who have not yet fallen from power, albeit in a precarious position. The federalists have to be aware of this harsh reality that condemns them to a sort of limbo on the margins of political, social and intellectual life. Within a nation state, minorities who are fighting for national power can take part in elections and gain public visibility when they enter parliament, even with just a handful of seats. Federalists oppose the nation state in general, not a specific government, so they have no way of getting their ideas across to the public at large, except in exceptional circumstances, as happened when Altiero Spinelli, in the European Parliament, was recognized as the leader of a political project that had the potential to change the future of the Union.

³¹ Mannheim, K., *Ideology and Utopia*, London, Routledge, 1991, p. 183.

These brief comments on the relationship between ideological and utopian thinking can help us see that the federalist battle must not be fought purely in terms of activism and contingent political action, but also in terms of providing an intellectual critique of the dominant ideas, as happened during the 17th and 18th centuries when the enlightenment harshly criticised the *ancien régime*. This is a huge task that requires a convergence of cultural players (philosophers, historians and social scientists) that goes beyond a single movement of militants, however determined. Indeed something of the sort is taking place, because the crisis of the European Union has led to many commentators discovering federalist ideas. I would therefore like to make a few remarks on the lessons that can be drawn from events that we have talked about.

In the light of the essays written by federalist economists ahead of the meeting in Rome³², and those which were used to introduce the conference³³, it can be seen that they provide a comprehensive analysis of the construction of economic and Monetary Union that still remains topical today. The crisis of the European Union is predicted in detail in those papers, starting with the role of the European Central Bank, which has to be independent from the national governments and cannot on its own solve the problems caused by the lack of fiscal union. Yet they all but ignore a paradigm that has become a key element in the academic analysis of those same issues, namely the theory of optimum currency areas. This was clearly not due to naivety or dogmatism on the part of the federalist economists, but rather a preference for an alternative approach that seemed more appropriate to the study of that problem. The Werner Report had provided a satisfactory definition of economic and monetary union, clearly specifying that: a) monetary union was not to be seen merely as a system of fixed exchange rates, but a politically irreversible decision; b) alongside monetary union there had to be fiscal union, with an increased European budget (as the subsequent MacDougall Report reiterated); c) there had to be a central decision-making power, namely a European government. For this reason the federalist economists' arguments were directed against those (the monetarists), who defended a return to a traditional fixed exchange rate system, as the solution to the problem of the convergence of European economies, and against those who defended the idea of flexible exchange rates (some American economists like Milton Friedman, and almost all the European Keynesian economists, under the illusion of being able to maintain the practice of

³² See *Le Fédéraliste*, No. 1, 1974.

³³ Published in the ME-MFE book, *L'unione economica e il problema della moneta europea*, *op. cit.*

competitive devaluations). The federalist economists adopted a conceptual framework formulated by Lionel Robbins in his pre-war writings on the need for an international economic order based on a central bank and a federal system of government.³⁴ The optimum currency areas approach undoubtedly provides a number of structural elements that can help us understand the phenomenon of monetary integration, such as the need for more flexibility in the labour market and the mobility of labour and capital, but leaves out some decisive political aspects, such as the role played by federal fiscal union in guaranteeing the convergence and very survival of the monetary union, which is the political responsibility of the federal government. Indeed the history of academic debate on the theory of optimal currency areas can be traced³⁵ without considering the problem of the construction of the Federal state as the indispensable political setting where a supranational currency can come into existence and reach its full potential. This gap between economic theory and political theory is even more marked in the theory of the international economy as it is presented in textbooks, in terms of both trade and currency.

There is therefore an obscure relationship between economic theory and political theory that has to be resolved. To understand how this came about, we must return to an important observation made by Robbins, who denounces “the error of classical economists”, namely that of entirely ignoring the need to complete the institutional analysis they carried out admirably as regards the functioning of the domestic market (which, as Robbins observes, they by no means view as a spontaneous order but as an order that requires a government and a legislative system to organize the competition between the different productive forces), by analysing the workings of the international order, which is on the contrary viewed as a spontaneous order, based on the implicit hypothesis that the various governments set out to pursue a harmonious system of relationships, even when this harmony would require sacrificing their national interests.

The error of classical economists was repeated and compounded³⁶ by the founders of modern marginalist, or neoclassical economics. In the

³⁴ See Robbins, L., *Economic Planning and International Order*, London, Macmillan, 1937.

³⁵ Masini, F., “A history of the theories on Optimum Currency Areas”, in *The European Journal of the History of Economic Thought*, Vol. 21, No. 6, December 2014, p. 1015-1038.

³⁶ While they perfected their analytical techniques such as those based on the principle of marginal utility, the production function and the general economic equilibrium, there was complete disregard for the institutions governing the international market, which is conceived as operating in conditions of competition (more or less perfect) in theoretical models, in the implicit context of a set of nation states. Unfortunately

works of Stanley Jevons, Léon Walras, Carl Menger, Alfred Marshall and Knut Wicksell we find but few references to the issue of the international economic order and the political institutions required to make it work. Indeed the gold standard came about in the course of the 19th century as a spontaneous order, that no one had designed and which operated thanks to the common interest of all the countries involved. There was no need to study why and how it had come about: the theory of the benefits of free trade appeared to cover it quite adequately. It was only after the great depression of 1929 that people began to understand that an international economic order could only survive if the countries involved were willing to abide by certain rules of conduct. This awareness resulted in the Bretton Woods system and rules for international free trade guaranteed by the post-war hegemony of the United States.

This error in economic theory was accompanied by a parallel misconception in the theory of international relations. Various modern texts, like those of Hans Morgenthau, Raymond Aron and Kenneth Waltz³⁷ make crucial observations on the relationships between national sovereign states, study systems of states (bipolarism, multipolarism, imperialism, colonialism, etc.) and consider the hypothesis of a world state or world federation, but only to relegate it to the realm of utopian thinking. Contemporary politics evolves “pragmatically” in the arena of power relations between sovereign states and the defence of national interests (the balance of power). For this reason, even when considering the phenomenon of economic integration, of which European integration is a notable example, the idea of completing economic integration by creating a federation is never discussed as a “realistic” possibility. Only since the 1970s, after the collapse of the Bretton Woods system, has an academic approach been formulated with the explicit goal of moving beyond the vision that divides international economics and international relations into watertight compartments. This is International Political Economy (IPE), a new scientific paradigm, which has generated a vast amount of literature³⁸. The limit of this approach, however, is that the premise of national sovereignty is never challenged, meaning that the

reality differs from this imaginary construction. When international economic crises arise the harmony vanishes and neoclassical economists resolutely search for a new, more perfect, general model.

³⁷ Morgenthau, H., *Politics among Nations. The Struggle for Power and Peace*, New York, McGraw-Hill, 1985; Aron, R., *Paix et guerre entre les nations*, Paris, Calman-Lévy, 1984; Waltz, K., *Theory of International Politics*, New York, Newbery Award Records, 1979.

³⁸ For a review see Cohen, B. J., *Advanced Introduction to International Political Economy*, Cheltenham, Edward Elgar, 2014.

interesting analyses of the effects of economic integration on the relations between states, and, vice versa, the effects of cooperation and conflicts between states on the integration of the international market has been developed in a conceptual framework which at the most hints at a new international economic and political order, but with no clear vision of an alternative to the international system in crisis.

Dissatisfied with these approaches to the study of the relationship between economics and politics, I have explored the consistency and relevance of a new point of view, *Supranational Political Economy* (SPE). The specific nature of the European construction, starting with the ECSC, lies in its supranational structure, namely by a number of states deciding to give up some sovereign powers, which are assigned to a supranational 'government.' For these reasons, European federalism is different from all existing models of federal state. To the extent that the EU progresses towards greater unity, supranational federalism will differ greatly from traditional federal models, almost all characterized by a strong concentration of power at the central level. The path taken by institutional progress has been and will be characterized by constitutional gradualism, as Albertini theorized with regard to the struggle for the European currency. Now it is a case of generalizing that insight. Supranational political economy represents a new scientific paradigm³⁹ which can be used both to delve deeper than the current academic literature into the process of European integration, and to design the first supranational institutions of a world that is becoming multipolar, yet not able to significantly reform the old international institutions inherited from the cold war. The panorama of international politics is increasingly worrying: in place of the bipolar peace guaranteed by the ideological and military confrontation of the two former superpowers there is increasing anarchy fuelled by the collapse of states artificially created by European colonialism in Africa and the Middle East. Moreover, centuries of unbridled industrial development are set to result in the systematic destruction of all forms of life on the planet, unless we make a serious commitment to sustainable development on a supranational scale. Absolute national sovereignty, which in the past represented the crucial guide for political action, has now become a major obstacle to cooperation between peoples in pursuit of the supreme common good: the survival of the human species, thanks to the peaceful coexistence

³⁹ For more on this, see my essay "From National to Supranational: A Paradigm Shift in Political Economy", in Iglesias-Rodriguez, P., Triandafyllidou, A. and Gropas, R., *Shifting Paradigm After the Crisis. Legal, Economic and Political Perspectives*, New York, Palgrave, 2016.

among ancient civilizations, finally united by shared cosmopolitan values. The supranational principle allows us to design institutions capable of bridging the gaps between different national cultures and peoples. It is not a question of abolishing the nation states of the past, but opening them up to fruitful cooperation to achieve common goals.

These developments show that the experience of years of struggle for the European currency contains unexpected seeds. Yet it is necessary to specify a limit to the supranational political economy approach and identify a problem when it comes to extending the notion of constitutional gradualism to the global political order. The first obvious limitation is that the economic-political approach must be accompanied by a political-economic approach, in the sense that while the economic-political approach sets out to explore the benefits of the creation of supranational institutions to govern the economy to foster the integration of national peoples, the political-economic approach should aim to explore the issues facing supranational institutions when guaranteeing the security of national peoples and the relationship between national democracy and supranational democracy⁴⁰, because as the case of the crisis in the European Union shows, if you create supra-national state institutions, such as the EMU, important tools of national government are taken away from the citizens, and this must be compensated for by providing democratic tools of government on a supranational level.

The problem regards the relationship between the construction of a European Federation and the building of a new, federal world order. As the MFE succeeded in playing a ground-breaking role in the process of European integration, the European Union, to the extent that it becomes a model for and an example of a democratic supranational government, will lead the way in terms of spreading of federalism in the world. Yet although European integration is moving towards “an ever closer Union”, it will never represent an ideal model for the national peoples of other continents, because Europe will necessarily prioritize its own interests above those of other countries, until the foundations are laid for relations based on a supranational rule of law and democracy. The European

⁴⁰ Some academics, like D. Held (*Cosmopolitanism. Ideals and Realities*, Cambridge, Polity, 2010) and D. Archibugi (*The Global Commonwealth of Citizens. Toward Cosmopolitan Democracy*, Princeton, Princeton University Press) posit the need for a cosmopolitan democracy. This general aim is correct and goes in the direction sought by the federalists. However, their proposal does not entail the creation of a democratic world government, namely the institutions needed to steer the economy and power relations between states on the planet. If democracy is conceived as the self-governance of citizens, it is not clear why sovereignty should be limited to the national level.

Federation is therefore an imperfect and partial model of cosmopolitan federalism; a state set up to make a state (the world federation). This remark in no way detracts from the value and importance of the political efforts made by European federalists. We should be aware that the Ventotene Manifesto and the initial successes in the construction of the European Union started a process of change in the international political order that will be as lengthy, uncertain and troubled as the enlightenment, the real dawn of the modern age. All each of us can do is add our grain of sand to the foundations of a building we will never see the upper floors and roof of. This is the issue that has haunted our generation and that, most likely, will also burden the lives of our grandchildren.

L'euro entre problèmes de naissance et incertitudes identitaires (1991-2016)

Carlo Degli ABBATI

Les contenus monétaires du premier pilier du traité de Maastricht – entré en vigueur le 1^{er} novembre 1993, après une phase difficile de ratification – sont la conséquence du trade-off franco-allemand qui comportait la conversion de l'euro de monnaie commune à monnaie unique contre l'extension au système européen du mode de fonctionnement de la Bundesbank en tant que banque centrale. Par conséquent, en pleine cohérence avec l'attribution à la BCE de la seule fonction monétaire, ni le traité ni le statut de la BCE n'ont confié à celle-ci une responsabilité en tant qu'institut prêteur de dernier ressort. Cette circonstance a, depuis le début du fonctionnement de la monnaie unique, privé la BCE des moyens nécessaires pour s'opposer de manière anticyclique aux tendances défavorables des marchés. L'inversion du cycle économique mondiale, amorcée par la crise américaine des « subprimes », s'étant manifestée à compter de 2008, la navigation du système monétaire européen s'est avérée depuis lors soudainement complexe. Cet article vise à illustrer les difficultés initiales de gestation de l'euro, les différentes mesures adoptées au niveau des institutions et de la BCE pour parier à ses difficultés, les perspectives actuelles de la monnaie unique, ainsi qu'un aperçu des conséquences économiques fortement négatives pour les EM périphériques de la zone euro découlant de l'imparfait fonctionnement du système monétaire européen.

1. Les difficultés imprévues de gestation (1991-2002)

Construit autour d'une monnaie unique, appelée non plus ecu mais euro, le nouveau système monétaire européen naît en 1992 avec le traité de Maastricht comme matière du premier pilier consacré aux politiques communes¹.

¹ UE, Recueil des traités, TCE, titre VI, Politique économique et monétaire, 1993.

Mais son rôle de monnaie unique, et non commune, est dès le début l'effet d'une contorsion politique. La Commission présidée par Jacques Delors avait prudemment proposé une introduction graduelle de la nouvelle monnaie dans le concert des marchés monétaires internationaux. On avait imaginé d'abord une double circulation de l'euro (Jacques Delors voulait lui attribuer une dénomination plus liée à l'histoire européenne, l'appelant florin) à côté des monnaies nationales, la substitution de celles-ci par l'euro devant intervenir seulement à fur et à mesure de la progressive acceptation par les marchés de la nouvelle monnaie.

Mais entre le projet de la Commission et la signature du traité de Maastricht étaient intervenus dans l'histoire de l'Europe deux événements tant énormes qu'inattendus : l'écroulement de l'Union Soviétique et la réunification de l'Allemagne.

Par conséquent, une nouvelle superpuissance régionale de plus de 80 millions d'habitants se formait au centre de l'Europe, prenant la place du réseau géopolitique des trois et, ensuite, des quatre puissances moyennes autour desquelles s'était acheminé bon gré (pour France, Italie, Espagne) mal gré (pour la Grande-Bretagne) le processus d'intégration européenne.

En particulier la *Wiedervereinigung* était destinée à déplacer les priorités de la nation allemande en Europe, d'une appartenance disciplinée à l'Union à la réussite du processus d'intégration national BRD/DDR couplée à la réussite de l'intégration de la nouvelle entité étatique dans le contexte commercial mondiale. Un contexte que les États-Unis avaient voulu totalement déréglementer, dans le cadre du cycle Uruguay 1986-1994 du GATT, pour permettre à leurs multinationales de produire désormais à économie d'échelle de la planète.

Bien avant l'introduction de l'euro, l'élévation de la part de la Bundesbank allemande en décembre 1991 de la rémunération du Deutsche Mark à 4%, quand le dollar était rémunéré à 1% et le Système monétaire européen (SME) prévoyait une bande d'oscillation des parités centrales entre les monnaies de (plus ou moins) 2,25%, avait prouvé comme l'exigence de l'afflux de capitaux vers l'Allemagne réunifiée était devenue pour Berlin beaucoup plus importante que le maintien d'un système monétaire européen viable. L'abandon du SME de la part de la lire italienne et de la livre britannique en septembre 1992, après une vaine et coûteuse opposition aux larges fluctuations des parités respectives, en fut une conséquence bien connue.

Mais il y eut plus que la rémunération du DM à influencer la situation monétaire européenne. La décision monétaire de la Bundesbank s'accompagnait le même jour de fin décembre 1991 à la décision du gouvernement fédéral de procéder à la reconnaissance unilatérale de l'indépendance de la Slovénie et de la Croatie, dans le cadre de la progressive fragmentation de la République fédérative socialiste d'Yougoslavie. Cette décision comportait la première fracture, depuis la fin de la Deuxième Guerre mondiale, en matière de politique étrangère entre l'Allemagne et la France de François Mitterrand, peu disposé à assister à la fin accélérée d'une république socialiste, liée à l'histoire de France par la longue alliance traditionnelle avec la Serbie. Dans ces conditions, aux yeux de la France, la survie du Deutsche Mark (DM) dans le cadre d'une monnaie commune européenne, devenait intolérable. On devait passer à une monnaie unique, à travers un marchandage bilatérale avec l'Allemagne, d'ailleurs peu orientée à voir la mise hors circulation de sa forte et stable monnaie.

L'accord de compromis franco-allemand, à l'origine de la composante monétaire du Traité de Maastricht, comportait en échange de la disparition de la monnaie allemande, comme « contrepartie », *Austausch*, une compensation équivalente reconnue au gouvernement de Berlin : le clonage à l'intérieur du projet de système monétaire européen du modèle allemand de Banque Centrale, la Bundesbank².

Or, le système monétaire allemand avait été conçu après la Deuxième Guerre mondiale, en 1945, par les puissances occupantes réunies dans le comité quadripartite interallié, formé par États-Unis, France, Grande-Bretagne, URSS, selon des préoccupations politiques sur l'avenir de l'Allemagne qui en avaient déterminé une structure différente de toute autre système monétaire européen.

L'idée de base des puissances occupantes était d'éviter à tout prix la répétition du cadre d'inflation galopante qui, pendant la République de Weimar, avait constitué le milieu de culture pour l'affirmation politique du nazisme.

Il fallait donc la création d'une banque centrale autonome, appelée à l'origine *Bank Deutscher Länder*, monopolisant comme fonction exclusive le contrôle de la masse monétaire, en vue de la maîtrise de l'inflation, aux dépens du nouveau gouvernement fédéral auquel restait, en matière monétaire, comme unique compétence la politique de change.

Dès le début, restait donc soustraite à la *Bank Deutscher Länder*, devenue ensuite *Bundesbank*, en particulier la fonction typique de tout

² *Idem*, articles 105-115.

banque centrale, celle d'être le prêteur de dernier ressort, le pourvoyeur discrétionnaire de liquidités aux institutions financières ou au marché.³ Une intervention censée s'orienter à la sauvegarde de la valeur de la monnaie et des activités financières devant les crises de liquidité, les risques systémiques et la contagion financière, à savoir les possibles faillites du marché.

Dans la hâte, on avait aussi imaginé du côté français, comme contribution à l'arrangement bilatéral, le bien connu paramètre du -3% / +6% du PIB comme déficit/surplus annuel maximal du budget des pays participants. On avait défini, comme prémisses indispensables à l'introduction d'une monnaie unique, que les économies des pays participants auraient dû converger sur les trois axes du niveau d'inflation, du déficit/surplus du budget national, ainsi que du niveau maximale de la dette consolidée par rapport au PIB. Les conditions qui devaient devenir ensuite les composantes du « pacte de stabilité » repris par le Traité de Lisbonne de 2007. D'ailleurs, le critère de la convergence préalable des économies des états participant à la future monnaie européenne avait été déjà désigné par le Plan Werner de 1970, approuvé par le Conseil des ministres présidé par Pierre Werner, le premier ministre luxembourgeois, sur la base de la proposition que la Commission avait approuvée en 1969, étant Raymond Barre le commissaire responsable des affaires économiques et financières.⁴

De cette manière, sur la base d'un compromis national bilatéral et d'une atmosphère euphorique sur l'avenir inévitablement radieux de la nouvelle monnaie européenne, le traité de Maastricht introduisait un euro sans prévoir l'assistance d'une effective Banque Centrale Européenne, légalement fournie de moyens pour s'opposer de manière anticyclique à tous les futurs trends défavorables des marchés, sans vouloir mentionner les hypothèses extrêmes de leur faillite.

Encore, au moment de l'approbation du Traité, il était désormais clair qu'à Genève, dans le cadre du cycle Uruguay du GATT, on s'acheminait vers le triomphe de la *deregulation*, de la déréglementation totale du marché du commerce mondial, d'après les desiderata de la délégation américaine, simple expression diplomatique des grands groupes multinationaux *export-oriented*.⁵

³ Pittaluga, G. B., *Economia monetaria*, Milan, Hoepli, 2012.

⁴ Rapport au Conseil et à la Commission concernant la réalisation par étapes de l'union économique et monétaire dans la Communauté « Rapport Werner », Luxembourg, 8 octobre 1970, Bull. CE, Suppl. 11-1970, p. 12-13.

⁵ WTO/OMC, *Textes juridiques : les accords de l'OMC 1986-1994*, OMC, Genève, 2016.

Cette ouverture imminente des marchés, qui coïncidait pratiquement avec le processus de réunification, avait convaincu la nouvelle capitale allemande que la stratégie même de réunification devait être accompagnée par l'insertion de l'Allemagne dans le nouveau cadre offert au commerce mondial par l'Organisation mondiale du commerce (OMC), qui d'ailleurs devait admettre en 2001 la Chine comme membre à part entière.

En d'autres termes, la réussite du processus de réunification devait s'accompagner d'une stratégie de flexibilité salariale, de délocalisation des activités industrielles à bas contenu technologique, d'une partielle déconstruction du système sociale étatique, afin de rendre le pays le plus concurrentiel possible sur le plan global.⁶

Cette stratégie, que l'on pourrait définir proche de la figure classique du dumping économique et sociale, à l'intérieur du marché unifié, consentie par l'Union dans le cadre des conditions tout à fait exceptionnelles d'un pays en réunification, faisait prévaloir en Allemagne une logique de croissance *export-oriented* qui était en opposition avec la stratégie de croissance des pays industriellement concurrents, comme la France, l'Espagne e l'Italie, habitués historiquement à concevoir la consommation intérieure, soutenue par des salaires suffisamment élevés, comme l'instrument principal de croissance.

À cette situation, qui constituait déjà la prémisse inévitable de la future contraction des activités industrielles en France, Italie et Espagne, la mise en place de l'euro comme monnaie unique, avec une composition de monnaie-panier identique à l'ECU de 1979 dans le cadre du SME, devait ajouter un nouvel élément de déséquilibre concurrentiel en faveur des productions allemandes.

Mis en circulation en mars 2002 comme monnaie unique, *killer* donc des monnaies nationales, dont la circulation simultanée avec la nouvelle monnaie avait été réduit seulement à deux mois – du 1^{er} janvier au 28 février 2002 – l'euro avait été imaginé comme une *basket-currency*, sur la base d'un panier formé par les monnaies des pays adhérents. Au sein de ce panier, la participation de chaque monnaie nationale dans le calcul des parités réciproques était basée sur son cours de change vis-à-vis du dollar US, pondéré avec le pourcentage de participation de la même monnaie aux échanges européennes avec le reste du monde. Conçu de cette manière, l'euro se retrouva à réfléchir en prépondérance la valeur

⁶ Bolaffi, A., *Deutsches Herz : Das Modell Deutschland und die Europaeische Krise*, Stuttgart, Klett-Cotta, 2014.

de l'ancien Deutsche Mark, première monnaie en valeur et, de surcroît, prépondérante en volume dans les échanges européennes.⁷

À partir de mars 2002, le jour après la fin de la double circulation de l'euro avec les monnaies nationales, la capacité d'achat dans le pays non DM se retrouva réduite de 20 à 40 % en raison d'une inflation galopante des prix en euros par rapport aux prix exprimés dans la monnaie nationale précédemment en vigueur, tandis qu'en Allemagne les prix et le pouvoir d'achat restaient foncièrement stables.

De cette manière, l'euro constituait désormais par rapport au DM un ultérieur avantage comparatif à l'exportation pour les firmes allemandes et un désavantage compétitif pour les firmes concurrentes appartenant aux pays européens à monnaie faible (France, Espagne, Italie, en particulier).

À partir de 2002, par conséquent, l'Union monétaire formée par les pays admis à faire partie de l'euro se voyait confrontée à des conditions concentriques de dualisme économique, opposant son centre à sa périphérie. C'était cela le risque interne du marché commun unifié, que les pères fondateurs avaient voulu à tout prix conjurer, dès le début de la création de la CEE, d'après leur commune idéologie chrétienne sociale – et non ultralibérale – utilisant les avantages d'efficacité de l'économie de marché, mais la tempérant en même temps à travers une panoplie d'interventions sociales, par moyen en particulier des fonds structurels.

Le déséquilibre économique et social conséquent, à l'intérieur de l'Europe, avait pu néanmoins rester longuement occulté, de 2002 à 2008. Les banques allemandes avaient en effet un intérêt à convertir en prêts la large disponibilité financière, obtenue grâce au surplus commercial annuel du pays, en absence de risque de change, à des pays présentant des taux d'inflation interne plus élevés et, donc, des taux d'emprunt plus rémunérateurs (les pays qui mériteront ensuite l'élégante dénomination de PIIGS – Portugal, Irlande, Italie, Grèce, Espagne). Cet afflux continu de capitaux avait contribué à cacher dans les pays du sud la gravité de la situation économique interne, induite par les conditions structurelles économiques et monétaires mentionnées dessus, au moins jusqu'à 2008.

Avec la crise financière américaine de 2008, enclenchée par les prêts *subprime* des banques locales, et devenue ensuite une crise économique par ricochet aussi européenne, la contraction générale du crédit interbancaire (*credit crunch*) en Europe a rapidement tari le financement des obligations d'État et privées des pays européens du sud et porté soudainement à la surface la situation des ceux-ci, touchés depuis des

⁷ Strassen, D., *Les finances de l'Europe*, Bruxelles, Perspectives européennes, 1991.

années par la fermeture des entreprises et par le chômage de masse, mais aussi affectés à présent, de surcroît, par l'absence de moyens financiers.

En 2008, enfin, la crise des pays périphériques de l'euro pouvait éclater au grand jour.

2. Les années de la crise existentielle (2008-2012) et les perspectives actuelles (2016)

Confrontés au *spill-over effect* de la crise américaine, les États membres de l'UE ne retrouvent pas, depuis son début en 2008, l'unité pour pouvoir se confronter à la crise bancaire.

C'est cette désunion initiale qui sera à la base du problème européen des dettes souveraines et de la manifestation de la spéculation internationale successive contre l'euro.

Même le sommet Sarzoky-Merkel d'octobre 2008, qui eut lieu à trois semaines de la faillite de la banque newyorkaise Lehman Brothers, n'apporte aucun résultat concret. D'ailleurs, en Allemagne la Hypo Real Estate Holding AG, qui contrôle la banque immobilière DEPFA Bank, est sauvée de la faillite au dernier moment, ce qui prouve le manque initiale de perception par les autorités allemandes de la gravité de la crise.⁸

En 2009, la seule décision d'importance adoptée dans le cadre UE est la possibilité offerte à la BCE d'effectuer une manœuvre d'urgence qui permet le financement des banques et indirectement des gouvernements par l'acquisition des dettes souveraines.

Cette manœuvre, appelée *The Great Bargain*, qui constitue d'ailleurs la première violation du traité de Lisbonne de 2007 défendant la BCE de financer les États, bien que principalement dirigée dans l'intérêt des banques allemandes, mais aussi françaises et néerlandaises, constitue le *casus belli* de l'opposition entre la BCE et les gouvernements des États membres. En juin 2009, la Cour fédérale allemande, gardienne de la Constitution, dans son arrêt concernant la compatibilité du traité de Lisbonne avec la loi fondamentale allemande (*Grundgesetz*), affirme qu'aucun ultérieur processus d'intégration, ni aucune délégation de souveraineté à la UE ne pourront avoir lieu à l'avenir dans le cadre constitutionnel actuellement en vigueur en Allemagne.

⁸ Bastasin, C., *Saving Europa. How National Politics Nearly Destroyed the Euro*, Washington, Brooking Institution Press, p. 14-18.

En 2010, devant l'aggravation de la crise financière en Grèce et le début de l'orientation de la spéculation internationale vers une attaque massive à l'euro, la lenteur de la riposte européenne fait que seulement dans le mois de mai les États membres décident la création d'un fonds communautaire de soutien monétaire (*European Financial Stability Facility*) et l'offre d'une caution communautaire à la Grèce (*bail-out*).

Mais, signe évident de l'absence de confiance réciproque entre les États membres, l'intervention communautaire en faveur de la Grèce ne reste pas confinée, comme il aurait été loisible et souhaitable, dans le cadre strictement communautaire. Elle est confiée à une troïka UE-BCE-FMI. De cette manière, les conditions assimilées par le FMI au prêt de 110 milliards à la Grèce imposent à ce pays des manœuvres financières court terme comportant des coûts sociaux insupportables.⁹

L'année se clôture, d'ailleurs, avec la décision adoptée par le duo Merkel-Sarzoky lors du sommet de Deauville, d'introduire le *Private Sector Involvement* (PSI), à savoir l'implication du secteur privé (*haircuts*) dans les futures faillites d'États. Le résultat inévitable de cette décision a été l'explosion de la panique sur les marchés financiers.

En 2011, malgré la situation des marchés, l'opposition États membres-BCE continue, tandis que la spéculation internationale affecte désormais toute la zone euro, au-delà de la Grèce, avec la vente massive de bons du trésor italiens et espagnols.

D'un Conseil des ministres à l'autre (11 et 24-25 mars) on multiplie les mesures de contrôle sur les économies des États membres, du *governance package* au *European Semester* et au *Euro-Plus Pact*. L'effet réel des ces mesures, foncièrement dirigées à limiter tout dépassement des critères budgétaires établis par le Pacte de Stabilité mentionné, est sur le plan économique celui d'empêcher en particulier les États membres les plus affectés de concevoir des mesures anticycliques, en aggravant de ce fait leur conjoncture défavorable. D'autre part, il fait défaut toute solidarité fiscale européenne, malgré l'urgence imposée par la situation internationale.

La seule décision de poids du Conseil européen est l'extension, le 11 mars 2011, des capacités de prêt de l'EFSSF, qui porte à 750 milliards d'euros les disponibilités directes à faire face aux problèmes de liquidité de la zone euro.¹⁰

⁹ Galbraith, James K., *Crise grecque, tragédie européenne*, Paris, Seuil, 2016.

¹⁰ Bastasin, C., *op. cit.*, p. 158-160.

Le *spread* entre les titres italiens, espagnols et les Bund allemands atteint une incroyable différence de presque 7%, considérée comme l'antichambre du default de ces pays.

L'insuffisance des ripostes à la crise au niveau national et communautaire, la philosophie « punitive » du gouvernement allemand, couplée au manque de fiabilité de certains gouvernements, avaient entretemps contribué à convertir la crise de certains États membres en une crise générale de la zone euro.

En août 2011, on doit exclusivement à la BCE le sauvetage du système monétaire européen. Malgré l'incroyable double augmentation du taux central BCE souscrite par le Président J. C. Trichet, pendant le premier semestre 2011 – preuve de l'obsession pour l'inflation au sein de la BCE, surtout en raison de la pression du représentant de la Bundesbank allemande au sein du Conseil des Gouverneurs – la BCE a le mérite d'avoir sauvé la situation, initiant l'acquisition sur les marchés des titres italiens et espagnols pour 22 milliards d'euros, selon une intervention typique de véritable banque centrale, les *open market operations*.

Par contre, on peut indiquer l'année 2012 comme celle du début d'une collaboration enfin efficace entre les institutions européennes et la BCE.

D'une part, le sommet du Conseil du mois de juin vote l'approbation d'un système unique de supervision bancaire et la recapitalisation directe des banques de la part du ESM (le *European Stability Mechanism*), destiné à substituer l'EFSF à compter de 2013, avec les mêmes fonctions de soutien, mais avec une disponibilité financière élargie.

D'autre part, la BCE par la bouche de son nouveau Président, l'italien Mario Draghi, s'engage le 26 juillet 2012 à faire « *whatever it takes to preserve the Euro* ».

Une déclaration suffisante à balayer définitivement le chemin de l'euro du risque systémique identifié par le *spread* entre les titres de l'Eurozone.

La positive action de la BCE en défense de l'euro continuera en 2014 et 2015, quand, confrontée au risque européen de déflation, la BCE aura recours aux mesures de LTRO (*Long Term Refinancing Operations*) destinées au refinancement des déficits des États membres en difficulté, ainsi qu'au QE (*quantitative easing*), relâchement monétaire, visant à injecter de la liquidité monétaire suffisante dans le système.

Si l'action de la BCE est efficace et cohérente, bien plus critiquable est, par contre, l'apport à la solution des problèmes économiques et monétaires européens provenant de l'énième traité européen de réforme du pacte de stabilité voté par le Conseil, inspiré à des critères rigides de

subsidiarité et d'austérité, le « traité sur la stabilité, la coordination et la gouvernance dans l'union économique et monétaire » (*Fiscal Compact*), entré en vigueur le 1^{er} mars 2013.¹¹

Les liens budgétaires ultérieurs que ce traité introduit pour les États membres, sous peine de sanctions automatiques ou quasi-automatiques, rendent en effet problématique la mise en œuvre de mesures anticycliques, « proactives », par les États membres, en particulier par ceux qui se trouvent en plus grande difficulté. L'approche à la crise exprimée par le Conseil se présente, de cette façon, antithétique aux actions entreprises en même temps aux États-Unis par la FED et le gouvernement fédéral pour assurer la relance de l'économie américaine.

C'est le résultat du lobbying gagnant exercé à l'intérieur de l'Union par le pays économiquement prééminent qui, en carence d'une stratégie dynamique, avançant les références à l'ordo-libéralisme et à la lutte contre le péril mortel de l'inflation, préfère avoir à faire à une « *union aplatie sur son propre modèle pour ne plus courir de risques avec des partenaires indisciplinés, incohérents ou peu compétitifs* », selon la pertinente observation de la correspondante à Bruxelles du quotidien « Il Sole 24 Ore », Adriana Cerretelli.

Si le QE de la BCE permet de combattre efficacement une déflation qui reste toujours au coin de la rue, avec les risques posés par la crise actuelle du secteur pétrolier mondial, on se demande par contre quels pourront être les effets sur l'avenir de la cohésion économique et sociale de l'UE, des tendances nationalistes au sein de l'Europe, manifestées avec une régularité inquiétante à chaque élection, européenne ou nationale. En effet, mise à part la question brûlante des immigrés, qui pourrait mettre en discussion la libre circulation des personnes à l'intérieur de l'Europe, plusieurs dossiers fondamentaux ont mis en lumière pendant les dernières quinze années et surtout après l'élargissement de 2004, le repli de l'Union sur un nouveau mode de fonctionnement. Un fonctionnement qui s'éloigne de la méthode communautaire pour ressembler davantage à une bonne, vieille coopération gouvernementale entre États souverains, basée sur la simultanéité coûts/avantages. Or, le général repli nationaliste au niveau des États membres rend de plus en plus problématique à présent tout transfert aux institutions de l'Union européenne de pouvoirs à la hauteur de la gravité des menaces qui pèsent sur le processus d'intégration, alors que, au contraire, l'Union Européenne aurait le plus grand besoin

¹¹ TSCG, Texte du traité sur la stabilité, la coordination et la gouvernance dans l'union économique et monétaire signé le 2 mars 2012 par 25 des 28 chefs d'État et de gouvernement et entré en vigueur le 1^{er} mars 2013.

pour sa propre survie d'achever pleinement son processus d'intégration. Le premier pas de ce processus vertueux devrait être, justement, la concrétisation d'une union économique et monétaire effective, au sein de laquelle devraient être inévitablement redéfinis les pouvoirs à présent attribués par les traités à la Banque centrale européenne, pour ne pas aggraver d'une manière irréversible le déséquilibre actuel entre le centre et la périphérie du système des pays adhérant à la monnaie unique.¹²

La difficulté à mettre en œuvre un système de gouvernance plus efficace et solidaire de la monnaie n'est pas sans analogies avec la difficulté à parvenir à une gestion efficace des flux d'immigration.

Dans un cas comme dans l'autre, le repli national et les cynismes électoraux empêchent la concrétisation d'un front commun anti-crise et, de ce fait, mettent en danger l'existence même d'une Union à l'échelle du continent.

Sur le front monétaire, les mesures adoptées à l'intérieur de l'Europe, axées sur l'austérité et la parité budgétaire, et se basant sur des pactes de stabilité dans leurs différentes versions, ne se sont jamais accompagnées d'un réel esprit de solidarité effective entre États membres capable de compenser le déficit structurel des pouvoirs de la BCE. Ainsi, si elles ont contribué jusqu'à présent à éviter la crise totale de la monnaie unique, ont aussi eu l'effet collatéral de fragmenter la zone euro selon les lignes de frontière nationales, cloisonnant les marchés financiers nationaux, avec l'écroulement des flux interbancaires à l'intérieur de l'espace communautaire (calculé en -3,7 trillions d'euros entre 2007 et 2012).¹³

Le quadrillage des marchés a fait pendant jusqu'à présent au quadrillage des esprits.

Devant cette évidence, l'absence d'une courageuse relance de cette énième Europe « des chantiers abandonnés » – relance qui pourrait passer à travers un sous-ensemble de pays adhérant à une coopération renforcée – peut comporter la déconstruction finale du processus d'intégration économique et politique d'une Union progressivement bloquée par la prééminence des égoïsmes nationaux, remplissant rapidement le vide laissé par le manque d'une stratégie d'ensemble.

¹² Stiglitz, J., *L'EURO : Comment la monnaie unique menace l'avenir de l'Europe*, Paris, Les liens qui libèrent, 2016.

¹³ De Cecco, M., *Berlino, Roma e i dolori del giovane EURO*, Rome, LIMES, 2013.

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Fiscal Discipline and Growth within EMU

Alberto MAJOCCHI

After about ten years from the starting of the crisis in the United States, economic growth is still weak within Europe. The benefits that were supposed to derive from the adoption of a single currency have been upset by an austerity policy that has been enforced on the large majority of European countries, following the wrong idea that the origin of the crisis was linked to the irresponsible governments' behaviour in the management of the public finances, especially in the Southern Member States. Consolidation of public finances is certainly unavoidable, but must be backed by expansionary measures pursued at the European level. If this is not the case, the decline in the level of national income brings about a fall in tax revenues, while expenditures are increased for providing benefits to the unemployed and support to firms facing a decreasing level of domestic demand. As a consequence, deficits grow larger and new austerity measures are needed.

In this paper we will try to survey the evolution of the European policy regarding the constraints on the behaviours of Member States in the field of public finance, starting from Maastricht and going through the Stability and Growth Pact, up to the Fiscal Compact. Having remarked the limits of these policy choices, we will explore a possible alternative, i.e. a policy promoting investments and production of public goods. In this perspective the Juncker Plan represents a starting point, but it is not enough. Institutional changes must be put high on the political agenda, and the creation of a Eurozone budget, funded through real own resources, should represent the final point of this process. A new institution, a Eurozone Treasury, subject to the control of the Council and the Parliament, should be charged of managing this budget.

1. The Logic Underlying the Process towards the Maastricht Treaty

The project of an Economic and Monetary Union within Europe starts as a necessary outcome of completing the Internal Market. Since

the EMS had created a condition of relative monetary stability, it was possible to proceed to the elimination of the other barriers that hindered the Common Market to be considered an effective internal market. The Delors project included the idea of different stages in order to achieve – exploiting the new institutional rules included in the Single Act – the four fundamental freedoms foreseen by the Rome Treaty (free movement of goods, services, capital and persons), starting from January 1, 1993. But once the free movement of capitals has been guaranteed, monetary policy becomes totally ineffective: during a recession, if a national Central Bank reduces the rate of interest in order to support the recovery, an outflow of domestic capital follows, since abroad the level of interest rates is higher, and the opposite happens if interest rates are raised to fight inflation, since capital inflows prevent the achievement of the deflationary goal. Hence, it appeared as unavoidable to proceed towards a single currency in order to regain at the European level the freedom of action lost at the national level. These are the basis on which it has been conceived the Treaty approved in Maastricht on December 11, 1991 and subscribed by Member States on February 7, 1992.

This Treaty is based on two fundamental principles. The first decision has been to proceed by stages towards the final goal of a Monetary Union. This method is quite different from the ‘shock therapy’ adopted in the case of the German monetary unification. In this last case, political unification took place before the starting of the monetary union. Hence, the German federal government was able to rule the process leading to the single German currency, having the possibility to use all the domestic instruments of economic policy – of fiscal and monetary nature. In the European case, monetary unification takes place in a confederal framework, where the only instrument of economic policy is coordination of national decisions. Then, Germany, the country that has to bear the largest costs in giving up the monetary sovereignty, wanted to be sure that the convergence process, in terms of inflation, fiscal and monetary discipline, could be wrapped up in time to avoid the risk of negative externalities deriving from incorrect behaviours of other countries.

The second decision – that follows from the gradualism adopted – was to establish just from the beginning the conditions that should be met to join the single currency. This choice is particularly significant as far as the fiscal discipline is concerned. In the Treaty the highest level of deficit is fixed at 3% and the highest level of the stock of debt at 60%. This rule has been largely criticized since these numbers appear arbitrary. The real reason underlying this choice is the fear of the inadequateness of the principle of no-bail out included in the Treaty, since Member States,

if not constrained by a rigid fiscal rule, could reach a point where the risk of default due to a too high level of debt will make unavoidable a support intervention of the European Central Bank as a lender of last resort, putting into danger the financial stability of the Monetary Union.

2. From the Maastricht Constraints to the Stability Pact

The political debate on the development of the Monetary Union was largely affected by the German pressure in order to extend the Maastricht constraints also after the starting of the Monetary Union. The point of departure of this debate has been represented by a speech in the Bundestag on November 7, 1995, of the German Finance Minister Waigel, where a new *Stabilitätspakt für Europa* was proposed, establishing the principle that the deficit could not exceed the limit of 3% neither during a negative cyclical downturn, while in normal times the limit of the deficit could not be higher than 1%. The German proposal was first evaluated by an initial Commission's Note¹, while a more in-depth analysis was contained in a following Note² for the Monetary Committee.

In this second Note it is underlined that in the EMU monetary policy is managed at the European level and must aim, as a priority goal, at price stability. As a consequence, "budgetary policy, that remains under the responsibility of national authorities, should play an important role in macro-economic stabilisation during the economic cycle and in the case of asymmetric shocks". The Commission remarks that a certain degree of flexibility must be ensured to the national budgets to make automatic stabilizers functioning during the cycle and to allow discretionary fiscal measures in the case of country-specific shocks. Hence, the proposal put forward by the German government is considered weak, since it does not take into account that the national budgets are constrained in various ways according to the different convergence's degree of each economic system and of the varying demographic perspectives in different countries. Furthermore, the room of manoeuvre that must be recognised to a national budgetary policy to face effectively the different phases of the economic cycle changes from one country to another and, generally, should be larger for small countries. Finally, the previously accumulated

¹ *Towards a Stability Pact* (Note for the Monetary Committee), Brussels, 10 January 1996, II/011/96.

² *A Stability Pact to Ensure Budgetary Discipline in EMU* (Note for the Monetary Committee), Brussels, 18 March 1996, II/I63/96.

stock of debt should be considered in order to foresee different paths for complying with the constraints defined in the Maastricht Treaty.

The main conclusions of this Commission's Note are the following:

- a) "a certain degree of differentiation in national medium-term budgetary targets appears to be desirable from an economic point of view;
- b) a deficit target of 1% of GDP – as in the stability pact proposal – seems therefore arbitrary and, in the case of several countries, not sufficient either to accommodate cyclical developments or face the budgetary consequences of the ageing structure of the population;
- c) once a credible medium-term budgetary target well below the 3% of GDP is retained at the national level, there is no need for additional constraints on the public debt-GDP ratio.

But a radical change in the Commission's stance – with a tightening in the direction of the German proposal – appears in further Note³, that reaches a conclusion that is ahead of the final version of the Stability Pact: "to keep budget discipline during the Phase three of the EMU represents an essential condition to exploit all the benefits of the single currency. The reference value of 3% of Gdp for the deficit must be considered as the upper limit during normal times. The strategy must be based on a two stages approach to budgetary discipline and to the coordination of budgetary policies: medium-term budget objective near to zero or in surplus, that allows to remain under the floor of 3% in normal times and provides the possibility of a certain degree of differentiation between Member States; coordination of budgetary policies at the Union's level to guarantee a coherent scheme for the whole Union".

In this Note the way is open to the final version that the Stability and Growth Pact (SGP) will assume through the decisions of the European Council in Dublin (December 13-14, 1996) and the following integrations established in the Ecofin Council of Noordwijk.

3. The Content of the Stability and Growth Pact

The Stability and Growth Pact in its final version is a Resolution of the European Council (Amsterdam, June 17, 1997) engaging Member States to avoid excessive deficits, that is to guarantee budget close to balance or

³ *Ensuring Budgetary Discipline in Stage Three of EMU* (Note for the Monetary Committee), Brussels, 19 July 1996 II/409/96.

in surplus, and two Council Regulations: No. 1466/97 of July 7, 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies and No. 1467/97 of July 7, 1997 on speeding up and clarifying the implementation of the excessive deficit procedure.

The first Regulation states that each Member State should submit to the Council and the Commission a “stability programme” in the framework of the multilateral surveillance mechanism defined in Article 103(3). Such a programme must include the following information:

- a) the medium-term objective for the budgetary position of close to balance or in surplus and the adjustment path towards this objective for the general government surplus/deficit and the expected path of the general government debt ratio;
- b) the main assumptions about expected economic developments and important economic variables which are relevant to the realization of the stability programme such as government investment expenditure, real gross domestic product (Gdp) growth, employment and inflation;
- c) a description of budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme and, in the case of the main budgetary measures, an assessment of their quantitative effects on the budget;
- d) an analysis of how changes in the main economic assumptions would affect the budgetary and debt position.

The Council shall, within the framework of multilateral surveillance, examine whether the medium-term budget objective in the stability programme provides for a safety margin to ensure the avoidance of an excessive deficit; whether the economic assumptions on which the programme is based are realistic and whether the measures being taken and/or proposed are sufficient to achieve the targeted adjustment path towards the medium-term budgetary objective. Where the Council, in accordance with Article 103, considers that the objectives and contents of a programme should be strengthened, the Council shall invite the Member State concerned to adjust its programme.

The second Regulation sets out the provisions to speed up and clarify the excessive deficit procedure, having as its objective to deter excessive general government deficits and, if they occur, to further their prompt correction. The excess of a government deficit over the reference value shall be considered exceptional and temporary when resulting from an unusual event outside the control of the Member State concerned and which has

a major impact on the financial position of the general government, or when resulting from a severe economic downturn. The Commission shall, as a rule, consider an excess over the reference value resulting from a severe economic downturn to be exceptional only if there is an annual fall of real Gdp of at least 2%. The Council, when deciding whether an excessive deficit exists, shall take into account in its overall assessment the remarks made by the Member State concerned, showing that an annual fall of real Gdp of less than 2% is nevertheless exceptional in the light of further supporting evidence, in particular on the abruptness of the downturn or on the accumulated loss of output relative to past trends.

Whenever the Council decides to apply sanctions to a participating Member State in accordance with Article 104c(11), a non-interest-bearing deposit shall, as a rule, be required. When the excessive deficit results from non-compliance with the criterion relating to the government deficit ratio, the amount of the first deposit shall comprise a fixed component equal to 0.2% of Gdp, and a variable component equal to one tenth of the difference between the deficit as a percentage of Gdp in the preceding year and the reference value of 3% of Gdp. Any single deposit shall not exceed the upper limit of 0.5% of Gdp. A deposit shall, as a rule, be converted by the Council into a fine if two years after the decision to require the participating Member State concerned to make a deposit, in the view of the Council the excessive deficit has not been corrected. Deposits shall be lodged with the Commission. Interest on the deposits and the fines constitute other revenue referred to in Article 201 of the Treaty and shall be distributed among participating Member States without an excessive deficit, in proportion to their share in the total Gdp of the eligible Member States. It has appeared as politically inappropriate that also countries that are not part of the euro area could benefit of this mechanism.

4. From the SGP to the Fiscal Compact

The Stability and Growth Pact enters into force in 1997. In 2005 EU law makers amend the SGP to allow it to better consider individual national circumstances and to add more economic rationale to the rules to be complied with. Surveillance and coordination are strengthened and the excessive deficit procedure is clarified and made faster. In 2011 the SGP is made more comprehensive and predictable with a major enhancement of the EU's economic governance rules through a collection of new laws, known as the "Six Pack". The monitoring of both budgetary

and economic policies is organised under the European Semester and further details on the implementation of the SGP's rules are laid down in the Commission document on flexibility⁴.

Adherence to the SGP is further strengthened by new laws known as the "Two Pack", which reinforces economic coordination between Member States and introduces new monitoring tools. But the most important step forward in reinforcing the rules of the SGP is achieved in 2013 with the approval of the so-called Fiscal Compact (FC), which is a part of an intergovernmental Treaty known as the Treaty on Stability, Coordination and Economic Governance. The budgetary targets set by the SGP's preventive arm (the Medium-Term Objectives) are newly defined, stating that the structural deficit – net of the cycle's influence – should not be higher than 0.5%, while the gap between the current ratio of the stock of debt to Gdp and the floor of 60% should be reduced by 5% each year. Control procedures and sanctions are foreseen in the FC to avoid that the rules will not be complied with.

Approving the Fiscal Compact Europe has done a largely innovative choice vis-à-vis the previous experience: growth does not require new debt. Current expenditures of the Member States must be covered in due time with fiscal receipts and investment expenditures with the current account surplus. Issuing bonds should be limited to financing investments that are able to guarantee – with the new income flowing from the investments – to pay the service of the debt.

This is a very strongly strengthened budgetary rule since a budget close to balance or in surplus must include also investment expenditures. In the classical theory of public finance the most accepted version of the *golden rule*⁵ implies that current expenditures must be covered by fiscal receipts, but that investments could be financed either with current account surplus or by issuing public bonds (with some limits, fixing for instance the maximum amount of tax revenues that could be appointed to cover the interest expenditures tagged to servicing the stock of debt).

This classical version of the *golden rule*⁶ is justified by the fact that an expenditure, whose effects are extended for a long period of time – in

⁴ European Commission, *Making the best use of the flexibility within the existing rules of the stability and growth pact*, COM/2015/012 final.

⁵ Musgrave, R. A., "The nature of Budgetary Balance and the Case for a Capital Budget", *American Economic Review*, 1939, p. 260-271; Musgrave, R. A., *The Theory of Public Finance. A Study in Public Economy*, New York, McGraw-Hill, 1959.

⁶ "The SGP contains a serious error: the way governments are expected to account for public investment. Correcting this error [...] applying the rules of the SGP to the budget inclusive of nominal interest payments and of capital depreciation, but

some cases for some decades – could not be covered in a single year and should be spread through a series of following budgets. Furthermore, if the public investments promote higher growth, new revenues are provided to the budget, favouring the coverage of investment costs.

The hypothesis underlying the rule of a budget close to balance is the Ricardian equivalence, where savers are supposed to be wholly rational and information perfect, so that a current deficit implies that taxes must be increased in the future to cover the service of the debt. Hence, saving must be raised to face future costs and, consequently, domestic demand shrinks. On the contrary, if the budget is close to balance or in surplus, savers and domestic and international investors expectations change, interest rates diminish with positive effects on the budget due to the lower costs of servicing the debt. More resources could be devoted to fund public investments with an ensuing increase in the rate of growth of the economy.

As a matter of fact, the political consensus for the approval of the Fiscal Compact is explained by the increasing size of the stock of debt in some Member States, that has been one the reason that has caused the crisis of the sovereign debt. Nowadays Eurozone States are not only constrained in quantitative terms, but they have largely given up their sovereignty on budgetary issues, since they must submit a draft budget to the previous judgement of the European institutions. If the commitments held when the budget is approved are not satisfied, the rules foresee sanctions and, in the last resort, an appeal to the European Court of Justice. The launch of this budgetary Union, strongly supported by the German government, represents a first step towards an effective Fiscal Union, but it is only a point of departure, not of arrival. A balanced budget and a progressive contraction of the stock of debt are not sufficient by themselves neither to promote the recovery of the European economy, nor to guarantee that the institutional rules characterizing a fully-fledged democracy are complied with.

5. The Degree of Centralisation within the Eurozone

One important feature of these developments could be clarified through a quotation by a recent paper⁷: “the Fiscal Compact systematically

excluding net investment, would have several desirable characteristics” (Blanchard, O.-Giavazzi, F., *Improving the SGP through a Proper Accounting of Public Investment*, CEPR Discussion Paper No. 4220, 2004, p. 3).

⁷ Fabbrini, F., *The fiscal compact, the “Golden Rule”, and the paradox of European federalism*, Tilburg Law School Legal Studies Research Paper Series, No. 013/2013.

enhances the powers of the EU institutions to direct and police the budgetary policies of the states, thus increasing centralization in the EU architecture of economic governance. This development contrasts with the federal experience of the United States (US). In fact, it appears that while most US states are also endowed with *golden rules* in their constitutions, the federal government never played a role in the adoption of these balanced budget rules and still today is barred from interfering with the budgetary processes of the states”.

According to this remark, an unexpected paradox emerges in the institutional architecture of the EU. When the crisis exploded in 2008, the Eurozone governments rejected a US-like federal model as being too centralized for the EU, but they have ended up establishing a regime that is much less respectful of state sovereignty than the US federal system. The reason of this apparent paradox is simple. In the United States the federal government is endowed, in the areas where it has a competence, with an effective capacity of taking decisions, that are approved by the Congress and the Senate, where Member States are represented. Hence, a federal decision is founded upon a democratic process and could be enforced reasonably on Member States. But they keep their sovereignty where the competence is not attributed to the federal level, that cannot interfere with the exercise of Member States in the management of their policy decisions.

Within the Eurozone, by relying on the strict and detailed balanced-budget rules mandated by the Fiscal Compact, the Commission will not only control the compliance with the constraints of the Stability Pact, but will be able as well to implement a more pervasive *ex ante* scrutiny on the sustainability and appropriateness of the draft budget bills which the governments submit for approval during the European Semester. In the end, it emerges that the Fiscal Compact, with its balanced-budget requirement, adds another stone to the path of increasing centralization in the EU, but without the guarantees through appropriate “checks and balances” of a fully-fledged federal structure. In this sense, it must be critically underlined that these developments do not fully involve the European Parliament, which does not play a central role in this new structure of the Eurozone, weakening the legitimacy of the transfer of growing slices of decision-making to the EU level.

The conclusion that it is possible to draw from these remarks is straightforward: from one side, the current economic crisis has shown the lack of an effective decision power at the European level. The only timely and effective measures to promote the recovery of the Eurozone economy, after the starting of the economic crisis in 2008, have been

implemented by the ECB, that is a federal institution; in all the other cases, the decisions have been taken by the Council only after a lengthy process, with larger costs and less effectiveness. But, at the same time, the fiscal sovereignty of Member States in defining their budget priorities has been largely limited during the European Semester procedure and by the rules of the Fiscal Compact. While EU's governments have systematically discarded calls in favour of a federal arrangement for the EMU as being disrespectful of State sovereignty, they have established a regime for Eurozone governance that sacrifices State sovereignty much more than would have been permitted in a federal system.

If one wants to join efficiency and democracy in the field of European economic policy, the receipt follows simply: less binding and automatic rules, and more effective discretionary decision power at the European level – including the power to enforce the decisions once they have been taken. But the decision process should be radically changed, recognizing the role of the Commission as the effective government of the Eurozone and including not only the ministers of the governments of Member States within a Council where majority vote is the general rule, but also the European Parliament; whereas, less interference should be guaranteed in national decision-making process in the areas where the competence is left to the Member States according to the subsidiarity principle. This evolution in the economic and monetary field will imply a decisive step forward towards a federal system, less centralised than the current one, but at the same time more efficient and democratic.

6. Reform Proposals of the EMU Governance

During recent years the reform of the governance of the Economic and Monetary Union has been object of important contributions by the Presidents of the European institutions. In the last Report signed by the five Presidents⁸ the direction of travel is clear: “for the euro area to gradually evolve towards a genuine Economic and Monetary Union, it will need to shift from a system of rules and guidelines for national economic policy-making to a system of further sovereignty sharing within common institutions, most of which already exists and can progressively fulfil the task”. But this evolution regards the future, since in Stage 1 this document only envisages, as a move towards a Fiscal Union, the

⁸ *The Five Presidents' Report: Completing Europe's Economic and Monetary Union*, Brussels, 22 June 2015.

creation of an Advisory Fiscal Board and, in Stage 2, a vague stabilisation mechanism to cushion macroeconomic shocks.

A previous Report of the Presidents⁹ included an important paragraph titled “Towards a fiscal capacity for the EMU” in which, after having noted that “while the degree of centralisation of budgetary instruments and the arrangements for fiscal solidarity against adverse shocks differ, all other currency unions are endowed with a central fiscal capacity. In this respect, the European Council in October 2012 asked to explore further mechanisms, including an *appropriate fiscal capacity*, for the euro area. It would support new functions which are not covered by the multi-annual financial framework from which it is clearly separated”.

This should be the right way to follow. But the basic idea underlying the Five Presidents’ Report is that, in the short run, the recovery of the euro area requires only a more efficient coordination of national economic policies, with a stronger focus on employment and social performance (that is naturally highly desirable). Since, according to their view, euro-area governance is already well established for the coordination and surveillance of fiscal policies, the next step should be limited to the creation of a euro-area system of Competitiveness Authority.

The Report retains the basic philosophy of rigid austerity that underlay the ruling of the EMU following the crisis and caused so many damages to the Eurozone economies¹⁰. On the contrary, it must be recognized that, while monetary policy is fully centralized, the other instruments of economic policies have remained firmly in the hands of the national governments. This is a serious flaw in the Eurozone design. Ideally, countries should hand over sovereignty over the use of these instruments to European institutions. However, the willingness to take such a drastic step towards political union appears largely absent¹¹. While it is certainly correct to envisage that some instruments of economic policy, particularly in the field of fiscal policy, should be attributed to the European level, it seems equally reasonable to assume that nowadays the dramatic conditions of the Union confronted with terrorism, inflow of millions of migrants and political disorder in the Mediterranean area are able to provide an opportunity to recognize a fiscal power, and particularly a power to manage own resources, to the Eurozone.

⁹ *Towards a Genuine Economic and Monetary Union*, Brussels, 5 December 2012.

¹⁰ De Grauwe, P., *The Legacy of Austerity in the Eurozone*, CEPS Commentary, 4 October 2013.

¹¹ De Grauwe, P., “The Governance of a Fragile Eurozone”, *Australian Economic Review*, September 2012, p. 255-262.

7. Differences in Economic Policy Management between the United States and Europe

The deep crisis that ravaged the world economy after the collapse of Lehman Brothers on September 15, 2008 began in the US, but its main consequences were felt in Europe. Very soon after the Lehman collapse were the European banks affected by the American banks' troubles, forcing European governments to intervene, supporting the banking system with great injections of public money. At the same time, the banks, facing serious financial difficulties, were forced to impose a credit squeeze on their customers and, in particular, on the productive system. The enterprises in financial straits reduced their levels of productive activity with the consequent contraction of the families' income, bringing about a further impact on the demand of consumer goods. At this point, the crisis extended itself to the real sector and involved, albeit in different ways, all the other industrialized areas of the world.

Faced with the risk of a global recession, countries reacted immediately, overcoming the tendency to increasingly limit any type of public intervention that had become dominant since the Reagan and Thatcher times, and instead heavily financed the real economy and, simultaneously, they tried to guarantee employment levels through extensive use of social support provisions even if, in Europe in particular, unemployment rose significantly. The reaction to the crisis was stronger and more immediate in the United States than in Europe, where only the European Central Bank – an institution of a federal nature – was in the position to take rapidly the decisions needed to face the greatest economic crisis of the post-war period. The reactions of the EU and Eurozone countries were slower and weaker than that of the U.S. for two self-reinforcing reasons: first of all, the European Union is a structure of a confederal nature as far as interventions in economic policy are concerned. Policy reactions must essentially be based on coordination – slow and inefficient – of decisions taken at the national level¹²; furthermore, as far as fiscal interventions

¹² According to Article 120 of the Treaty on the Functioning of the European Union (TFEU), “Member States shall conduct their economic policy with a view to contributing to the achievement of the objectives of the Union, as defined in Article 3 of the Treaty on European Union (TEU), and in the context of the broad guidelines referred to in Article 121(2) TFEU. The Member States and the Union shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 119”. In Article 3 TEU, after having stated that “the Union’ aim is to promote peace, its values and the well-being of its peoples”, it is added that “the Union shall establish an internal market. It shall work for the sustainable development

are concerned, decisions must be taken unanimously¹³, leading to further delays with the – inevitable – compromises necessary to reach an agreement.

The second factor that impeded a stronger and quicker reaction results from the fact that in a strictly interdependent economic area, it may be convenient for individual countries to act as *free riders*, that is, to wait for other countries to take the initiative increasing public expenditure or reducing taxes, because the positive effects of interventions in other countries quickly spread to the whole area. Consequently, no single European country had any interest in taking on the burden of financing the recovery of the European economy, whose cost would fall on the Member State's citizens, while all of the countries of the economically integrated area would benefit from it. On the other hand, the intervention of the European Union was also constrained by the limited size of the EU budget (about 1% of European Gdp). In conclusion, the United States, with its federal government and a budget of adequate size, were quickly able to support the economic recovery with adequate means. In Europe, economic policy measures needed to face the recession were entrusted to the Member States, were further constrained by the Maastricht Treaty rules regarding the extent of public deficits, and had the limited objective of preventing the crisis from turning into a catastrophic recession.

8. The Constraints on National Expansionary Policies

With the worsening of the sovereign debt crisis and the slowness of the European economic recovery, the Member States of the EU find themselves clamped in an increasingly tight vice: on the one hand, they are forced to adopt harsh measures to avert the risk of collapse of entire sectors, financial as well as industrial; on the other hand, they need

of Europe based on balanced economic growth and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance". Finally, and most important, Article 3(4) TEU states that "the Union shall establish an economic and monetary union whose currency is the euro". Then, a monetary union is not enough and Europe should proceed towards a full economic union, in view of an "ever closer union among the peoples of Europe" (Article 1 TEU).

¹³ Article 312(2) TFEU states: "The Council, acting in accordance with a special legislative procedure, shall *unanimously* and after consulting the European Parliament adopt a decision laying down the provisions relating to the system of own resources of the Union" (Article 311 TFEU). And regarding the Multiannual Financial Framework limiting the development of expenditures "the Council shall act *unanimously* after obtaining the consent of the European Parliament".

to support workers who lost their jobs and, in general, lower income classes that suffer the effects of the crisis to a greater extent. All this in a situation in which public finances are deteriorating endogenously due to the contraction of the revenues following the fall of income, and are also constrained by the necessity to avoid overcoming in a significant manner the restrictions imposed by the Maastricht Treaty to avoid being strongly penalized by the markets through a widening of the spread in interest rates to be paid on new emissions.

Considering the budget problems that weigh heavily on the countries of the Eurozone and limit their abilities to launch an expansionary policy, the European Union should play a decisive role to help the recovery through a Growth Pact that will help to reduce social tensions that are becoming unbearable in many countries and, thanks to the positive automatic effects on tax revenues of the Gdp increase, to relax the ties that weigh on the national budgets. However, the EU's budget resources are limited and, in any case, at the moment governments do not seem much inclined to implement a more wide-ranging plan to bring Europe out of the crisis.

The experiences of European countries in the last few years have revealed the limits of the non-Keynesian effects of fiscal policy¹⁴, and within an important international organization such as the International Monetary Fund (IMF) it has been recently recognized¹⁵ that fiscal multipliers are normally larger than one and that fiscal consolidation measures necessarily bring about deflationary effects¹⁶. Furthermore,

¹⁴ According to the Keynesian theory an increase in public expenditure or a reduction in taxes will provide expansionary effects on Gdp. Recently, a new school of thinking has expressed a different view, assuming that a reduction in expenditures or an increase in taxation will increase Gdp since people "expect" that a reduced deficit will imply lower tax needs in the future, then more disposable income, and begin immediately to spend more (these are the presumed non-keynesian, expansionary effects of fiscal consolidation). See, for instance: Giavazzi, F., Pagano, M., *Non-keynesian effects of fiscal policy changes: international evidence and the Swedish experience*, NBER WP 5332, National Bureau of Economic Research, November 1995.

¹⁵ IMF, *World Economic Outlook*, October 2012, p. 41-43. See also: Blanchard, O., Leigh, D., *Growth Forecast Errors and Fiscal Multipliers*, IMF Working Paper 13/1, January 2013. See also: Ostry, J. D., Loungani, P., Furceri, D., "Neoliberalism: Oversold?", in *Finance & Development*, June 2016, Vol. 53, No. 2.

¹⁶ In a recent paper it has been underlined that "the stronger the austerity programme, the deeper the decline in Gdp. The estimated equation suggests that on average for every 1% increase in austerity, output declines by 1.4%". This implies that "a 1% increase in austerity only leads to a 0.5% improvement in the budget balance. Put another way, in order to improve the budget balance by 1%, an austerity programme of at least 2% is necessary. Given our measure of the fiscal multiplier of 1.4, this also implies a drop in Gdp of 2.8%. Thus, the eurozone austerity programme imposed

given the interdependence within the Internal Market, recession in one country implies a reduction of its imports, and consequently of exports from the other European countries, deepening the economic crisis in the entire Eurozone.

There is no “national” solution to ending the crisis. Expansionary measures are impossible at the level of Member States, who are obliged by the Maastricht constraints and the Stability Pact to choose fiscal consolidation as a priority, that is, less expenditures and more taxes; furthermore, such expansionary measures would in any case be domestically ineffective, since a large part of the effects ensuing from national measures would be lost through increased imports from other European countries. This course of action would result in every country trying to behave like a free rider, waiting for expansionary measures funded by other Eurozone Member States. Thus, such a stabilisation policy would prove to be sub-optimal.

Therefore, to get out of this impasse, what is needed is to launch as soon as possible a Eurozone recovery plan. In parallel, given the more and more stringent environmental constraints, this initiative should take into account the fact the current crisis marks the end of a growth phase for the European economy, since it cannot be overcome with a policy exclusively aiming to support the demand of consumer goods that use a large amount of natural resources.

9. A Policy Promoting Investments and Production of Public Goods

Many steps forward have been achieved towards effective governance of the Eurozone area for the sake of guaranteeing financial stability, with the signature of the Treaty on Stability, Coordination and Governance (the Fiscal Compact) in March 2012, the Six Pack in December 2011,

a very unfavourable trade-off for the periphery countries: in order to improve their government budget balance by 1% a sacrifice of 2.8% of Gdp was necessary”. The political conclusion follows that “the imposition of austerity programmes in the eurozone has fallen victim to the fallacy of composition. What works for one nation fails to work when every nation applies the same policies [...]. When all countries try to save more at the same time, each country’s attempt to do so makes it harder for the others to achieve their objectives”. Then, “it is high time that the Commission takes up its role of defending the interests of the debtor nations with the same vigour that it defends the interests of the creditors”. See De Grauwe, P., Ji, Y., *The Legacy of Austerity in the Eurozone*, CEPS Commentary, 4 October 2014.

and the Two Pack's entry into force in May 2013¹⁷ Furthermore, with the approval of these rules it is clear that there is now a general consensus that every country is obliged to comply with the duty to pay back its own debt accumulated in the past. The measures are now in place to ensure that financial stability will be pursued by each Member State within the Eurozone under stringent European control. But fiscal consolidation will be difficult to achieve if a quick recovery of the European economy is not rapidly forthcoming.

Structural reforms are urgently needed and unavoidable in indebted countries in order to improve productivity and to increase competitiveness, but the positive results of these reforms will only be achieved in the medium and long term. Therefore, in order to overcome the crisis it is necessary to initiate a new phase of growth and to promote an increase in employment by linking a policy of fiscal consolidation in each Member State with the immediate creation within the European budget of a sufficiently large fund appointed to Eurozone countries and targeted to promoting growth and employment¹⁸, since growth must be supported by a European initiative.

Huge investments from both the public and private sectors are needed to meet the infrastructure challenge. The fund could immediately start to finance these projects, while preparing a plan over the medium-term to improve the competitiveness of the European economy through investments in higher education, research, and technological innovation. A smaller part of the fund's capacity could be used to support structural reforms in Member States that enter into arrangements of a contractual nature with EU institutions through limited, temporary, flexible, and targeted financial incentives – the Convergence and Competitiveness Instrument suggested by the Commission in its “Blueprint for a deep and genuine EMU”¹⁹.

A traditional policy based only on the support of consumption demand is largely insufficient. A new phase of growth in the European economy should be opened by promoting a sustainable development model. The driver of growth should become public investments, with

¹⁷ European Commission, *Six-pack? Two-pack? Fiscal compact? A short guide to the new EU fiscal governance*, http://ec.europa.eu/economy_finance/articles/governance/2012-03-14_six_pack_en.htm.

¹⁸ Majocchi, A., *A European Fund for Growth and Employment: A First Step Toward a Eurozone Budget*, German Marshall Fund Policy Brief, June 2014.

¹⁹ European Commission, *A blueprint for a deep and genuine economic and monetary union. Launching a European debate*, COM(2012)777final, Brussels, 28 November 2012.

a positive short-run impact on demand, but also on long-run growth through an increase in potential output. The main declared goal of the fund should be improving European citizens' quality of life and raising the productivity of European firms, through increased spending for frontier research and higher education, strengthening the material and immaterial infrastructural network, promoting energy efficiency and the use of renewable energy sources, supporting a soft mobility that does not worsen environmental conditions, guaranteeing conservation of cultural and natural assets, and favouring urban renewal.

In Japan and the United States, the recovery of the respective economies depends on expansionary monetary policy measures, mainly targeted to support an expansion of consumption demand and the building industry. These types of policy decisions are not conceivable in Europe, where the main problem centres on the increase in productivity to face the competitiveness challenge within the global economy and on favouring a reduction in the rate of unemployment, whereas for environmental purposes the amount of soil available – a truly scarce resource – must be protected against an excessive use. It is true that Europe suffers from a lack of consumption demand, but this problem should be addressed through effective redistribution measures in favour of the lower income classes, and not with credit measures²⁰.

With the approval of the Fiscal Compact the euro area has made an innovative choice compared to its past experiences: growth will no longer depend on the creation of new debt. In the meantime, it is generally recognized that economic development should be compatible with environmental conservation. Current expenditures should be funded with tax resources, while the issuance of bonds should be targeted only to financing investments, and not the current account. To be consistent with this choice, the fund created within the European budget should devote its resources to the financing of material investment, the production of human capital or of collective goods in order to support sustainable development, an increase of productivity, and, consequently, of the competitiveness of the European economy.

²⁰ This issue has been restored in the political debate by a recent book of Piketty (Piketty, T., *Capital in the Twenty-First Century*, Harvard Univ. Press, 2014). See also: Stiglitz, J. E., *The price of inequality. How today's divided society endangers our future*, W.W. Norton, 2012; Atkinson, A. B., *Inequality. What can be done?*, Harvard Univ. Press, 2015.

10. The Juncker Plan: a Turning Point, but not enough

A change of attitude has recently emerged regarding the policy choices to be adopted for addressing the European crisis. Supply side reforms are considered unavoidable, but nevertheless insufficient. While the goals of fiscal consolidation and labour market reform are recognised as important in the medium term, what appears as urgently needed is a demand-side policy to counter falling domestic demand for consumption and to encourage investment. Up to now monetary policy has been the only instrument available to provide the necessary liquidity to the market, and the latest decision of the European Central Bank to make a monthly purchase through the secondary market of up to 80 billion euro-denominated investment-grade securities issued by euro area governments and agencies and European institutions has again proved the important role played by the only institution of a federal nature tasked with economic policy within the euro area²¹.

The adoption of the Juncker Plan is a turning point, showing that the prevailing point of view in the new Commission is that a fiscal shock for supporting investment demand is needed to complement the efforts of the ECB. The Commission will conclude an agreement with the European Investment Bank (EIB) on the establishment of a European Fund for Strategic Investments (EFSI), which will enjoy a guarantee up to €16 billion by the EU and 5 billion by the EIB in order to conduct its financing and investment operations. The financial resources required will be found by reducing other appropriations within the existing European budget. This does not seem the best path to follow. There are two main flaws in the plan: firstly there is no additional public money on the table and, secondly, there is a problem of governance since the choice of investments and the distribution of benefits among Member States is not a technical issue, but requires a political choice that cannot be assigned to the EIB.

An effective growth plan implies that new taxes are collected and, on this basis, eurobonds are emitted. In this way large sums of money could be made available to finance not only investments to complete the infrastructural network within Europe, but also to provide European public goods (*in primis*, expenditures on R&D and in promotion of higher education), in order to kickstart a structural change in the European economy, strengthening the competitiveness of European firms and

²¹ Castaldi, R., *La BCE: la forza di un'istituzione federale*, Turin, Centro Studi sul Federalismo, Commento No. 77, 14 March 2016.

improving the quality of life of European citizens. The decisive challenge is to provide “adequate fiscal capacity” to the Eurozone, as was proposed in a previous Blueprint by the European Commission²²: defining the resources that can be collected from taxpayers, allocating these resources within the budget to a fund appointed to the Eurozone countries, based on the guarantee of these resources emitting eurobonds to finance a large investment plan and deciding at the same time to transfer responsibility for directly managing the growth plan to the Commission, under the control of the European Parliament.

According to the Juncker plan the EFSI should be set up within the EIB as a dedicated trust fund. But if new own resources are allotted to financing a fund managed by the Commission, since Member States should be involved to guarantee cooperation between European and national levels, the Economic Directorate within the Commission should be expanded to include high representatives of the Treasuries of the Member States in an extended Directorate that could be called the European Fiscal Institute – as was done with the European Monetary Institute when creating the European Central Bank – and will represent the first step towards a European Treasury²³.

However, given the harshness of the economic downturn and the ensuing huge social costs, and the time period required for Juncker Plan to extensively deploy its positive effects on the European economy, transitory and extraordinary measures should be immediately implemented to increase the financial capacity of the EFSI, using all the legal instruments that are now available. Additional financial contributions could be obtained from Member States, and these could also co-finance individual projects financed by the EFSI, through its banking system as well. This co-financing will benefit from the ‘investment clause’ if the Gdp growth of a Member State is negative or Gdp remains well below its potential. According to the new flexibility rules proposed by the Commission, these payments will not negatively affect compliance with the deficit or debt rules established by the Stability and Growth Pact.

Furthermore, it is to be remembered that 12% of the ECB’s liquidity injection via Quantitative Easing (80 billion monthly) can be used to purchase securities on the secondary market issued by European Community institutions or by European agencies (such as the EIB or ESM), and then ultimately to purchase bonds from the EIB or from the

²² *Towards a genuine economic and monetary Union*, Report to the European Council, Brussels, 5 December 2012.

²³ Majocchi, A., *Un piano per l’Europa. Sviluppo sostenibile e occupazione*, Bologna, Il Mulino, 2015, pp. 164-169.

European Fund for Strategic Investments (EFSI) created by the Juncker Plan. In this context, a recent paper²⁴ has examined the state of play of the Juncker Plan and has put forward the interesting proposal to raise this 12% to at least 20% (a percentage corresponding to that part of the ECB's liquidity injections not guaranteed by the national central banks).

11. New Resources for Funding the Juncker Plan

Since the outbreak of the crisis, public and private investment has been declining. Different estimates quantify a current gap in a range between € 190 billion for the Eurozone and € 300 billion for the EU as a whole per year²⁵, and present initiatives are insufficient to bring current investment levels up to potential levels. According to what has been published by the Commission (April 2016) a total of 222 projects have been approved: based on €11.2 billion provided under the EFSI, they will receive additional funding of €82.1 billion. The main beneficiaries are Italy, France, Germany and United Kingdom. From these data it could be noted that “the size of the mobilized resources is not enough to compensate the Eurozone investment gap. Hence a more systemic way to mobilize resources has to be introduced”²⁶.

The proposal in a nutshell is to substantially increase the amount of QE asset purchases by the ECB from the EIB in order to finance supranational investments. The EIB issues new bonds (“Investments Bonds”) and sells them on the markets. At present, the EIB issues additional bonds to the extent of €60 billion, three times the guarantee of the EFSI (€21 billion), while the remainder (up to € 315 billion) is collected through private financing. The “internal multiplier” has to be increased. The ECB should be ready to buy “Investment Bonds” on the secondary market within the framework of a renewed QE through an increase of base money on the liabilities side of ECB's balance sheet. Funds made available are then passed on the EFSI which could expand grants to the States according to some

²⁴ Fontana, O., Vannuccini, S., *Conventional Direction to Unconventional Measures: Using Quantitative Easing to Shape Eurozone Fiscal Capacity*, Centro Studi sul Federalismo Research Paper, Turin, May 2016. In the same perspective a previous contribution is: Watt, A., *Quantitative easing with bite: a proposal for conditional overt monetary financing of public investment*, IMK WP 148, March 2015.

²⁵ Rubio, E., Rinaldi, D., Pellerin-Carlin, T., *Investment in Europe: making the best of the Juncker Plan. With case studies on digital infrastructure and energy efficiency*, Notre Europe Studies and Report, No. 109, March 2016.

²⁶ Fontana, O., Vannuccini, S., *ibidem*, p. 16.

equity criteria. In the proposal it is explicitly stated that Member States will continue to be responsible for their level of earlier debt and will bear debt service on grants received.

In order to be of significant magnitude, but remaining compatible with existing rules, the purchasing of EIB bonds which are part of the investment program should be increased within the 20% risk-sharing regime of the Juncker Plan, given the amount of monthly asset purchases, through a corresponding decrease in the share of other European institutions' securities and government and agencies bodies. In a second phase the EFSI should become a sort of Euro Treasury under the control of the European Parliament, like the one proposed by Bibow²⁷, the French and German Governors of their respective Central Banks²⁸ and the Italian Minister of Economy and Finance²⁹.

12. Towards a Eurozone Budget

The creation of a fund promoting growth and employment within the European budget does not represent the final endpoint of a political initiative intended to achieve an in-depth change in European economic policy making, opening the way to a new era of reforms in the EU starting in the euro area, towards an effective federal structure. Hence, the fund should be considered an intermediate objective. It must be followed by an attempt to achieve an agreement of all Member States of the euro area on the new resources that could be targeted to finance a Eurozone budget included in the larger EU budget.

If all Member States of the euro area finally agree on the introduction of new own resources devolved to the European level³⁰, the fund could effectively represent the genesis of a budget for the Eurozone. According to a recent proposal³¹, Article 136 could conceivably be designed to address the issue of the pooling of new resources and the creation of

²⁷ Bibow, J., *Making the Euro Viable: The Euro Treasury Plan*, Levy Institute, WP No. 84, July 2015.

²⁸ Weidman, J., Villeroy de Galhau, F., *L'Europe à la croisée des chemins*, Banque de France, February 2016.

²⁹ Padoan, P. C., "Il faut un ministre unique des Finances de la zone euro", in *Le Figaro*, 30 mars 2016.

³⁰ Majocchi, A., "Nuove risorse per il finanziamento del bilancio europeo", in *Rivista di Diritto Finanziario e Scienza delle Finanze*, 2015, p. 467-487.

³¹ Rossolillo, G., "A Budget for the Euro Area: The Road leading to the Decisive Federal Leap", in *The Federalist*, LV, 2013.

a body responsible for managing them³². This article, which introduces provisions specific to Member States whose currency is the euro³³, has already served as the legal basis for the adoption of the Treaty establishing the European Stability Mechanism adding a new paragraph to the original text of the Treaty. The above Article would allow the adoption of a Treaty that would enable the Eurozone states to pool the revenue of the new own resources and to simultaneously entrust its management to an intergovernmental body, following the experience of the European Monetary Institute during the transition towards monetary union, “with the goal to open the way to the establishment and the functioning of a European Treasury”³⁴.

Such a Eurozone budget should support the growth of the European economy and, at the same time, absorb the effects of asymmetric shocks to the Member States, with a large saving of resources vis-à-vis the amount of money currently attributed to the European Stability Mechanism. After the time needed to reach a political consensus, with the transition from the fund to a Eurozone budget, a European Treasury should be established to manage the budget under the democratic control of the European Council and the European Parliament. As long as new resources and expenditures are attributed to the Eurozone budget, the amount of taxes charged by Member States should be reduced so that fiscal pressure on European taxpayers would remain unchanged. In a later stage, taking advantage of the saving of resources through a common production of European goods, for instance in the area of defence policy, fiscal pressure could be eventually cut down³⁵.

An adequate fiscal capacity can be created within the Eurozone with the adoption of new own resource. But in this perspective, the democratic control on the use of these resources should be warranted. “No taxation

³² “Secondary legislation could be used to introduce a rainy-day-fund (Article 122. 136 and 352 TFEU) and a euro area budget could be established as part of the larger EU budget” (C. Allard *et al.*, *Toward a Fiscal Union for the Euro Area*, IMF Staff Discussion Note, September 2013, p. 24).

³³ “In order to ensure the proper functioning of economic and monetary union [...] the Council shall [...] adopt specific measures [...] (a) to strengthen the coordination and surveillance of their budgetary discipline; (b) to set out economic policy guidelines for them, while ensuring that they are compatible with those adopted for the whole of the Union”.

³⁴ Barthalay, B., *Une nouvelle donne pour l'Europe*, Paris, Puissance Europe, 2012. This proposal has been taken up by Aglietta, M., Brand, T., *Un new deal pour l'Europe. Croissance, euro, compétitivité*, Paris, Odile Jacob, 2013.

³⁵ Some recent estimates indicate that total cost of non-Europe in the defence field may be up to €120 billion a year. See Briani, V.-Chevallard, G., *The Costs of Non-Europe in the Defence Field*, CSF-IAI, April 2013.

without representation” is a fundamental principle of democracy. The Commission has correctly underlined that “the progress towards a deep and genuine EMU would over the medium term necessitate a structure akin to an EMU Treasury within the Commission to organise the shared policies undertaken with the common fiscal capacity to the extent that they imply common resources and/or common borrowing”³⁶. Therefore, this new budgetary authority that will be charged to manage the joint resources and to manage the European economy should be democratically controlled by the European Parliament and the Council. It has been remarked that “any progress towards a genuine fiscal union would have to include establishing a European Treasury with the power to raise taxes, the power to decide on how to spend these monies, and the power to issue joint and several guaranteed euro bonds. A federal fiscal union with a central authority having discretionary spending, taxing, and borrowing powers would decisively move the European Union towards a genuine political union – a supranational state, calling for the corresponding democratic mechanisms necessary to ensure political legitimacy”³⁷.

Similarly, a paper by the Directorate General of the French Treasury underlines that “the creation of a common budget for the eurozone represent a medium term process that requires a step forward in the political integration to ensure democratic legitimacy of the tasks attributed to the European level”³⁸. A recent paper issued by the Italian government³⁹ recognizes that “in the long term, the Monetary Union should be equipped with a fiscal capacity tailored to the tasks of promoting investments and smoothing the cycle. A strongly integrated area, like the Emu, is characterised by public goods that can be better provided at a systemic level. This is the case of large scale investments, stabilisation function and financing of policies in a Member State with positive spillovers. These functions could be managed by a Eurozone Finance Minister [...]. Of course, such a Minister should be politically endowed to play this role. While this figure could be enshrined within

³⁶ European Commission, *A blueprint for a deep and genuine economic and monetary union. Launching a European debate*, COM(2012)777final, Brussels, 28 November 2012.

³⁷ Macaes, B., *Fiscal Union, Banking Union: Two Opposite Paths for Europe*, The EuroFuture Project, The German Marshall Fund, May 2013.

³⁸ Ministère de l'Économie et des Finances et ministère du Commerce Extérieur – Direction générale du Trésor, *Un budget pour la zone euro*, Trésor-Éco Lettre, n° 120, Octobre 2013.

³⁹ Ministero dell'Economia e delle Finanze, *A Shared European Policy Strategy for Growth, Jobs and Stability*, Rome, February 2016, p. 8.

the European Commission, it would be important to have a strong link with the European Parliament”.

However, at that point one is clearly outside the perimeter of the Lisbon Treaty. If the fund becomes a Eurozone budget with its own resources and an expenditure capacity to effectively support the European economy, new rules on the political procedures to be followed to provide new own resources and to define kind and level of expenditures at the Eurozone level should be established. A new institution, a Eurozone Treasury, should be created, subject to the control of the Council and the Parliament. Then, an in-depth reform of the existing institutions is needed and this is urgent since the deadlock of the European economy risks putting Europe in a declining position in the worldwide competition.

Crisis and Possible New Start of Integration Process

Beyond the Eurozone Predicament

Franco PRAUSSELLO

Concerning the link between the state of the European integration process and possible advancements on the road to an “ever closer union” of the partner countries a widespread view, which has become perhaps a platitude, says that the latter are as a rule possible only in the aftermath of a crisis of the former. Such an assumption, which finds its dignified roots, among other things, in Spinelli’s writings and federalist political efforts¹, was confirmed for instance at the beginning of the process, when the need to reconstruct France and Germany’s economies during the Fifties led to the launch of the European Coal and Steel Community, but was falsified later in the same period by the collapse of the European Defence project in 1954. Similarly, the end of gold exchange standard by the beginning of the Seventies prompted a first attempt to set up a European single currency, which however failed to materialise at the first forecast deadline and was achieved only in 1999.

Nowadays we are confronted with a similar choice: the ailments of monetary union as the most advanced stage of integration could pave the way for a subsequent fiscal and political union, but might also lead to an unravelling or a stop of the process, should the euro-area crisis not be fixed and result in a break up.

In this note, we shall analyse origins, remedies so far employed and possible way outs of the still ongoing eurozone crisis in view of a possible revamping of the integration process, focusing mainly on the errors made by governments within the Eurogroup in their inefficient management of the flaws, which were at the basis of the sovereign debt predicament

¹ Altiero Spinelli, or the leader of the Hamiltonian federalist approach to European integration, developed a crisis theory, according to which only in the presence of a bad predicament showing their inability to meet modern-day challenges national governments could be forced to give up their exclusive sovereignty. See Spinelli, A., *La crisi degli stati nazionali. Germania, Italia, Francia*, Bologna, Il Mulino, 1991.

that put at risk the viability of monetary integration. The rest of the writing is organised as follows. In the next two paragraphs we give our interpretation about the institutional failings that characterise the setup of the monetary union within the eurozone and the ensuing criticism levelled in economic literature at its future working by *ex-ante* forecasts, along with some lessons deriving from its *ex-post* negative outcomes in terms of manifold ailments which put at risk its survival. Paragraph 4 describes how the global financial shock born in the US produced the sovereign debt crisis within the euro area due to constraints associated with monetary integration. Paragraph 5 focuses on different policy tools at hand for recovering economic growth, comparing conflicting experiences in the eurozone on the one hand and in countries such as the US, the UK and Japan on the other. The following Paragraphs 6 and 7 scrutinise the limits of the European response to the crisis, by shifting the crisis management from the Community system to intergovernmental negotiations within the Eurogroup and by imposing on periphery countries in trouble the overall medicine of austerity. Paragraph 8 identifies some possible ways out of eurozone predicament, while the last one concludes the writing with a few final considerations.

1. Flaws in the Design of the Eurozone

A useful starting point for tracing back the origins of the euro-area crisis consists in clarifying the economic foundations of the single currency project as described in the Maastricht treaty. In a previous research of mine, I espoused² the thesis of De Grauwe, according to whom monetary integration in Europe was realised on the basis of the Brussels-Frankfurt consensus³, the neoliberal tenet of efficient markets or the theory that the latter are perfectly self-regulating and the room for public authority interventions is very limited if not virtually absent. According to the *ordo-liberalism* or *Ordo-liberalismus* thinking, a local version of such a theory particularly widespread among mainstream economic and political Germany's decision makers, what is necessary for an economy to grow on a stable path is to follow clear *ex-ante* rules, whereas an independent central bank has to deliver only price stability

² See Praussello, F., "Asymmetric Shocks and Monetary Disintegration: The Case of the Eurozone", in Jovanović M. (ed.), *International Handbook on the Economics of Integration*, Vol. II, Cheltenham, Edward Elgar, 2011, p. 360-377.

³ See De Grauwe, P., "What we Have Learnt About Monetary Integration Since the Maastricht Treaty?", Paper prepared for the Special Issue of the *Common Market Studies*, January 2006.

and fiscal policies are constrained in the straitjacket of a zero-deficit budget.

In a wider context, economic literature has produced two different approaches when it comes to modelise monetary integration: the Optimum Currency Area (OCA) theory and the money cartalist or chartalist view. Following the former, a viable monetary union needs to be protected from adverse asymmetric shocks, i. e. large deviations from an established economy's state of affairs, which in a short period triggers a fall in income and employment in one or a few member regions or countries included in it. Due to the fact that the single monetary policy cannot differentiate among members (a necessary case of "one-size-fits-all policy"), alternative offsetting mechanisms have to be used, among which in the initial stage of the union⁴ the foremost ones can be considered labour mobility across its constituent parts and the existence of a centralised budget, large enough for exerting sufficient stabilisation effects by alleviating the negative impact of disturbances on the relevant economy. Our description of the OCA approach is necessarily synthetic enough, since the whole richness of such a literature strand cannot be here scrutinised⁵.

By contrast, the central tenet of the chartalist view is quite simple in its essence. Focusing on the origin of money, such a theory underscores the principle that its classical features of unit of account, exchange medium and store of value are to be referred to the State, as last-resort guarantor of the currency value. With the caveat that such a theoretical background holds true even when the competence of managing the common monetary policy is attributed to a nominally independent central bank, due to the power of last resort belonging in an exclusive way to government and public authorities in charge of articulating the state sovereignty and hence of setting also by law the limits of attributions transferred to it.

Applying the theoretical instruments developed by the two approaches shortly described along previous lines is conducive to similar outcomes in terms of durability of the eurozone. The absence of a sufficient degree of labour mobility and of a suitable central budget at the euro-area level

⁴ In later stages of the setup of monetary integration other offsetting tools are at hand, for instance in the form of a unified capital market. In any case, in order to be effective such mechanisms have to be automatic, without resorting to long and cumbersome bargaining among member countries.

⁵ However, a hint to recent developments of the OCA endogenous theory cannot here be avoided, due to identification of optimality characters which are provided *ex post* by the mere functioning of a viable monetary union. See, among others, Praussello, F., "The Theory of Endogenous Optimum Currency Areas: A Critical Note", *Economia Internazionale/International Economics*, 2012, LXV, p. 83-95.

or other effective tools to offset asymmetric shocks does not allow to rate the eurozone as an optimum currency area, whereas the judgement of the chartalist view is absolutely negative: devoid of a political union or a European sovereign, a currency without a State could never exist, at least in the long run.

2. European Monetary Integration from *ex-ante* Forecasts to *ex-post* Outcomes

Against such a theoretical setting, a number of scholars, in rating the incoming working of the euro area in view of principles just described, anticipated future malfunctions of the single currency, which could result in a possible failure of the long-coveted European monetary union. Among them, with hindsight we find particularly interesting the views expressed by three mainstream renowned economists such as Dornbusch, Friedman and Feldstein. Dornbusch thought that giving up the exchange rate as an adjustment tool in intra-European relations would leave as a residual offsetting mechanism the local labour market (via the so-called internal devaluation), prompting a prospective dismantling of the welfare state with an ensuing anti-European reaction⁶. Clearly, a possible correct interpretation of the present-day rise of Eurosceptic or Anti-EU movements in the eurozone.

In his turn, Friedman maintained that the single currency is in its essence a political project aimed at producing a European political union. However, being a wrong-headed economic instrument it will be doomed to failure and its collapse will prompt a destruction of the euro area and of the integration process at large, with the consequence that instead of uniting, it will divide Europe⁷. A useful reminder of what could lie ahead should the eurozone break up. Along similar lines Feldstein concluded that after the euro-area breakdown revamped tensions between France and Germany could imperil the current peaceful setup of European relationships⁸. An extreme view concerning the most precious outcome of the integration process: the achievement of peace in the old continent after centuries of tensions and wars.

⁶ See Dornbusch, R., "Euro Fantasies: Common Currency as Panacea", *Foreign Affairs*, September/October 1996.

⁷ See Friedman, M., "Wither the EMU?", *The Wall Street Journal*, June 20, 1997.

⁸ See Feldstein, M., "The Political Economy of the European Economic and Monetary Union: Political Sources of an Economic Liability", NBER Working Paper No. 6150, 1998.

In fact, several shortages on which the monetary union was going to be built upon made a fatal prognosis about its future viability quite easy. Indeed, the Maastricht Treaty lacked both an increased centralised budget and advancements towards a fiscal union and was based on a strict interpretation on the no bail-out clause, whose guarantee was nominally assured by the Stability pact. Due to the fact that the founding members did not have a political will to complement the monetary union with a parallel fiscal union, the latter, in particular, was meant to avoid moral hazard behaviours by members eager to take advantage of a possible future implicit or explicit bailout by partners and overfishing in the common pool of European debts⁹.

In the wake of its launch, the functioning of the monetary union vindicated *ex post* several concerns which presided over its birth. In short, in the absence of robust shock-offsetting tools within the eurozone core and periphery countries followed divergent growth paths. In general terms, before the outburst of the subprime crisis, whereas the former experienced lower GDP growth associated with lower inflation rates than the latter's, in the subsequent period such a pattern was reversed. Notably, eurozone periphery countries took the opportunity offered by the large interest rate reduction linked to the setting up of the monetary union (the utmost advantage for them)¹⁰, for fostering private spending, often in the form of a property boom, and also – but to a lesser extent – public spending in excess, with a consequent worsening of public debt. However, during the following Great Recession the eurozone put to the fore its very nature of a pegged exchange rate system implying a mechanism of asymmetric adjustment¹¹, putting the whole brunt of it on debtor countries, in not too a different way from the old gold standard. At the same time, as early as 2003 the Stability pact was violated by Germany and France, the two main economies in the euro area, with the active connivance of Italy¹². Since then, an unwritten rule of the pact became that it is valid only for second-ranking countries.

⁹ See De Grauwe and Ji, Y., "How Much Fiscal Discipline in Monetary Union?", in *Journal of Macroeconomics*, 2014, 39, p. 348-360.

¹⁰ Moreover, after the birth of the eurozone, in the run-up to the global financial crisis outbreak periphery countries enjoyed particularly low real rates, i.e. nominal interest rates decided by the European Central Bank (ECB) for the whole euro area adjusted for inflation.

¹¹ See Person, K. and Sharp, P., *An Economic History of Europe*, 2nd edition, Cambridge, CUP, 2015.

¹² By that time Italy presided over the Union and gave a negative advice on the possible opening of an excessive deficit procedure against Germany and France. In its turn Italy was officially declared in breach of the Stability pact for the first time in 2005.

In a wider framework, taking into account developments brought about by its occurrence, lessons gained from the euro predicament are summarised by Eichengreen in eight lessons plus a conclusion¹³, considering mainly the standard approach of OCA theory. At the top of his list, however, he does not explicitly consider the starting point of the incorrect management of the crisis by the Eurogroup or the member country governments: a serious diagnostic error about its very origins.

Indeed, contrary to what the Eurogroup thought due to its bias in favour of the ordoliberal interpretation of the eurozone predicament, the crisis was largely ignited not by an excess of public debt triggered by profligate fiscal policies, whose remedies were in principle a variety of austerity programmes, but by a private debt excess. As a matter of fact, when the predicament erupted the latter was on a growing trend, whereas after 2008 an explosion of public debt took place following a balance sheet recession, since private sector needed to reduce its debt overhang and governments decided to assume private debt in order to avoid a debt-deflation dynamics¹⁴.

Having failed to emphasise this point, Eichengreen's inventory of non-anticipated outcomes of the eurozone's working opens with a first lesson: the fact that asymmetric shocks are intrinsic to monetary union. To support this, he shares the view that within the latter inflation rates in core and periphery countries might not converge quickly with destabilising consequences. However, as shown by the endogenous optimum currency areas theory, other monetary integration consequences could produce offsetting effects in terms of an adverse asymmetric disturbance reduction, should the union prompt more intra-industry trade, i.e. more homogenous economic conditions across union's constituents.

A second lesson states that a monetary union without banking union cannot survive. Due to the vital role played by the bank system in a financial space largely based on saving channelled through banking intermediation, like the European one, for preventing moral hazard and other destabilising disturbances from spreading across the euro area a complete banking union is needed, with the whole set of necessary tools: a single supervision, a single resolution mechanism and a common deposit insurance. So far, only the two first items have been partially delivered, but not the last one since some countries, and above all Germany, fear to

¹³ See Eichengreen, B., "The Eurozone Crisis: The Theory of Optimum Currency Areas Bites Back", Notenstein Academy White Paper Series, March 2014.

¹⁴ See De Grauwe, P. and Ji, Y., "How Much Fiscal Discipline", *op. cit.*

be obliged to take part in bailout of reckless banks in partner economies without political backstops.

The third lesson has to do with the mission of the BCE: a normal monetary union requires a normal central bank. According to Eichengreen, its President Mario Draghi, with his famously cited commitment to do “whatever it takes” to save the eurozone from disruption opened in 2012 its lender-of-last-resort season, but is still far from being a normal central bank. As proofs, its initial reluctance to combat deflation risks and its participation in the Troika pressures on member countries in order to introduce structural reforms. However, despite the regime change in 2012 approximating the BCE to a lender of last resort through the Outright Monetary Transaction (OMT) programme involving the purchase of government securities on secondary market, it is also debatable that its strict mandate, exclusively focused on following a monetary policy rule, not taking into account the need to support employment and growth in a fragmented euro area, is up to the tasks of a normal central bank.

Lesson four came as a possible surprise, asserting that labour mobility within a monetary union is a mixed blessing. Indeed, such an offsetting mechanism of an asymmetric adverse shock had been considered as a standard feature of the OCA theory, but recently a number of fresh studies have shown that in some circumstances its validity has been called into doubt. In particular, this holds when labour force cannot easily find a booming economy where to migrate to, as it happened during the Great Recession, which was globally scattered all over the eurozone. Furthermore, nowadays migration flows involve mainly high-skilled workers, prompting a long-term worsening of growth opportunities in laggard countries of origin. We can conclude that in such a context, other insurance tools against asymmetric disturbances have to be employed, with specific reference to a eurozone-wide centralised budget.

Linked to the previous point is the following lesson five, stating that fiscal union has distributional consequences, making it politically impossible to be achieved. In fact, as we saw when describing the main tenets of OCA theory, a normal offsetting tool alternative to a high degree of labour mobility is to make use of built-in stabilisers due to a centralised budget. However, the latter can be only devised in the framework of a fiscal union, whose stabilisation effects imply long-term redistributive consequences between partner countries. We find here one of the main stumbling blocks, which hamper the setting up of a viable eurozone: the refusal of Germany to give birth to what they call “a transfer union”. Nevertheless, it is not impossible in the not-too-distant future to offer the leading country of the euro area sufficient political guarantees to

overcome such an obstacle, if anything by reducing transfer effects to an acceptable size.

The next two lessons concern both the link between fiscal policies and public debt. Lesson six focuses on the feasibility of self-insurance at the national level through countercyclical policies as a substitute for insufficient union-wide insurance mechanisms. In Eichengreen's opinion fiscal stabilisation can be provided nationally with only if debt overhangs are removed, since the latter can reduce government policies credibility, even within the straitjacket of the Fiscal compact. Indeed, the functioning of automatic fiscal stabilisers, which in principle might be authorised at the union level, could not be enough to counteract a cyclical downturn in a shock-hit economy, when past public debt is so high as to prompt an increase in spreads on sovereign bonds, worsening the debt sustainability. As to more effective discretionary policies in the form of Keynesian interventions, they are not considered politically acceptable, due to the ordoliberal orthodoxy ruling the eurozone setup. We find here one of the foremost roots of the governments' inability to fix the euro-area flawed bases.

A possible way out of this cumbersome state of affairs could consist in resorting to the view expressed in lesson seven, following which the eurozone needs a mechanism for restructuring unsustainable debts. As it happened in the case of Greek experience, that goal can be approximated by market-based debt restructuring, but also – when necessary – using bailout opportunities offered by the European Stability Mechanism (ESM). What is clear is that against a background of future stagnation or low growth perspectives, public debt in a number of periphery countries, such as Italy among others, might reveal unsustainable, with dire consequences for the eurozone long-term survival.

The final lesson eight of Eichengreen's analysis establishes that monetary union is forever, more or less. Extending on previous richer inquiries¹⁵, the author argues that economic costs of adjustment in the aftermath of a secession are higher than those of an adjustment within the euro area.

At the bottom of the list, his ending conclusions are that the only option at hand is fixing the eurozone, since its disruption would trigger “the mother of all financial crisis”, and that an orderly dismantling of the euro area is quite impossible.

¹⁵ See Eichengreen, B., “The Break-up of the Euro Area”, NBER Working Paper, No. 13393, 2007.

All that, not taking into account the huge political capital invested in the eurozone membership. However, since he honestly recognises that nothing is irreversible, his view is far from being iron-clad, like all forecasts. Think about the threat to expel Greece from the eurozone during the bailout bargaining in Summer 2015.

3. Global Financial Crisis and Impacts on Sovereign Debt Predicament within the Euro Area

Going back to the roots of eurozone predicament, as a matter of general knowledge global financial crisis had its origins in the property subprime market in the US following the bursting of the housing bubble in 2007, causing bank insolvencies and negative wealth effects which translated into recessionary consequences for economic activities both at the national and international levels. Concerning the transmission of deflationary contagion to the world economy, the initial shock gave birth to what came to be dubbed the Great Recession in a large number of countries with peculiar features in the case of the euro area, which suffered from a double ailment: a customary slump due to the fall in US economic activity on the one hand and an idiosyncratic form of sovereign debt crisis which came to the fore in Greece in the autumn 2009, on the other, due to the fault lines on which the single currency had been based.

In addition to the diverging mechanism identified by Eichengreen in his first lesson on the intrinsic source of asymmetric shocks, another endogenous cause of sovereign debt crisis within the eurozone explaining Greek difficulties by that time is to be found in what could be called the “euro as a foreign currency trap”. As shown by De Grauwe in his “fragility hypothesis” paper, in the framework of the single currency area a debt denominated in euros is an equivalent of a foreign currency liability, on which the issuing country has no direct control, as it were an emerging economy¹⁶.

As a result, in the absence of a fully-fledged central bank acting as a lender of last resort prior to the regime change in 2012 with the launch of the OMT programme, a sovereign country becomes fragilised, since it cannot warrant under all circumstances to serve its debt in a currency, over which it has lost any power. Hence, two destabilising effects produced in terms of self-fulfilling liquidity crisis on the one hand, and of wrong

¹⁶ See De Grauwe, P., “The Governance of a Fragile Eurozone”, CEPS Working Document, Economic Policy, May 2011.

cyclical policies on the other. The former materialises when markets lose confidence in the debtor's solvency and begin selling off sovereign bonds while investing in safe-haven debt titles such as the German ones, thus raising spreads and turning after few time liquidity into solvency crises. The latter are the consequence of a switching off of automatic fiscal stabilisers, when a debtor country in order to soothe speculation rises taxes and cuts spending, managing procyclical policies, which worsen the debt-to-GDP ratio.

At the end of the day, the final outcome of such a trap is that international markets increase their disciplinary power on countries such as the periphery ones, by triggering self-reinforcing slumps, thus imperilling the political and social acceptability of monetary integration: all in a sudden a shift from the promised heaven of the monetary union to the hell of a painful Great Recession hitting millions of people, in De Grauwe's words¹⁷.

4. Different Remedies for Restoring Economic Growth

In general terms, a severe recession can be fought by a mix of policies ranging from discretionary interventions in the form of Keynesian monetary and fiscal expansionary measures to rule-based contractionary measures aimed at recovering market confidence. Over such a continuum of recipes the chosen menu depends on the trust in the belief that fiscal policy can exert real effects¹⁸ and above all on the ideological bias against or in favour of government interventions. What is sure is that a number of governments have re-discovered Keynesian suggestions in the wake of the Great Recession whatever their political colour, with the salient exception of eurozone policymakers, cast in the straitjacket of the ordoliberal orthodoxy. With the caveat that the latter's task was particularly difficult, due to the need to fight on two fronts: the economic downturn and the failures of eurozone's foundations.

Indeed, in order to subdue impacts of the global recession triggered by the Lehman Brothers bankruptcy countries such as the UK, the US and Japan carried out both fiscal and monetary discretionary policies that in broad terms can be considered of Keynesian type. Governments

¹⁷ See De Grauwe, P., "Design Failures in the Eurozone – Can they Be Fixed?", *European Economy*, Economic Papers 491, April 2013, p. 9.

¹⁸ According to economists belonging to the rational expectation school, public investment crowds out private sector spending, i.e. is a substitute for the latter, thus resulting in no output increase.

introduced tax and spending expansionary measures, whereas central banks adopted conventional and unconventional policies of monetary easing¹⁹, decreasing respectively interest rates and increasing emissions of central bank money through asset purchase programmes of both private and public sector assets, mainly in the form of government securities.

Thus, as far as fiscal policies are concerned, in the UK, in the time span 2007-2010, during the Brown government, after a huge £500 bn bank bailout and multibillion tax cuts combined with increased public spending, the budget deficit ballooned from -2.7 to -10.2 per cent, whereas the debt-to-GDP ratio doubled from 44.5 to 80 per cent. At the same time, the Bank of England reduced its policy rate from 5 to 0.5 per cent from October 2008 to March 2009 and in the period 2007-2010 through its quantitative easing programme of £200 bn expanded its balance sheet in terms of GDP by three times, i.e. to an unprecedented level over the past two centuries. As a result of such interventions, as early as 2010 GDP growth came back into positive territory with a +1.2 per cent change, compared to a -6.1 per cent in 2009²⁰.

Along similar lines, in the US the government launched the largest intervention package at the international level on record to combat the economic downturn: a fiscal programme of \$ 787 bn articulated in 283 bn of tax cuts and 504 bn of public spending, mainly in infrastructure works with a budget deficit increased to -10 per cent in 2009. In parallel, the Fed reduced its federal funds rate from 5.25 in September 2007 to 0-0.25 per cent in December 2008, starting also its quantitative easing policy in the same year, with assets purchases ballooning to \$ 1.25 tn. As a consequence of such prompt responses, by mid-2009 the US recession was brought to an end: at that time GDP growth resumed to about 2.7 per cent.²¹

As to Japan, the global recession hit the country hard with the largest post-war downturn causing a slump in GDP by 9 per cent. And in that case too, strong and prompt expansionary policies were carried out by

¹⁹ See Klyuev, V., de Imus, P. and Srinivasan, K., "Unconventional Choices for Unconventional Times: Credit and Quantitative Easing in Advanced Economies", IMF Staff Position Note No. 27, November 2007.

²⁰ See Liu, L., *The Austerity Trap: Economic and Social Consequences of Fiscal Consolidation in Europe*, Charleston, SC, Create Space Independent Publisher, 2015; alongside Joyce, M., Lasaosa, A., Stevens, I. and Tong, M., "The Financial Market Impact of Quantitative Easing", Bank of England, Working Paper No. 393, August 2010.

²¹ See Rich, R., "The Great Recession of 2007-09", <http://www.federalreservehistory.org/Events/DetailView/58>, accessed on 2 January 2016; Pollin R., "US Government Deficits and Debt Amid the Great Recession", PERI WP Series, No. 263, August 2011.

both the government and the central bank. The former, beginning in 2008 introduced several fiscal stimulus packages which reached a 4.7 per cent of that year's GDP, while the general government deficit rose from -1.86 to -8.84 per cent in the period 2008-2009. In addition, the Bank of Japan cut its policy rate from 0.5 to 0.1 per cent by December 2008 and in March 2009 extended the purchase of government securities from 1.4 to 1.8 tn yen per month, after a previous programme of quantitative easing managed in the time span 2001-2006. Despite Japan's long term deflationary experience, such interventions were accompanied by the technical closing of the recession in the first term of 2009, even though some time later a new downturn was triggered by the 2011 earthquake²².

Against such a backdrop showing a number of successful attempts to fight the severe economic downturn by authorities in countries disposing of the whole set of fiscal and monetary tools, the story of the long search for a way out of slumps within the eurozone was completely different, taking into account the fact that here the Great Recession extended to 2014, since the economic downturn was coupled with the sovereign debt crisis in periphery countries.

5. A Biased Institutional Model Leading to a German Europe

Inside the euro area, when in 2009 starting with the Greek predicament market sentiments translated the economic downturn inherited from the US into a sovereign debt crisis and hence of the stability of the whole building of monetary integration, the EU realised that the euro was a naked emperor, whose survival was in jeopardy. In the absence of common sufficient backstops in the form of a centralised budget and other shock absorbing tools the first response from European policymakers consisted in a drastic change of policy regime. Due to the fact that the EU lacked credible alternatives, the task to alleviate the crisis was assigned not to the Community system with its set of imperfect albeit partially democratic institutions, but to national governments negotiations.

Thus, a new body was created: the Eurogroup, in the framework of which creditor countries led by the most exposed and powerful of them, Germany, dictated their conditions in order to bail out debtor countries

²² See OECD Economic Survey: *Japan*, OECD, Paris, 2001, alongside OECD, General Government Deficit (indicator). Doi: 10.1787/77079edb-en, accessed on 3 January 2016.

on the brink of insolvency through mandatory fiscal consolidation programmes.

Useless to say, in such a body Germany's bargaining power in front of each debtor periphery country asking for a financial help was a high multiple of the latter's, strengthening the former's temptation to make use of its new-found might achieved after the national re-unification and its labour market restructuring (or a form of an *ex-ante* internal devaluation), for obtaining what was judged to be the best terms for it. Hence, it came as no surprise that the programmes imposed on periphery countries, both officially subject to an aid procedure (in turn Greece, Ireland, Portugal, Spain and Cyprus) or being a possible candidate for them, such as for instance Italy, were inspired by the ordoliberal orthodoxy and the rule-based contractionary approach. With the caveat that the triumph of so a *Weltanschauung* has been crowned by the fact that in a short time the austerity rules were introduced into the EU legislation too and even, as far as the fiscal compact principle is concerned, with internal laws at constitutional level.

In a nutshell, for a country which is still scared by the ghost of hyperinflation that destroyed its currency four generations ago, whose *Zeitgeist* confounds "debt" and "guilt"²³ and maintains that inter-country cooperation can only require national integrity with no need for collective action²⁴, the danger is looming that the old dream of a European Germany evoked in the aftermath of re-unification may become the nightmare of a German Europe, as was later showed by the capitulation imposed by the Finance Minister Schäuble on Greece during the bailout bargaining in Summer 2015.

Against this background, a last point worth being underscored regards the manifold contradictions characterising the position of the pivotal country of the eurozone as to the continued European integration process. The same Schäuble, who authored with Lamers in 1994 a groundbreaking project to set up a core Europe (*Kerneuropa*) for accelerating the shift to a political union²⁵ and is still considered one of the strongest promoters of European federalism, belonging to the old German generation of

²³ The reference here is to the German word "*Schuld*", which bears the double meaning.

²⁴ The root of the saying: "Let everyone sweep in front of his own door, and the whole world will be clean", which is frequently quoted by several German policymakers, as for instance the Finance Minister Schäuble, meaning that a country can be bailed out only on the basis of its own efforts, implying no collective action problem, is to be found in Goethe's sentence, according to which "*Jeder kehre vor der eigenen Tür und die Welt ist sauber*".

²⁵ See Lamers, K. and Schäuble, W., "More Integration is Still the Right Goal for Europe", *Financial Times*, August 31, 2014.

statesmen such as Kohl, did not hesitate to challenge the perennity of monetary integration threatening Greece with expulsion from the euro area, during the said bargaining. A fatal error that markets will not forget in the future, jeopardising the durability of the eurozone by emphasising its metamorphosis into a trivial fixed exchange rates system, beyond the asymmetric adjustment burden entirely shifted on debtor countries. Not to speak of Germany's unwillingness to reflate enough its economy exploiting its huge current account surpluses for helping periphery countries' sluggish recovery, or of the hard stance of the constitutional court in Karlsruhe, which under pretext of the European Parliament democracy gap, with its rulings casts into doubt the primacy of the EU legal system, let alone of – last but not least – renouncing to use its top-heavy power position among member governments for openly exerting its leadership in the frame of the general Community system, with its full set of albeit limited democratic checks and balances.

6. Austerity or the Wrong Treatment

Alongside the biased institutional model of inter-government bargaining instead of the usual Community system, as to its content the initial governments response to the euro area's crisis was focused on a two-pronged strategy: to build up a number of financial firewalls aiming at mobilising a first economic aid for supporting periphery countries in trouble, on the one hand, and compel the latter to carry out severe fiscal consolidation programmes, on the other. In such a way a number of emergency funds were established, such as the European Financial Stability Facility (EFSF) and the ESM, awaiting at the same time for the bailout interventions to produce their effects.

The latter, however proved in many cases disappointing²⁶: only the credible commitment in 2012 by the ECB President Mario Draghi to act as a European Hamilton²⁷ by providing the euro with unlimited financial support via the newborn OMT succeeded in subduing market speculation attacks lifting the eurozone out of the breakup verge on which it was reduced. In addition, in order to save the huge political

²⁶ Not to speak of Greece, which in the period 2009-2015 was under three Eurogroup fiscal consolidation programmes, also Ireland, Portugal, Spain and Cyprus despite (or owing to) their bailout measures recorded increased debt-to-GDP ratios.

²⁷ Alexander Hamilton, head of the Federalist Party, in his capacity of US federation first Secretary of the Treasury, strengthened the newborn state by consolidating the liabilities of the former 13 American colonies into a fresh common federal debt.

capital invested into the monetary integration achievement and to avoid unprecedented possible economic, social and political costs caused by its collapse, governments were obliged to introduce into the EU law provisions casting a straitjacket on the residual fiscal autonomy of euro area's member countries with an emphasis on a European control on national stability legislations and measures linked to the Fiscal compact packet, together with prospective steps towards a future banking union.

The reasons why contractionary policies failed to fix the periphery countries predicament causing on the contrary an increase of their debt-to-GDP ratios were first explained by Irving Fisher in a breakthrough paper published in 1933 in the wake of the Great Depression²⁸. In short, according to De Grauwe's interpretation²⁹, following the former's description of his debt-deflation dynamics, the attempt to rein in an excessive public debt overhang through government spending cuts was often self-defeating, since the latter produce new downturns with income falls which raise the relative weight of residual government liabilities. As an early vindication of such a point, one can refer to the fresh recession brought about by Roosevelt in 1937 when his administration decided too rapidly to stop monetary and fiscal expansionary policies and reduce the debt incurred for fighting the Great Depression³⁰.

Despite that history lesson, thanks to the ordoliberal thought ruling the Eurogroup managing of the crisis together with some policy recipes advocated by a number of mainstream economists belonging to the anti-Keynesian approach, bailout programmes were based on procyclical austerity measures in terms of spending cuts and balanced budgets.

As a consequence, fiscal consolidation achieved in all euro-area countries in trouble was associated with economic downturns, increasing at the same time the burden of the government debt in relation to GDP, as we have hinted. For instance, in the case of Greece, the worst one among periphery countries, in a paper³¹ on the costs incurred due to the bailout cure, Gechert and Rannenberg show that austerity suffered in the period 2010-2014 explains almost entirely the significant fall in GDP experienced since 2009 (by about 26-28 per cent). In the absence

²⁸ See Fisher, I., "The Debt Deflation Theory of Great Depressions", *Econometrica*, 1933, 1, p. 337-357.

²⁹ See De Grauwe, P., "What Kind of Governance for the Eurozone?", CEPS Policy Brief, No. 214, September 2010.

³⁰ See Krugman, P., "How the Case for Austerity Has Crumbled", *The New York Review of Books*, June 6, 2013.

³¹ See Gechert, S. and Rannenberg, A., "The Costs of Greece's Fiscal Consolidation", *IMK Policy Brief*, March 2015, revised version, June 18, 2015.

of it, the Greek economy would have gone through a long time span of stagnation but not of depression: the GDP would have been similar to that of 2009 and the debt-to-GDP ratio would have been only somewhat higher³². As to the economic costs altogether of austerity in Greece it should be added that according to some estimates its Great Recession has been worse than the US Great Depression³³.

Austerity policies were based on mainstream economic theories, which have been discredited by the outcome of the severe global crisis erupted in 2007-2008. As shown by the recent literature within the Institute of New Economic Thinking (INET) foundation of economic analysis, in particular, the three main pillars of the dominant neoliberal thought that can validate them have been falsified by the real behaviour of economies at the international level. In fact, nor the dogma of market self-regulation, or those of euthanasia of government interventions and the optimum allocation features of free market can be considered as scientifically safe in a context of world globalisation³⁴.

Among recent neoclassical theories that prompted European policymakers to adopt procyclical measures we can cite those describing the merits of the so-called expansionary austerity, by authors such as Alesina and Ardagna³⁵ on the one hand, and Reinhart and Rogoff's alleged discovery that a debt level higher than 90 per cent of GDP was incompatible with a steady growth³⁶, on the other.

According to Alesina and Ardagna, large cuts in public spending in advanced countries did not cause economy to contract, as the Keynesian

³² However, taking into account the first two bailout programmes in the period 2009-2014, Greece's debt-to-GDP ratio increased from 130 to 177 per cent.

³³ See Klein, E., "Greece's Debt Crisis Explained in Charts and Maps", *Vox Policy and Politics*, July 6, 2015, <http://www.vox.com/2015/7/1/8871509/greece-charts> accessed on 9 January 2016.

³⁴ See Reverchon, A., "Pour un nouvel âge de l'économie", *Le Monde*, 11 avril, 2015; The INET "Liberté, Égalité, Fragilité", Conference New Economic Thinking, Paris, 8-11 April 2015, <http://beta.ineteconomics.org/> accessed on 14 April 2015; Kay J., "Pragmatism Works Best in the Reform of Economics", *Financial Times*, April 15, 2015.

³⁵ See Alesina, A. and Ardagna, S., "Large Changes in Fiscal Policy: Taxes Versus Spending", NBER Working Paper No. 15438, 2009. For a critique of Alesina's thesis see, among others, Islam, I. and Chowdhury, A., "The Debate on Expansionary Fiscal Consolidation: How Robust is the Evidence?", *The Economic and Labour Relations Review*, 23, No. 3, 2012, p. 13-37; Krugman, P., "That Old-Time Economics", *The New York Times*, April 17, 2015, besides Coy, P., "Keynes vs. Alesina. Alesina Who?", *Bloomberg Businessweek*, June 29, 2010.

³⁶ See Reinhart, C. and Rogoff, K., "Growth in a Time of Debt", NBER Working Paper No. 15639, 2010. See also Krugman, P., "That Old-Time", *op. cit.*

theory states³⁷, but by contrast produced in several cases an expansionary stimulus increasing output and employment. The explanation was that a more balanced budget can foster the animal spirits of the private sector, boosting confidence and sustaining growth. Along with other papers of the so-called “Bocconi boys”, the case for expansionary fiscal austerity was made. With the caveat that many influential international policymakers in search of a theoretical justification for their ideological bias against the welfare state swiftly followed that intellectual lead and translated it into policy measures³⁸. The trouble with such a theory is that it is largely groundless.

Indeed, a subsequent inquiry by the International Monetary Fund (IMF) based on 173 cases of fiscal changes in seventeen OECD countries showed that the expansionary austerity hypothesis was found to have had little support. In most experiences under scrutiny fiscal consolidation was not followed by an economic expansion but by a slump³⁹.

As to Reinhart and Rogoff, their much quoted paper showing the need to rein in excessive debt in order to restore growth via austerity incurred a worse fate. Their main findings covering a data set of forty-four countries over a time span of about two centuries were that above a ceiling of debt-to-GDP ratio of 90 per cent median growth rates decline by one per cent and average rates fall even more, and that external debt has a larger impact: by a height of 60 per cent of that ratio growth is reduced by about two per cent while collapsing by a half for higher levels. However, not taking into account some minor doubts as to its validity, when the authors published the data sheets on which their study was based, their results proved wrong, due to a number of trivial computing mistakes and above all to the omission in the sample of countries such as Canada, New Zealand and Australia. In fact, by attempting to reproduce their findings a team from the University of Massachusetts Amherst showed their irrelevance and found that by contrast a quite high level of debt may be associate with satisfactory growth rates⁴⁰.

³⁷ Keynes, cited by Krugman, P. (“How the Case for Austerity”, *op. cit.*, p. 1), maintained that “the boom, not the slump, is the right time for austerity”.

³⁸ See Islam, I. and Chowdhury, A., “The Debate on Expansionary Fiscal Consolidation”, *op. cit.*

³⁹ See Guajardo, J., Leigh, D. and Pescatori, A., “Expansionary Austerity: New International Evidence”, IMF WP No. 11/158, IMF, 2011.

⁴⁰ See Herndon, T., Ash, M. and Pollin, R., “Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff”, PERI, University of Massachusetts Amherst 4/15/2013. The authors find, among other things, that at an over 90 per cent debt-to-GDP ratio the average growth rate, properly calculated, is 2.2 per cent.

Beside the theoretical rout caused by the falsification of two of its main pillars, the case for expansionary fiscal austerity suffered from miscalculation of fiscal multipliers, i. e. the quantity links between fiscal changes and their effects in terms of growth-rate differences. Whereas consolidation measures within bailout programmes were deemed to have a fiscal multiplier of 0.5, a few of subsequent assessments found that the latter was biased by an error factor of 3 or 4, that is to say that the contractionary outcomes of such measures were far worse than initially thought⁴¹.

7. Possible Ways Out of the Eurozone Crisis

Despite the huge economic and social costs in terms of foregone growth and increased unemployment caused by the euro-area predicament and the poisonous medicine of austerity used in order to cure it, by early 2016 the eurozone crisis seems far from having been fixed: at best it has been frozen or, according to a possible pessimistic view has been put into a state of pharmaceutical coma, thanks mainly to the quantitative easing cure delivered by the ECB⁴². On average, the euro area's recession is over, and even its GDP per head at market prices has recovered to the levels of 2006-2007⁴³. In addition, after the third bailout programme for Greece and the

⁴¹ De Grauwe and Ji estimate that with a fiscal multiplier of 1.4 the periphery countries had to cut their GDP by 2.8 per cent in order to improve their fiscal balance by 1 per cent. See De Grauwe, P. and Ji, Y., "The Legacy of Austerity in the Eurozone", CEPS Commentary, October 4, 2013. See also Blanchard, O. and Leigh, D., "Growth Forecast Errors and Fiscal Multipliers", IMF Working Paper No. 13/1, 2013.

⁴² For an updated balanced assessment of the euro experience see CER, "Conference Report: Has the Euro Been a Failure?", Ditchley Park Oxfordshire, http://www.cer.org.uk/sites/default/files/Ditchleyreport_11Jan16.pdf, accessed on 13 January 2016. Concerning the effects of the quantitative easing (QE) purchases within the euro area launched in March 2015, a couple of forecasts put forth by the ECB in the same period gives no room for expecting a quick resumption of a satisfactory growth within the eurozone. Indeed, even by the end of 2017, unemployment in the area could be as high as 9.9 per cent, i. e. far above the 7.2 minimum recorded in 2008 (see Jones, C., "Eurozone Jobless Outlook Points up Fears of Persistent Stagnation", *Financial Times*, March 24, 2015). On the other hand, the level of workers non employed in the US was at 5.5 per cent in February 2015 and in the UK was heading to 5.3 per cent towards the year's end. On the general effects of QE see also Fleming, S., "No Easy Way for the Fed to Reverse Course", *Financial Times*, December 19-20, 2015. In addition, risks that a zero interest-rate policy, as the quantitative easing interventions indeed are, could nurture future asset bubbles have to be taken into consideration, as the Bundesbank and German officials vocally maintain (See Charrel, M., "Le 'bazooka' de Mario Draghi n'est pas sans risque", *Le Monde*, 15 avril 2015).

⁴³ See European Commission, "Ameco Results", http://ec.europa.eu/economy_finance/ameco/, accessed on 22 April 2015.

looming catastrophe of the Greek expulsion, both governments and EU authorities have moved along a bumpy road leading to more integration within the eurozone, whose main steps were an accelerated shift of fiscal powers to the European system, together with advancements towards a banking union.

However, challenges that could imperil in the medium-long run the very survival of the eurozone and of the EU at large⁴⁴ have been increasing, both at the internal and external levels. The latter witness the management of biblical migrations from African and Middle East countries and the fight against terrorism of varied origins. The former are if possible more daunting since they include economic and political danger backstops ranging from the need of an urgent change into the economic paradigm towards growth-oriented policies, let alone to combat the anti-European populist movements and parties, which have already conquered the government power or are near to it in a number of countries, to measures aimed at fixing the eurozone fault lines in order to make sure its perennity, to the necessity of stopping the disintegration drive towards secession or expulsion, beginning with keeping Greece within the euro area, in the wake of UK Brexit⁴⁵.

As to the first point, after the launching of the quantitative easing purchase of government bonds by the ECB in 2015, its disappointing effects on inflation rates, which remain largely below the target of just under two per cent, and the subsequent extension of it to 2017, along with the sluggish growth in the area, it is manifest that the monetary policy has to be complemented by a parallel expansionary fiscal policy. What is needed are expansionary fiscal measures and a fresh policy of public investments, beyond the narrow flexibility recently introduced by the Commission: without it unemployment is bound to remain too high. In fact, the much trumpeted Juncker investment plan has proved unsatisfactory both for its limited size and effects⁴⁶, above all if the hypothesis of secular stagnation recently revisited by Larry Summers could at least explain part of the low

⁴⁴ Possible scenarios of future fates for the European institutions should they prove unable to meet current challenges include disorderly collapses such as that of the Soviet Union implosion or of a loss of vitality and irrelevance as it happened over centuries to the Holy Roman Empire.

⁴⁵ Yet, it should be added that views are developing, according to which a eurozone freed from diverging countries such as Greece or an EU without a Eurosceptic UK could accelerate a shift towards a European political union.

⁴⁶ On the limits of the 315 bn Juncker Plan see De Masi, F., Lopez, P. and Viegas, M., "Juncker-Voodoo, Why the Investment Plan for Europe Will not Revive the Economy", www.fabio-de-masi.de/kontext, accessed on 13 January 2016.

growth in Europe⁴⁷. All that, not to mention the fact that in a framework of economic stagnation the public debt burden for most indebted countries such as Italy, which is currently alleviated by the negligible interest rates paid on government liabilities due to the ultra-loose ECB monetary policy through quantitative easing measures, once the latter concluded, in a context of raising rates risks becoming unbearable. In a nutshell, the case for expansionary fiscal policies and more investment-oriented policies is really compelling. From this standpoint, a European plan for a sustainable development could be the right choice⁴⁸.

Concerning the reforms needed in order to stabilise the eurozone, the road map should be clear enough: increasing the shift from the current Eurogroup management based on government negotiations to more integration within the Community system.

From the political standpoint, what is mostly necessary are advances towards more democratic accountability within the Union. As clarified by the dramatic experience of Greek capitulation after the hard bargaining of the third bailout programme, the democratic gap of the latter has been greatly increased, since democracy at the national level, as expressed by local parliaments and governments, is more often than not conculcated by European bodies. Indeed, as shown by Rodrik's trilemma, deep economic integration, nation state and democratic politics are mutually exclusive in the sense that in order to save two of them the third item has to be renounced to. In particular, deep economic integration acts as a « golden straitjacket » on nation state in the absence of democracy, whereas deep economic integration and democratic politics can be compatible with the nation state via the « global federalism » choice. Applied to the case of the EU-eurozone, that implies that the clash between national democracy and deep economic integration may be solved by the federal replication of democratic politics from the national to the European level⁴⁹.

From the economic point of view, after the incoming banking union, what is needed are new steps forward towards a complete economic integration, ranging from the capital market union to a fiscal

⁴⁷ See Summers, L., "US Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound", *Business Economics*, 2014, 49, 65-73. In any case, the current recovery within the eurozone could be short lived if Summers' interpretation of the secular stagnation hypothesis should prove correct, as the IMF's 2015 Spring Outlook seems to suggest. See Wolf, M., "An Economic Future that May Never Brighten", *Financial Times*, April 15, 2015.

⁴⁸ See Majocchi, A., *Un piano per l'Europa. Sviluppo sostenibile e occupazione*, Bologna, Il Mulino, 2015.

⁴⁹ See Rodrik, D., "How Far Will International Economic Integration Go?", *Journal of Economic Perspectives*, Winter 2000, 14, p. 177-186.

union, implying a form of fully-fledged political union. The plan for a functioning banking union has to be completed with the third pillar of a European-wide deposit insurance, after those of the ECB banking supervision and the single resolution mechanism. German resistances to the setting up of such a pillar due to the fear of turning the eurozone into a transfer union have to be overcome, awaiting for the moment when in the wake of 2017 new elections in Germany and France it will be possible to open the site of treaty changes, that will make it feasible to go on the route towards a two-tier Europe, with a larger circle based on the single market and an inner one of a eurozone fiscal union⁵⁰, with a single Treasury and an autonomous budget⁵¹. We have seen that a fiscal union implies profound transfer effects between member countries, which require a democratic control on them in a framework of a kind of fully-fledged political union, where the fundamental principle of « no taxation without representation » will be articulated in a European context, beginning with a eurozone Parliament.

All that provided that enough political capital for such an ambitious goal might be collected, a prerequisite, whose availability is currently lacking. Hoping that in the meanwhile forces that are working for the EU disintegration will not prevail.

8. Final Remarks

In this note we have described the manifold aspects of the eurozone crisis origins and outcomes with a view to identify some possible ways out of the current predicament, where the euro area is still trapped. We have seen how the fate of monetary integration and the European integration process at large are linked together and how an eventual failure to fix its ailments could translate into a stop or unravelling of such

⁵⁰ Mody shows how high are the risks for the stability of the euro area in the absence of a fiscal union. See Mody A., « Living (Dangerously) Without a Fiscal Union », Bruegel WP No. 3, March, 2015. See also Bénassy-Quéré, A., Ragot, X. and Wolff, G., “Which Fiscal Union for the Euro Area?”, Bruegel Policy Contribution, February 18, 2016.

⁵¹ Recently the German and the French Presidents of local branches of ECB put forth a proposal for the creation of a eurozone Treasury supplemented by an independent fiscal council under the control of a eurozone parliament, in the framework of a “financing and investment union”, which can be considered as an intermediate stage between the current incomplete monetary integration and a future fiscal union, in line with the EU Commission’s project for the capital market union. See Villeroy de Galhau, F. et Weidmann, J., “Renforcer l’intégration européenne pour restaurer la confiance”, *Le Monde*, 7 février 2016.

a long-lasting endeavour to build up an ever closer union of European countries, at a time where risks of disintegration are increasing.

According to standard economic thinking, or the OCA approach, the model of monetary union on which the eurozone setup was based was flawed, since the neoliberal bias of the so-called Brussels-Frankfurt consensus at its roots was unfit to safeguard the stability of a monetary building which lacked asymmetric adverse shock-absorbers, such as labour mobility or a large enough centralised budget. Hence the diverging trends between core and periphery countries within the eurozone in the wake of its creation, that put in jeopardy its viability. With the caveat that the global finance predicament deriving from the US property bubble, in its contagion effects on the UE translated into not only an economic downturn but a sovereign debt crisis too. In the absence of effective shock-absorbing mechanisms and a central bank not acting, at least initially, as a last-resort lender, periphery countries found themselves trapped in a situation of emerging economies indebted in a currency over which they had no control.

In reacting to the crisis, member countries made two fatal errors: from the institutional point of view the Community system was abandoned for the benefit of intergovernmental negotiations, on the one hand, and from the economic standpoint only the bitter medicine of austerity programmes was delivered as a cure, on the other. The first mistake paved the way to a German Europe, where the power gap between the leading country in the eurozone and its followers grew unbridgeable, while the second one caused an area-wide long lasting downturn and made economic ailments of periphery countries worse, with social and economic costs soaring, in at least a case, the Greek one, to levels higher than the US Great Depression's. The two errors were in fact intertwined since the mainstream ordoliberal orthodoxy predominant among German policymakers prescribes austerity as the main cure for a downturn, even though recent theories on advantages of procyclical measures such as those of expansionary fiscal consolidation and anti-growth effects of excessive debt have been shown to be lacking sound scientific evidence. By contrast, at the global level, countries such as the US, the UK and Japan fought the downturn resorting to standard countercyclical measures with monetary and fiscal expansionary policies, coming out of recessions in a few years.

In Europe, only at a later date reforms in the institutional setting of the euro area were carried out, for increasing the resilience of the monetary building in terms of enhanced integration in the banking sector and strengthening of a shift of fiscal power from the national to the union

level, beyond the emergency aid funds set up in the immediate aftermath of the crisis.

At the same time, only the regime change introduced by the President Draghi in 2012 to save at any cost the euro making the ECB a *sui generis* lender of last resort and the subsequent purchase of government bonds through quantitative easing interventions succeeded in freezing at least temporarily the crisis, while another dumb mistake made by German authorities during the third bailout negotiations threatening to expel Greece from the area underlined the metamorphosis of eurozone into a fixed exchange rate system, after the adjustment burden put on the shoulders of debtors only.

All this, not to speak of the populist backlash against the Eurogroup policies and of the increasing contradiction between national democracy and deep economic integration, which is putting at risk, along with more recent dangers, the very survival of the eurozone and of the EU at large.

Against such a conflicting background, possible remedies could consist in more growth-oriented policies via expansionary fiscal policies, public investment programmes or bold European plans, beyond the unsatisfactory Juncker project, as to the economic suggestions, and in advancements towards more integration by revamping the Community system, completing the banking union and making progress towards a fiscal union, along with adding to the national one also the European level of democracy and politics, as to the institutional and political initiatives.

All that, hoping that the disintegration forces that are currently at work could not prevail in the near or in the not-too-distant future delivering the eurozone-EU to the fate of the former Soviet Union or of the century-long but irrelevant Holy Roman Empire.

From *Pringle* to *Gauweiler*

The Difficult Years of European Monetary Union and Their Impact on the EU Legal System

FRANCESCO MUNARI

1. Introductory Considerations: Problems of Interpretation in EU Law following the Euro Crisis

Several years have passed since the onset of the so-called sovereign debt crisis and the turbulence that marked the European Monetary Union (EMU). In spite of the laudable efforts made above all by the European Central Bank (ECB) to prevent irrevocable damage to European Monetary Union (EMU), and the agreement reached in August 2015 over the third Greek bailout, I believe that the need for reform of the current legal framework of the EMU is patently obvious together with probably the economic and political constitution of the European Union as a whole. Moreover, without reforms it is unrealistic to imagine that further serious systemic risks can be avoided even though European institutions and Member States have managed, some more than others, to stave off the danger and avert the disintegration of the European legal system. Apart from the essentially political question of Greece, one has only to think of the European Court of Justice's decision in the *Gauweiler* case¹, which legitimised the ECB's Outright Monetary Transactions (hereinafter OMT) in the face of the German Constitutional Court's rhetorically worded reference².

¹ Case C-62/14, *Gauweiler and others*, ECLI:EU:C:2015:400.

² About the preliminary ruling of the German Constitutional Court see Editorial comment, "An unintended side-effect of Draghi's bazooka: An opportunity to establish a more balanced relationship between the ECJ and Member States' highest courts", in *Common Market Law Review* (from now on *Comm. Market Law Rev.*), 2014, 375 ff.; Pernice, I., "A Difficult Partnership between Courts: The First Preliminary Reference by the German Federal Constitutional Court to the CJEU", in *Maastricht Journal of European and Comparative Law* (from now on *Maastr. Jour. Eur. & Com. Law*), 2014, 3; Di Fabio, U., *Karlsruhe Makes a Referral*; Mayer, F. C., *Rebels Without a Cause? A Critical Analysis of the German Constitutional Court's OMT reference*; Murswiek, D., *ECB, ECJ, Democracy, and the Federal Constitutional Court: Notes on the Federal*

It is true that recent important works by scholars have sought to go beyond a mere reassessment of the constitutional system of the EU and EMU³; it is also true that over the last few years legal studies on economic and monetary union have occupied considerable space in specialised journals after years of relative disinterest⁴.

Having said this, it is evident that in an effort to safeguard the EMU and with it the European Union, the overall consistency of the system has suffered from legal contrivance (bending of the rules) that has weakened the very principles of the rule of law on which the Union's legal system over decades has been built⁵.

Constitutional Court's Referral Order From 14 January 2014; Bast, J., *Don't Act Beyond Your Powers: the Perils and Pitfalls of the German Constitutional Court's Ultra Vires Review*; Gärditz, K. F., *Beyond Symbolism: Towards a Constitutional Actio Popularis in EU affairs? A Commentary on the OMT Decision of the Federal Constitutional Court*; Kumm, M., *Rebel Without a Good Cause: Karlsruhe's Misguided Attempt to Draw The CJEU Into A Game Of "Chicken" and What the CJEU Might Do About it*; Schneider, K., *Questions and Answers: Karlsruhe's Referral for a Preliminary Ruling to the Court of Justice of the European Union*; Thiele, A., *Friendly or Unfriendly Act? The "Historic" Referral of the Constitutional Court to the ECJ Regarding the ECB's OMT Program*; Goldmann, M., *Adjudicating Economics? Central Bank Independence and the Appropriate Standard of Judicial Review*; Gerner-Beuerle, C., Küçük, E., Schuster, E., *Law Meets Economics in the German Federal Constitutional Court: Outright Monetary Transactions on Trial*; Petersen, N., *Karlsruhe Not Only Barks, But Finally Bites – Some Remarks on the OMT Decision of the German Constitutional Court*; Schiek, D., *The German Federal Constitutional Court's Ruling on Outright Monetary Transactions (OMT) – Another Step Towards National Closure?*; Beukers, T., *The Bundesverfassungsgericht Preliminary Reference on the OMT Program: "in the ECB We Do Not Trust. What About You?"*; Pliakos, A., Anagnostaras, G., "Blind Date Between Familiar Strangers: the German Constitutional Court Goes Luxembourg!", all in *German Law Journal* (from now on *Ger. Law Jour.*), 2014, 107 ff.

³ See Lenaerts, K., "EMU and the European Union's Constitutional Framework", in *European Law Review* (from now on *Eur. Law Rev.*), 2014, 753 ff. On this topic see also Chiti, E., Teixeira, P. G., "The constitutional implications of the European responses to the financial and public debt crisis", in *Comm. Market Law Rev.*, 2013, 683 ff.; Leino, P., Salminen, J., "Should the Economic and Monetary Union Be Democratic after All; Some Reflections on the Current Crisis", in *Ger. Law Jour.*, 2013, 844 ff.; Tomkin, J., "Contradiction, circumvention and conceptual gymnastics: The impact of the adoption of the ESM Treaty on the state of European democracy", in *Ger. Law Jour.*, 2013, 169 ff.; Maduro, M. P., de Witte, B., Kumm, M. (eds.), *The Democratic Governance of the Euro*, RSCAS Policy Papers 2012/08, Badia Fiesolana, 2012; Allen, F., Carletti, E., Simonetti, S. (eds.), *Governance for the Eurozone: Integration or Disintegration?*, Philadelphia, 2012.

⁴ See also *infra*, § II.

⁵ See, Von Bogdandy, A., Ioannidis, M., "Systemic deficiency in the rule of law: what it is, what has been done, what can be done", in *Comm. Market Law Rev.*, 2014, 59 ff.; Beck, G., "The Court of Justice, the Bundesverfassungsgericht and Legal Reasoning during the Euro Crisis: The Rule of Law as a Fair-Weather Phenomenon", in *European Public Law* (from now on *Eur. Pub. Law*), 2014, 539 ff. More generally, Besselink,

I will not discuss here in detail all the steps in the euro crisis⁶ and the medium-term measures adopted, from the so-called ‘Six Pack’⁷ to the adoption of the Fiscal Compact and the European Stability Mechanism (ESM)⁸. Being outside the scope of this work, I will also not discuss

L., Pennings, F., Prechal, S. (eds.), *The Eclipse of the Legality Principle in the European Union*, Alphen aan den Rijn, 2011.

- ⁶ On this topic, see De Streel, A., “The Evolution of the EU Economic Governance Since the Treaty of Maastricht: an Unfinished Task”, in *Maastr. Jour. Eur. & Com Law*, 2013, 336 ff.; Megliani, M., “Verso una nuova architettura finanziaria europea: un percorso accidentato”, in *Diritto del Commercio Internazionale* (from now on *Dir. comm. int.*), 2013, 67; Viterbo, A., Cisotta, R., “La crisi del debito sovrano e gli interventi dell’UE: dai primi strumenti finanziari al ‘Fiscal Compact’”, in *Diritto dell’Unione europea*, 2012, 323 ff.; Peroni, G., *La crisi dell’euro: limiti e rimedi dell’Unione economica e monetaria*, Milan, 2012; Tosato, G. L., “L’integrazione europea ai tempi della crisi dell’euro”, in *Rivista di Diritto Internazionale* (from now on *Riv. dir. int.*), 2012, 681 ff.
- ⁷ Reference is made to the Reg. (EU) No. 1173/2011 (OJEU L 306 of 23 November 2011, 1 ff.), No. 1174/2011 (*ibidem*, 8), No. 1175/2011 (*ibidem*, 12), No. 1176/2011 (*ibidem*, 25), and No. 1177/2011 (*ibidem*, 33), and of Dir. No. 2011/85/EU (*ibidem*, 41).
- ⁸ On the two treaties see, among others, Cantore, C. M., Martinico, G., “Asymmetry or Dis-integration? A Few Considerations on the New ‘Treaty on Stability, Coordination and Governance in the Economic and Monetary Union’”, in *Eur. Pub. Law*, 2013, 463 ff.; Baratta, R., “Legal Issue of the Fiscal Compact – Searching for a Mature Democratic Governance of the Euro”, in *Diritto dell’Unione europea*, 2012, 647 ff.; Cogliandro, G., “L’impatto del fiscal compact sul sistema di governance europea”, in *Diritto comunitario e degli scambi internazionali* (from now on *Dir. com. scambi int.*), 2013, 337 ff.; Della Cananea, G., “L’ordinamento giuridico dell’Unione Europea dopo i nuovi accordi intergovernativi”, in *La Comunità Internazionale* (from now on *Com. Int.*), 2012, 3 ff.; Gocaj, L., Meunier, S., “Time will tell: the EFSE, the ESM, and the Euro Crisis”, in *Journal of European Integration* (from now on *Jour. Eur. Integr.*), 2013, 239 ff.; Stephanou, C. A., “Building Firewalls: European Responses to the Sovereign Debt Crisis”, in Hieronymi, O., Stephanou, C. A. (eds.), *International Debt: Economic, Financial, Monetary, Political and Regulatory Aspects*, Basingstoke, 2013, 127 ff.; Editorial Comment., “Some thoughts concerning the Draft Treaty on a Reinforced Economic Union”, in *Comm. Market Law Rev.*, 2012, 1 ff.; Baron Crespo, E., Holland, S., “Resolving the Eurozone Crisis and Enhancing Global Governance”, in *La com. int.*, 2012, 13 ff.; Besselink, L. F. M., Reestman, J. H., “The Fiscal Compact and the European Constitution: Europe Speaking German”, in *European Constitutional Law Review* (from now on *Eur. Const. Law Rev.*), 2012, 1 ff.; Calliess, C., “From Fiscal Compact to Fiscal Union? New Rules for the Eurozone”, in *Cambridge Yearbook of European Lega Studies* (from now on *Cambr. Year. Eur. Leg. Stud.*), 2011-2012, 101 ff.; Calliess, C., Schoenfleisch, C., “Auf dem Weg in die europäische ‘Fiskalunion’? – Europa – und verfassungsrechtliche Fragen einer Reform der Wirtschafts – und Währungsunion im Kontext des Fiskalvertrages”, in *JuristenZeitung*, 2012, 481 ff.; Craig, P., “The Stability, Coordination and Governance Treaty: Principle, Politics and Pragmatism”, in *Eur. Law Rev.*, 2012, 231 ff.; De Gregorio Merino, A., “Legal developments in the Economic and Monetary Union during the Debt Crisis: The Mechanisms of Financial Assistance”, in *Comm. Market Law Rev.*, 2012, 1613 ff.; De Streel, A. and Etienne, J., “Le Traité sur la stabilité, la coordination et la gouvernance au sein de l’Union économique et monétaire”, in *Journal de droit européen* (from now

limits to the ECB's responsibilities or the legitimacy of initiatives that in recent years and months it has adopted, thereby enacting the powers and mission assigned to it by the Treaty on the Functioning of the European Union (TFEU) and in particular article 127, which has been open to diverging interpretations⁹.

My aim here is to highlight this bending of rules and the response of case law. In this way, I will suggest how such contrivances may condition possible paths to reform and the destiny of the EMU in a context of unchanged legislation.

2. The Limited Attention of Jurists to EMU Rules...

Any analysis of the economic governance of the European Union must start with a qualitative assessment of the rules contained in the TFEU and those that in particular determined the European Monetary Union.

As jurists, perhaps we thought that, as we were talking about rules aimed at regulating predominantly economic processes and more precisely macroeconomic ones, our job was essentially to describe or better still to narrate. After all, these rules seemed connected to extremely technical (and political) issues about which we were probably ill-equipped to do what is normally expected of us, which is to read the norms rather than necessarily write them. The objective of our work should be then to regulate not only events in the past, but above all those in the present and future on the basis of an analysis of foreseeable scenarios, i.e. on the basis of the possible interpretations and applications available.

on *Jour. dr. eur.*, 2012, 182 ff.; Middleton, T., "Not Bailing Out [...] Legal Aspects of the 2010 Sovereign Debt Crisis", in Arpio Santacruz, M. et al., *A Man for All Treaties: liber amicorum en l'honneur de Jean-Claude Piris*, Bruxelles, 2012, 421 ff.; Kocharov, A. (eds.), *Another Legal Monster? An EUI Debate on the Fiscal Compact Treaty*, EUI Working Paper Law No. 2012/09; Louis, J. V., "The unexpected revision of the Lisbon Treaty and the establishment of a European Stability Mechanism", in Ashiagbor, D., Countouris, N., Lianos, I. (eds.), *The European Union after the Treaty of Lisbon*, Cambridge, 2012, 284 ff.; Zarka, J. C., "Le traité sur la stabilité, la coordination et la gouvernance dans l'union économique et monétaire", in *Recueil Dalloz*, 2012, 893 ff.; Louis, J. V., "Les réponses à la crise", in *Cahiers de droit européen* (from now on *Cab. dr. eur.*), 2011, 353 ff.; Ohler, C., "The European Stability Mechanism: The Long Road to Financial Stability in the Euro Area", in *German Yearbook of International Law* (from now on *Ger. Year. Int. Law*), 2011, 47 ff.; Ruffert, M., "The European Debt Crisis and European Union Law", in *Comm. Market Law Rev.*, 2011, 1777 ff.

⁹ Bassan, V. F., "Le operazioni non convenzionali della BCE al vaglio della corte costituzionale tedesca", in *Riv. dir. int.*, 2014, 361 ff.

So, whilst nearly all the rules of the EU's legal system were put under the microscope, legal analysis on economic and monetary issues appeared more superficial¹⁰. This approach also applied to core constitutional aspects of the Union, such as the workings of the EMU, the relation between exclusive EU competences established in article 3, letter c) TFEU and the coordination of economic policy responsibilities set out in article 5.1 TFEU, as well as the powers assigned to the System of European Central Banks (SECB).

Even more serious was the lack of any critical analysis as to the existence of possible solutions – let alone appropriate ones – in the event of system criticalities. As a result, and first and foremost, the illusion spread that the euro was totally immune to risks and that membership was the gateway to advantages for all, from Member States down to their citizens: the reduction in interest rate charges on public debt, the possibility of acquiring goods and services at better conditions, the abolition of price instability. Second, evident economic and monetary shortcomings in the treaties were put down to teething problems already experienced at the launch of the European Union. What was important, as previous events in the history of European integration had shown, was to lay the normative foundations – though incomplete – to enable the system to develop; refinement would occur pragmatically, perhaps as usual in such matters thanks to the help of the Court of Justice¹¹.

¹⁰ For preliminary remarks, see Smits, R., “The European Constitution and EMU: An appraisal”, in *Comm. market law rev.*, 2005, 425; Louis, J. V., *The Economic and Monetary Union: Law and Institutions*, *ibidem*, 2004, 575 ff.; Herdegen, M. J., *Price stability and budgetary restraints in the Economic and Monetary Union: The law as guardian of economic wisdom*, *ibidem*, 1998, 9 ff.; Louis, J. V., *A legal and institutional approach for building a Monetary Union*, *ibidem*, 1998, 33 ff.; Hahn, H. J., *The Stability Pact for European Monetary Union – Compliance with deficit limit as constant legal duty*, *ibidem*, 77 ff.; Tizzano, A., *Qualche considerazione sull’Unione economica e monetaria*, in *Diritto dell’Unione europea*, 1997, 455 ff.; Daniele, L., *Unione economica e monetaria, obblighi degli Stati membri e poteri sanzionatori delle istituzioni*, *ibidem*, 1996, 931 ff.; Pipkorn, J., “Legal Arrangements in the Treaty of Maastricht for the Effectiveness of the EMU”, in *Comm. Market Law Rev.*, 1994, 263 ff.; Jacobs, F. B., *The European Parliament and Economic and Monetary Union*, *ibidem*, 1991, 361 ff.

¹¹ On this topic see also Cucchiara, M. F., “Fiscal Compact e Meccanismo Europeo di Stabilità: quale impatto sull’equilibrio istituzionale dell’Unione?”, *ibidem*, in *Diritto dell’Unione europea*, 2015, 91 ff.; Caruso, C., Morvillo, M., *Economic governance and budgetary rules in the European context: a call for a new European constitutionalism*, *ibidem*, 2014, 699 ff.; Tufano, M. L., Pugliese, S., *Il nuovo strumento di convergenza e competitività: verso una governance negoziata per l’UEM?*, *ibidem*, 317 ff.; Donati, F., *Crisi dell’euro, governance economica e democrazia nell’Unione europea*, *ibidem*, 2013, 337 ff.; Rossi, L. S., “Fiscal Compact” e Trattato sul Meccanismo di Stabilità: aspetti istituzionali e conseguenze sull’integrazione differenziata nell’UE, *ibidem*, 293 ff.

Even when the first cracks started to appear, it seemed sufficient to define the rules in question as ‘stupid’, the term the-then President of the European Commission, Romano Prodi, famously used to describe the rules contained in the Stability and Growth Pact (articles 1466/97 and 1467/97)¹².

The fact that rigorous legal analysis had severe problems with the subject matter was already shown in the first significant dispute referred to the Court of Justice – the Stability Pact Decision of 2004¹³. The Court struggled to handle within a legal framework what was an essentially political issue, deciding to suspend an excessive deficit procedure against two key Member States (Germany and France), thereby distancing itself from the recommendations the Commission had adopted in applying the rules mentioned above.

In this way, possibly also due to an error in design – or in forecasting – by the very same economists who had conceived the EMU as a system built to withstand any external pressure, we jurists (and not only us) found ourselves unprepared for the crisis that exploded in 2007. It was only then we understood the inadequacy of the normative framework and the unprecedented situations it determined at the European law level, such as conflicting economic objectives (e.g. the incompatibility of the buzzwords ‘rigour’ on the one hand and ‘growth’ on the other), or market pressure, both of which stemming from the absence of a precise system of rules.

At first, and spurred by the urgency to react at all costs and often in only a few hours, rules were produced that can only be termed as

¹² Reg. (CE) No. 1466/97 (GUCE L 209 of August 2 1997, 1 ff.), and No. 1467/97 (*ibidem*, 6 ff.). As it is well known, the two regulations have been replaced by the so-called *six pack*, *two pack* and by the *Fiscal Compact*, whose perspective about the subject matter is external to the European Law. For references see footnote 7 above.

¹³ Case C-27/04, *Commission v. Council*, [2004] ECR, I-6649. For some some comments to the judgement see Diman, P., Salerno, M., “Sentenza Ecofin: gli equilibri della Corte tra tensioni politiche, Costituzione economica europea e soluzioni procedurali”, in *Rivista di diritto pubblico comparato ed europeo* (from now on *Dir. pub. comp. eur.*), 2004, 1842 ff.; Maher, I., “Economic policy coordination and the European Court: excessive deficits and ECOFIN discretion”, in *Eur. Law Rev.*, 2004, 831 ff.; Doukas, D., *The Frailty of the Stability and Growth Pact and the European Court of Justice: Much Ado about Nothing*, in *Legal Iss. Ec. Int.*, (2005), 293 ff.; Torrent Macau, R., “¿Cómo gobernar aquello que se desconoce?: el caso de la Comunidad Europea en tanto que Unión Económica y Monetaria”, in *Revista de derecho comunitario europeo* (from now on *Rev. Der. Com. Eur.*), 2005, 47 ff.; de la Quadra-Salcedo Janini, T., “La discrecionalidad política del Ecofin en la aplicación del procedimiento por déficit excesivo: reflexiones tras la Sentencia del Tribunal de Justicia de 13 de julio de 2004”, in *Revista de Estudios Políticos* (from now on *Rev. Est. Pol.*), 2004, 15 ff.

embarrassing in their improvisation. An emblematic case was the European Financial Stability Fund (EFSF), a company agreed by the 17 Eurozone Member States of the time and incorporated in Luxembourg under Luxembourg law one night in June 2010. Capitalised in the course of a few days with around 190 billion euros, the Fund's aim was to provide financial support to Greece, Portugal and Ireland through the issue of long-term bonds¹⁴. In this context, the legal basis of this solution and other temporary measures adopted at the time appears somewhat forced, i.e. article 122.2 TFEU, which was envisaged to provide financial help to cope with natural disasters or exceptional circumstances probably very different from those the temporary measures were designed for¹⁵.

Later, Member States and European institutions developed better-thought-out and more stable rules that managed to avert the derailing of the EMU. Nevertheless, a definitive judgement on them has to be postponed for a variety of reasons, primarily because their adoption went at least in part beyond the bounds of the EU's constitutional system. In fact, the Fiscal Compact and European Stability Mechanism both lie outside the Treaty on European Union and the Treaty on the Functioning of the European Union¹⁶.

Moreover, the content of these rules, at least for what concerns the behaviour of the States affected, but also for the institutions themselves, appears as yet 'immature' as rule of law. This is shown by repeated requests to modify or reinterpret these rules as part of a review that implies a substantial renegotiation of their contents, a hypothesis that is garnering support in an increasing number of Member States and European institutions.

Further cause for suspending judgement on these rules lies in the uncertain effects this new constitutional architecture of the EU and EMU will have. One need only think that, as a result of the ESM Treaty, Italy, which has a stake of just over 17% of the capital, is committed to underwriting shares equivalent to a paid-in capital contribution to

¹⁴ Replaced by the ESM, from the 1st of July 2013 EFSF's only aim is to manage the issued financing and to receive loan repayments from its three (for further information, see www.efsf.europa.eu).

¹⁵ On the subject, see Athanassiou, P., "Of Past Measures and Future Plans for Europe's Exit from the Sovereign Debt Crisis: What is Legally Possible (and What is Not)", in *Eur. Law Rev.*, 2011, 558 ff.

¹⁶ On this topic, see Craig, P., "Pringle and Use of EU Institutions Outside the EU Legal Framework: Foundations, Procedure and Substance", in *Eur. Const. Law Rev.*, 2013, 263 ff.; Peers, S., "Towards a new form of EU law? The use of EU Institutions outside the EU Legal Framework", in *Eur. Const. Law Rev.*, 2013, 65 ff.; Pinon, S., "Crise économique européenne et crise institutionnelle à tous les étages", in *Revue de l'Union Européenne* (from now on *Rev. Un. Eur.*), 2013, 218 ff. See also *infra* footnote 18.

the ESM of more than 125 billion euros. What is more, in order to maintain a high rating, the ESM established the rule that it will invest only in high-rated, high-quality and highly-liquid securities¹⁷. The outcome for Italy is that through the ESM it ends up financing with its own public debt less-indebted economies (those commonly referred to as more virtuous). We can discuss whether this is the right price to pay to have a State bail out fund, but a certain ‘cross sightedness’ of the rules emerging cannot be ignored.

Last but not least, so far there are no details of the rules of any plan B to be applied in the event last ditch efforts fail to save the euro-zone membership of some States. The irreversibility of membership to the euro is a position which, though insistently repeated, appears no longer unequivocal or even particularly persuasive, especially when some EU Member States insist on keeping their national currencies. The dogma of irreversibility is even less convincing if we consider the weeks leading up to Greece’s third bail out when a possible ‘Grexit’ seemed plausible.

Politically, it is understandable as well as justifiable and appropriate that any ‘plan B’ should not be regulated by law if only because, as past events have shown, this would trigger speculation and political, economic and financial opportunism. The following initiatives at both a legal and operational level by Member States and European institutions focusing above all on bolstering the EMU are therefore to be applauded: at the legal level, examples are, in addition to the ESM and Fiscal Compact, the European Securities and Markets Authority (ESMA)¹⁸ and banking

¹⁷ According to Moody’s Investor Service report, dated October 6 2014, “The ESM operates conservative capital and liquidity management policies to ensure that there is no shortfall of liquid assets to service ESM’s own obligations, even if a borrower defaults. The paid-in capital cannot be used in lending operations but has to be invested (together with the reserves) in high-quality and liquid securities. As of end-March 2014, nearly all of the investments were in Aaa and Aa-rated securities. In accordance with the Investment Policy approved by the Board of Directors, the ESM’s liquidity pool is divided in two separate portfolios” (7); the full text of Moody’s (and other agencies’) report is available on the ESM website (www.esm.europa.eu/investors/rating/index.htm).

¹⁸ See Reg. (EU) No. 1095/2010 (OJEU L331 of December 15 2010, 84 ff.). On the topic, Andenas, M., Chiu, I. H. Y., “Financial Stability and Legal Integration in Financial Regulation”, in *Eur. Law Rev.*, 2013, 335 ff.; Tridimas, T., “Financial supervision and agency power: reflections on ESMA”, in Gormley, L., Shuibhne, N. N. (eds.), *From Single Market to Economic Union: Essays in Memory of John A. Usher*, Oxford, 2012; Moloney, N., “Reform or Revolution. The Financial Crisis, EU Financial Markets Law, and the European Securities and Markets Authority”, in *International and Comparative Law Quarterly* (from now on *Int. Comp. Law Quart.*), 2011, 521 ff.; Schammo, P., “The European Securities and Markets Authority: Lifting the veil on the allocation of powers”, in *Comm. Market Law Rev.*, 2011, 1879 ff.; Teixeira, P. G.,

union¹⁹, whilst operationally, the ECB's OMT and quantitative easing programmes²⁰.

Nevertheless, on the basis of what can be seen, the *modus operandi* is unusual and at a purely legal level the system leaves too many unresolved questions; if it were, in the absence of norms or procedures regulating the departure of a Member State from the EMU, this would inevitably create the basis for fiscal union with real integration of economic policy and a collective (at least in part) debt redemption fund that consequently overcomes the 'no bail out clause' established by article 125 TFEU²¹. These solutions are all legally conceivable, but politically controversial.

Any jurist interested in European matters is faced with alarming cracks in the EU's legal architecture. This situation will be the focus of the next paragraph.

"The regulation of the European financial market after the crisis", in Della Posta, P., Talani, L. S. (eds.), *Europe and the Financial Crisis*, London, 2011, 9; Moloney, N., "EU Financial Market Regulation after the Global Financial Crisis: 'More Europe' or more Risks?", in *Comm. Market Law Rev.*, 2010, 1317 ff.

¹⁹ As it is well known, Banking Union is made up of the so-called Single Supervisory Mechanism, as per Reg. (EU) No. 1024/2013 (OJEU L 287 of October 29 2013, 63 ff.), and of the so-called Single Resolution Mechanism, as per Reg. (EU) No. 806/2014 (OJEU L 225 of July 30 2014, 1 ff.) and No. 2015/81 (OJEU L 15, of January 22 2015, 1 ff.), on the institutional structure of the Banking Union, among others, A. Di Marco, "Il controllo delle banche nell'UEM: la (problematica) nascita di un sistema integrato di vigilanza prudenziale", in *Diritto dell'Unione europea*, 2013, 549 ff.; Moloney, N., "Banking Union: Assessing Its Risks and Resilience", in *Comm. Market Law Rev.*, 2014, 1609 ff.; Wolfers, B., Voland, T., "Level the Playing Field: The new supervision of credit institutions by the European Central Bank", in *Comm. Market Law Rev.*, 2014, 1463 ff.; Witte, A., "The Application of National Banking Supervision Law by the ECB: Three Parallel Modes of Executing EU Law", in *Maastr. Jour. Eur. & Comp. Law*, 2014, 89; Lo Schiavo, G., "From National Banking Supervision to a Centralized Model of Prudential Supervision in Europe: The Stability Function of the Single Supervisory Mechanism", in *Maastr. Jour. Eur. & Comp. Law*, 2014, 110 ff.; Wissink, L., Duikersloot, T., Widdershoven, R., "Shifts in Competences between Member States and the EU in the New Supervisory System for Credit Institutions and Their Consequences for Judicial Protection", in *Utrecht Law Review* (from now on *Utr. Law Rev.*), 2014, 92 ff.; Dammann, J., "The banking union: flawed by design", in *Georgetown Journal of International Law* (from now on *Georg. Jour. Int. Law*), 2014, 1057 ff.; Lastra, R. M., "Banking Union and Single Market: conflict or companionship?", in *Fordham International Law Journal* (from now on *Ford. Int. Law Jour.*), 2013, 1190 ff.

²⁰ See also *infra*, § X, for further interesting evolutions of the system.

²¹ On this topic R. Palmstorfer, "To Bail Out or not to Bail Out? The Current Framework of Financial Assistance for Euro Area Member States Measured against the Requirements of EU Primary Law", in *Eur. Law Rev.*, 2012, 771 ff.; Louis, J. V., "The No-Bail Out Clause and Rescue Packages", in *Comm. Market Law Rev.*, 2010, 971 ff.

3. ...and the Sudden Wake Up Call caused by Emergency Judgements: ESM and EMU, a Clash of Two Worlds in the Pringle Case

I have drawn attention to the qualitative inadequacy of economic and monetary rules contained in the EU and TFEU treaties, the inadequacy of the rules rushed out during the euro crisis and the limits for manoeuvre of Member State representatives in terms of their political mandate.

Not surprisingly then the first time these rules were referred to the Court of Justice (CJEU), i.e. in *Pringle*²², the Court's decision raised some concerns. In particular, alongside a certain relief for a sentence that confirmed the legitimacy of the normative instruments designed to save the EMU and perhaps the Union itself, the legal pressure the Court was under to reach this result did not go unnoticed.

The first concern arising from the *Pringle* judgement relates to the question of competence: the CJEU was asked to determine whether the new article 136.3 TFEU²³ went beyond monetary policy alone and the coordination of Member-State economic policy, but instead represented an amendment to the competences in monetary and economic policy, arising from giving Member States the possibility to grant financial assistance in ways *other* than those foreseen by the same TFEU and so essentially in addition to the (albeit inadequate) provisions of article

²² Case C-370/12, *Thomas Pringle v. Ireland and others*, ECLI:EU:C:2012:756. For a comment to the judgement see, Mengozzi, P., "Il trattato sul Meccanismo di stabilità (MES) e la pronuncia della Corte di giustizia nel caso *Pringle*", in *Studi int. europ.*, 2013, 129 ff.; Gambaro, E., Mazzocchi, F., "Le regole dell'Unione europea alla prova della crisi dei debiti sovrani: il caso *Pringle*", in *Dir. comm. int.*, 2013, 545 ff.; Adam, S., Mena Parras, F. J., "The European Stability Mechanism through the Legal Meanderings of the Union's Constitutionalism: Comment on *Pringle*", in *Eur. Law Rev.*, 2013, 848 ff.; Borger, V., "The ESM and the European Court's predicament in *Pringle*", in *Ger. Law Jour.*, 2013, 113 ff.; Craig, P., "Pringle: Legal Reasoning, Text, Purpose and Teleology", in *Maastr. Jour. Eur. & Comp. Law*, 2013, 1 ff.; De Witte, B., Beukers, T., "The Court of Justice approves the creation of the European Stability Mechanism outside the EU legal order: *Pringle*", in *Comm. Market Law Rev.*, 2013, 805; Nettesheim, M., "Europarechtskonformität des Europäischen Stabilitätsmechanismus", in *Neue Juristische Wochenschrift*, 2013, 14 ff.; Van Malleghem, P. A., "Pringle: A paradigm shift in the European Union's monetary constitution", in *Germ. Law Jour.*, 2013, 141 ff.; Thym, D., Wendel, M., "Préserver le respect du droit dans la crise: la Cour de Justice, le MES et le mythe du déclin de la communauté de droit", in *Cah. dr. eur.*, 2012, 733 ff.

²³ This provision was adopted with decision No. 2011/199/EU (OJEU L 91 April 6 2011, 1).

122 TFEU or article 143 TFEU for non-EMU Members²⁴. If this were the case, this provision would however not only have affected part 3 TFEU but also part 1, in violation of rules regarding modifications to the treaties. In fact, article 136 TFEU was integrated using the simplified treaty revision procedure established by article 48.6, i.e. implementing the provisions of the TEU regarding simplified revisions contained in article 48.6, first and second paragraphs TEU, and possible where modifications affect solely the provisions of part 3 TFEU.

The Court rejected the applicant's argument stating that 'having regard to Articles 4(1) TEU and 5(2) TEU, the Member States whose currency is the euro are entitled to conclude an agreement between themselves for the establishment of a stability mechanism'²⁵, implicitly excluding that the ESM was the particular stability mechanism foreseen by article 136.3 TFEU; indeed, the ECJ was adamant in assessing that the ESM is extraneous to the EMU, hence depriving the new drafting of article 136 TFEU of any relevance, as if this provision were inserted fortuitously.

The consequences for the Court for having reached such a conclusion were significant, forcing it to develop a line of reasoning that was not particularly convincing²⁶, above all with regards to the general question of Member States' external competences and particularly to the possibility of their concluding extra-EU agreements on matters regulated by EU law²⁷.

²⁴ As it is well known, § 3 of art. 136, as introduced by the above mentioned decision 2011/199/EU, provides that "*the Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole and stating that the granting of any required financial assistance under the mechanism will be made subject to strict conditionality*".

²⁵ See case C-370/12, *Pringle*, above, point 68.

²⁶ I'm not personally convinced by the reasoning in *Cisotta, R.*, "Disciplina fiscale, stabilità finanziaria e solidarietà nell'Unione europea ai tempi della crisi: alcuni spunti ricostruttivi", in *Diritto dell'Unione europea*, 2015, 57 ff., at 72 ff., stating that the Court's solution in *Pringle* is "legitimised" by a "vuoto riguardante la tutela della stabilità finanziaria dell'area euro nel suo insieme" ["vacuum related to the safeguarding of financial stability in the euro area as a whole"], and by the fact that the possibility given by art. 352 TFEU to take action on the subject has been excluded. Nonetheless it is correct to consider this as an *ex post* conclusion, arising from the analysis of what happened, with the decisions made by the same States that also decided to involve EU institutions into the "ESM world", with all the forcing widely described here.

²⁷ With specific reference to the economic and monetary policy, on external relations see Malatesta, A., Ricci, C., "Le relazioni esterne della Comunità europea in materia monetaria", in *Diritto dell'Unione europea*, 2002, 229 ff.; Herrmann, C. W., "Monetary sovereignty over the euro and external relations of the euro area: competences, procedures and practice", in *European Foreign Affairs Review* (from now on *Eur. Foreign Aff. Rev.*), 2002, 1 ff.; Basso, R., "Sulle relazioni esterne della Comunità europea in materie riguardanti l'Unione economica e monetaria", in *Riv.*

Admittedly, the ESM Treaty was signed exclusively by EU Member States. However, this has little relevance given that, in order to protect EU law *vis-à-vis* international agreements (inter-state included), the CJEU in the Pringle case drew attention to the duty of Member States to respect EU law when carrying out their respective competences. It did so by mentioning the *Elisa Gottardo* case, which concerned a treaty signed with a non-EU Member State²⁸.

So, to protect the ESM from being judged a violation of EU competences, in *Pringle* the Court was forced to allow the signing amongst Member States of international agreements that overlap EU competences but are external to the Union, provided the obligations deriving from these agreements respect EU law²⁹. This undoubtedly is a step backwards with regards to the supposed parallelism of internal and external competences first established in *AETR*³⁰, which later became an integral part of EU primary law, as illustrated by article 3.1 TFEU and, *ad abundantiam*, article 216 TFEU³¹.

The independence of the ESM with regards to those stability mechanisms nevertheless foreseen by article 136.3 TFEU forced the Court to perform other acrobatics in reasoning, this time on the subject whether the involvement expressly established in the ESM Treaty of Union institutions in fact meant an increase in the Union's competences or in those of its institutions³²: this widening of competences could not have been achieved in fact by the new article 136.3 TFEU, because this provision had been enacted pursuant to the simplified treaty revision procedure.

Here the Court's response is even more elliptical, being based essentially on the idea that, as the ESM is outside EMU rules, the contents

dir. int., 2001, 111 ff.; Weinrichter, N., "The world monetary system and external relations of the EMU: fasten your safety belts!", in *European Integration* (from now on *Eur. integ.*) *online papers*, 2000, 10 ff.

²⁸ Case C-55/00, *Gottardo v. INPS* [2002] ECR I-413, point 32.

²⁹ "Strict conditionality under paragraph 3 of Article 136 TFEU, the article affected by the revision of the FEU Treaty, is in order to ensure that that mechanism will operate in a way that will comply with European Union law, including the measures adopted by the Union in the context of the coordination of the Member States' economic policies" (see *Pringle*, above, point 69).

³⁰ Case 22/70, *AETR* [1971] ECR, 263.

³¹ In this sense, the Schengen experience would not be possible anymore. Such experience could be considered as a paradigm to include ESM in EMU (see Cucchiara, M. F., above, esp. 98 ff.), but the starting point of legality is undoubtedly very different.

³² *Pringle*, above, points 71 ff.

of the ESM Treaty also *vis-à-vis* the involvement of EU institutions do not modify their competences.

Alas, the Court preferred not to base its legal reasoning on the premise that the ESM is basically an agreement that derives in some way from article 136 TFEU and is subject to it. If it had, though this approach would certainly have required a more detailed analysis in the area of international law and perhaps some further legal acrobatics on whether the ESM represented a modification of some competences, it would have in some way reined in the ESM within the Union's constitutional framework. Such an approach in this way would also have confirmed more effectively the centrality of the framework over the ESM. It would also have offered an authoritative proposal as to how the ESM's system (also legal) could in the future be incorporated within the EMU; the solution I believe to be the most appropriate for re-compacting the EU's constitutional architecture.

Also because, as we have already seen and as we will see, the 'horizontal' and 'parallel' approach instead of the ESM and EMU raises significant doubts, for instance, when the Court assumes that the ESM does not exclude measures of financial assistance inside the EU system, based on article 122 TFEU, 'that fact is not such as to affect common rules of the Union or alter their scope'. As one stability mechanism is more than enough, frankly such a hypothesis appears somewhat unrealistic.

Similarly unconvincing is the part of the judgement where the Court, though having to recognise the significant points of contact between the ESM and EMU, attempts to settle the question simply by stating that 'the ESM will, among other tasks, assume the tasks allocated temporarily to the EFSM', i.e. an instrument of temporary financial support established however with the aim of implementing article 122.2 TFEU³³.

In brief, the Court identifies two parallel worlds, one inside the EMU, the other outside it, both compatible and able to coexist without having to modify Union competences or those of the Member States: and in *Pringle* the ESM would anyway be necessarily consistent with EU rules, as Member States cannot contract obligations that contrast with these rules.

Personally, such a line of reasoning appears flawed. It seems difficult to assume that two interchangeable instruments can coexist without the working of one affecting the working of the other. This however, as we will now see, is the conclusion reached by the Court also in the *Gauweiler* decision.

³³ *Pringle*, above, point 103.

4. The Principle of Conditionality in the Face of Economic Policy Measures and Monetary Policy Choices

The parallel worlds generated by the coexistence of the ESM with EMU rules and instruments also produce problems concerning the ESM's impact on rules established at EU level to coordinate economic policy.

On this point, the Court of Justice declared that 'the ESM is not concerned with the coordination of the economic policies of the Member States, but rather constitutes a financing mechanism'³⁴, in this way, rejecting the view that through the ESM the areas of competence existing amongst Member States and between them and the Union had changed. The Court's reasoning is nonetheless less convincing when it regards the conditionality the Member State using the financial assistance is subject to and the impact this conditionality has on the beneficiary's economic policy; an impact the Court terms as 'indirect consequences'. In fact, economic policy measures are imposed on States by the principle of conditionality, whose application presupposes financial assistance. Strictly speaking, we are talking here of *imposition* rather than *coordination*. However, the TFEU rules on economic policy coordination imply certain discretionary powers on the part of Member States, so offering them some room for manoeuvre in terms of sovereignty; room which is far greater than that offered to States applying for financial assistance³⁵.

In fact, and leaving aside questions of the system's democratic deficit, it is clear to all – especially to euro-zone Members – that the rules on economic policy coordination, those of the EMU, have tended to be applied as long as the situation is physiological. When a Member State however has to ask for a form of financial assistance, it leaves the world of the EMU to enter that of the ESM, triggering conditionality mechanisms that radically reduce the country's sovereignty. According to the Court, all this conforms to the treaties because the ESM is distinct from the EMU, despite the existence of article 136.3 TFEU that foresees exactly the same tie between financial assistance and conditionality and which implicitly must remain a dead letter (even though formally it can happily coexist with the EMS) because otherwise its working would alter the

³⁴ Pringle, above, point 110.

³⁵ On the topic of conditionality see Ioannidis, M., "EU Financial Assistance Conditionality After "Two-Pack"", in *Zeitschrift für öffentliches Recht und Völkerrecht* (from now on *ZaöRV*), 2014, 100 ff.; Rogers, C. J., *The IMF and European economies: crisis and conditionality*, Basingstoke, 2012.

structure of intra-EMU competences, an outcome not allowed for by treaty reform mechanisms.

The limits of this line of reasoning become clear when we consider that financial assistance via the ESM is just one of a range of options available and used to help a Member State in difficulty: one has only to think of the ECB's commanding role in shoring up over months the situation caused by the Greek crisis. However, in the Court's reasoning, this role loses its real sense of being a complementary and fundamental instrument in crisis management to become simply an instrument of monetary policy which, almost by chance, has effects also in other areas.

In fact, in *Gauweiler* the Court had to address the very same 'indirect consequences' that implementation of the OMT programme might (or should) have on the economic policies of beneficiary States resulting from the purchase on secondary markets by the ECB of their sovereign bonds, in particular as this programme 'may, indirectly, increase the impetus to comply with those adjustment programmes and thus, to some extent, further the economic-policy objectives of those programmes'. Once again, the Court held that all this does not change the nature or confines of the ESCB's competence, which remains restricted to monetary policy³⁶.

Yet, with all the goodwill and understanding in the world that we owe a judge faced with the task of providing solutions distinctly outside the sphere of law, the rule bending carried out by the ECJ is apparent. Luckily, at least between the lines, in *Gauweiler* the Court, I believe, tried to anchor its reasoning to some principle of EU law, i.e. the principle of loyal cooperation amongst institutions (here, the ECJ and the ECB). The Court uses this principle to confirm the tenet of the ESCB's absolute autonomy: this enables it to avoid entering into a legal review concerning decisions that are essentially technical and discretionary, i.e. the OMT programme, for the purposes of assessing whether these decisions go beyond the confines of the competences attributed to the ESCB or to the ECB. Indeed, as we will see later, *Gauweiler* has the undoubted merit of re-establishing a basis of legal principles concerning the interpretation and application of programmatic rules such as those relating to the EMU, thereby defusing attacks aimed at delegitimising the ECB and, as a result, at weakening overall the European legal system *vis-à-vis* alleged constraints stemming from the need to safeguard the prerogatives of Member States (and in particular of some of them).

³⁶ *Gauweiler*, above, points 58 ff.

5. Economic Policy and Monetary Policy in the *Pringle* and *Gauweiler* Judgements: Rule of Law or Realpolitik?

The Court's legal reasoning suffered further... bending in particular on the question of the reach of monetary policy. In its attempt to scale down the ESM and, upstream, the amended article 136 TFEU, the Court in *Pringle* marked out the scope and objectives of monetary policy exclusively in terms of price stability. Unequivocal in this sense are, amongst others, paragraphs 56-57 of the judgement in which the Court states that the ESM's objective was 'to safeguard the stability of the euro area as a whole, that is clearly distinct from the objective of maintaining price stability, which is the primary objective of the Union's monetary policy. Even though the stability of the euro area may have repercussions on the stability of the currency used within that area, an economic policy measure cannot be treated as equivalent to a monetary policy measure for the sole reason that it may have indirect effects on the stability of the euro'. Along these lines, the Court specifies in paragraph 57 that '[t]he grant of financial assistance to a Member State however clearly does not fall within monetary policy'.

This reasoning is excessively schematic given that economic policy and monetary policy are far more interrelated than the Court wants to admit. In fact, the ECB is in no way extraneous to the ESM, having right from the system's creation offered an opinion on the compatibility of amended article 136 with article 125 TFEU *before* the adoption of decision 199/2011³⁷. From this perspective therefore it becomes also more difficult to base an argument in terms of the confines of the ECB's powers because, if the solution provided by the Court in *Pringle* makes sense in terms of saving the institutional and inter-state solutions made necessary by the emergency, the precedent is offered up to the German Constitutional Court in its request for a preliminary ruling in *Gauweiler*³⁸ on the legality of the OMT under EU law, precisely starting from the basis of the 'ECJ's restrictive interpretation of monetary policy given in *Pringle*.

³⁷ As it is stated by the Court itself "[A]s is apparent from paragraph 5 of the ECB opinion on the draft European Council Decision amending Article 136 of the Treaty on the Functioning of the European Union with regard to a stability mechanism for Member States whose currency is the euro, the activation of financial assistance by means of a stability mechanism such as the ESM is not compatible with Article 125 TFEU unless it is indispensable for the safeguarding of the financial stability of the euro area as a whole and subject to strict conditions" (see case C-370/12, *Pringle*, above, point 136).

³⁸ See above, footnote 2, and below, §§ VII and IX.

On this point and above all *ex post*, perhaps this particular cloud had one silver lining given that in *Gauweiler*, and in marked opposition to the arguments raised by the *Bundesverfassungsgericht*, the Court declared, on the question of the ESCB's competences and the objectives of monetary policy that '[w]ithout prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union.'

Admittedly, there is nothing new here as the wording tracks that of article 127 TFEU. Moreover, it is right that the ESCB's hands are not tied solely to price stability, as probably some proponents of their own national central-bank model would prefer.

Nonetheless, it is a fact that from this perspective the competences of the ESCB and the EMS do tend to overlap and that consequently the interpretations of the rules offered in *Pringle* appear to have served exclusively for contingencies. At the end of the day, the Court put *Realpolitik* before the rule of law³⁹.

The same *Realpolitik* can be seen also in *Gauweiler*: having ascertained that both the OMT programme and the activities of the ESM consist in the purchase of government bonds on the secondary market and that these purchases are subordinate to a programme of macroeconomic adjustment, the Court rejected the idea that the OMT programme can be regarded in any way as a measure extraneous to monetary policy, simply specifying that the 'the difference between the objectives of the ESM and those of the ESCB is decisive. Whilst [...] a programme such as that at issue in the main proceedings may be implemented only in so far as is necessary for the maintenance of price stability, the ESM's intervention is intended to safeguard the stability of the euro area, that objective not falling within monetary policy.'⁴⁰

So, once the ESCB, in carrying out its powers 'independently' and 'without any political pressure'⁴¹, has identified price stability as the objective of its actions, this in the Court's opinion suffices to block any legal dispute regarding the question of attributed competences. As we will see, fortunately, in *Gauweiler* the Court's reasoning appears slightly more organic and complete and is grounded on general principles of law

³⁹ This conclusion seems to be shared by Cisotta, R., *Disciplina fiscale*, above, esp. 70 ff., who however offers a more generous interpretation of Pringle judgement.

⁴⁰ *Gauweiler* above, point 64.

⁴¹ *Ibidem*, point 40. Once more it's apparent the descriptive intent of this part of the judgement motivations in the strong (political) debate about the limits to EBC powers and prerogatives.

typically used in legal reasoning. The overall result, therefore, is without doubt more convincing.

6. Fundamental Rights and Freedom under the ESM

Another problem here to be highlighted, though relating only to the *Pringle* judgement, is nevertheless symptomatic of the climate generated by the euro crisis and its effects on the Union. The final part of the judgement confirms that the governance systems put in place outside the confines of the Union are not subject to any controls regarding their compatibility with the fundamental rights established by the Charter because ‘the Member States are not implementing Union law, within the meaning of Article 51(1) of the Charter, when they establish a stability mechanism such as the ESM where [...] the EU and FEU Treaties do not confer any specific competence on the Union to establish such a mechanism’⁴².

The argument is apparently impeccable and logically follows from the *ratio decidendi* of the judgement. However, once again it fails to persuade because, as the ESM and EMU by definition have to work together⁴³, it is difficult to imagine that Member States and institutions which when in an EMU setting adopt economic or monetary policy measures are expected to abide by the Charter and may fail to do so when the same or similar measures are adopted in an EMS setting, perhaps as part of a specific bail-out plan for one Member State, as was the case in the Greek crisis.

In this sense, the Court though correctly arguing as to the non-application of the Charter, perplexingly omitted to mention even the possibility, at least in theory, that the EMS system should at least conform to the principles of fundamental rights and freedom that have emerged from the constitutional traditions shared by Member States.

Such an omission cannot be fortuitous. Certainly, reference, had it been there, to the common constitutional traditions and, *a fortiori*, to the European Convention on Human Rights (ECHR) would have evoked and perhaps brought new life to article 6.3 TEU⁴⁴, so dismissing the idea

⁴² *Pringle*, above, point 180.

⁴³ See above, § III.

⁴⁴ Such provision lost most of its utility with the coming into force of the Treaty of Lisbon and the formal entry of the Charter in the European Union primary law system (see case C-617/10, *Åklagaren v. Hans Åkerberg Fransson*, ECLI:EU:C:2013:105).

that the ESM lies somehow outside the EU and FEU Treaties. If the Court had wanted to, it certainly could have developed lines of reasoning similar to those which, from the 1970s onwards, progressively integrated fundamental human rights into European law. Therefore, it is realistic to claim that the Court deliberately decided not to express itself on these issues. Why? There are two possible explanations: the first could be out of a form of self restraint on the part of the Court towards a question that is unprecedented and potentially disruptive to the system of EU law, perhaps preferring to wait for a later and less controversial opportunity to return to the question. In fact, the Court has still to express itself on the rules of economic governance and perhaps also offer an analysis that takes into account principles or fundamental rights⁴⁵.

The second explanation, which is less optimistic and more problematical, lies in the possibility that the Court had already absorbed – in line with indications provided by the doctrine and some national courts⁴⁶ – the inconsistency of these new instruments of financial assistance with some fundamental individual rights.

In particular, this last point is of considerable interest to jurists since it shows how the application of measures designed to safeguard the euro are starting to create problems for the common constitutional values within Member States and upon which the Union should be founded, according to the preamble and article 2 of the EU Treaty, and the principle of the rule of law that we jurists in Europe have been accustomed to for decades.

Here it should be added that, also after *Pringle*, despite repeated requests, the ECJ has declined to address the impact the ‘indirect consequences’ of financial assistance measures adopted as part of the new European instruments will have on fundamental rights and individual freedom. Two cases in point are *Sindicato dos Bancários do Norte* and *Sindicato Nacional dos Profissionais de Seguros e Afins*, where the Court opted not to consider the issue, preferring technically valid if arid solutions that ultimately provide no opinion *obiter dictum* or otherwise⁴⁷. In the light of this, the self-restraint explanation mentioned above appears

⁴⁵ So believes Porchia, O., “Il ruolo della Corte di giustizia dell’Unione europea nella governance economica”, in *Diritto dell’Unione europea*, 2013, 593 ff.

⁴⁶ On the topic, see the perspicuous remarks by Baratta, R., above, esp. 673 ff., and M. Starita, “Il Consiglio europeo e la crisi del debito sovrano”, in *Riv. dir. int.*, 2013, 384 ff. As per national law, see *infra*, § VIII.

⁴⁷ Case C-128/12, *Sindicato dos Bancários do Norte and others v. Banco Português de Negócios*, ECLI:EU:C:2013:149 and case C-264/12, ECLI:EU:C:2014:2036. The two cases were (rightly) declared inadmissible, but following the judges’ request for a sign, the closure of the Court is even too indicative of its strong reluctance to deal with the subject.

even less convincing. Fortunately, signs of some support on the level of fundamental individual rights appears to have been provided recently by other institutions. I will discuss this in paragraph X⁴⁸.

7. The Bundesverfassungsgericht's Conditioning of EMU and EU Rules. Quousque tandem?

It is useful at this stage to understand whether, in these turbulent years, there are other players on the scene. In this regard, I believe that a significant addition to the problems in discussing European economic governance has come from Germany's Constitutional Court. In fact, since the notable *Lissabon-Urteil* judgement of 30th June 2009, the *Bundesverfassungsgericht* (BVG) has confirmed the existence of excessive inherent limitations in the *Grundgesetz* that hinder further forms of European integration⁴⁹.

Several years on, we can now track the course developed by the BVG: keeping abreast of the times, it has managed to place several domestic constitutional hurdles in the way of European integration, thereby limiting the bargaining and political power of the Union's most powerful Member (Germany). This solution has been obtained through a significant revival of the theories of 'counter-limits'. Such theories had appeared destined to be consigned to the history books of European integration, since in most recent years obstacles to integration had come from the political sphere or in the form of referendums, thereby excluding any technical or legal reasoning⁵⁰.

In 2009, the sovereign debt crisis had yet to explode but already the BVG saw perhaps more than many others the cracks that were appearing in the EMU and set about erecting defences around the German legal system.

⁴⁸ See *infra*, § X.

⁴⁹ This is not the proper place to deal with the subject. In *Lissabon-Urteil* (cases No. 2 BvE 2/08, 2 BvE 5/08, 2 BvR 1010/08, 2 BvR 1022/08, 2 BvR 1259/08, 2 BvR 182/09, in www.bverfg.de/entscheidungen/es20090630_2bve000208.html), literature is massive: for all, see Poiares Maduro, M., Grasso, G., "Quale Europa dopo la sentenza della Corte costituzionale tedesca sul Trattato di Lisbona?", in *Diritto dell'Unione europea*, 2009, 503 ff., and Cannizzaro, E., Bartolini, M. E., *Continuità, discontinuità e catastrofismo. Sulle reazioni della dottrina al Lissabon-Urteil*, *ibidem*, 2010, 1 ff., also for further references.

⁵⁰ On the subject of counterlimits, for all, Nascimbene, B. (ed.), *Costa/Enel: Corte costituzionale e Corte di Giustizia a confronto, cinquant'anni dopo*, Milan, 2015.

In *Lissabon-Urteil*, the Court established in a fully-rounded way the workings of the so-called *Einzelermächtigungen*, i.e. a reading of the principle of conferral from the point of view of Member States' legal systems and Germany's in particular: as competences are 'conferred', the Union cannot increase them without violating the sovereignty of Member States and their constitutional systems; if the Union wishes to increase these competences, it must ask for specific measures to attribute power to modify them on a case-by-case basis.

The effects on the EU legal system are evident as they impact the flexibility clause (article 352 TFEU), severely limiting its application potential. And this is why, for instance, two years after *Lissabon-Urteil*, the Union – or more precisely, its Member States – were forced to change the treaties by amending article 136 TFEU, a norm that provided significant application potential if one reads the argumentation the ECJ was forced to develop in *Pringle*⁵¹.

Moreover, also the mechanisms that test the constitutionality of German laws repeatedly provide the BVG with the opportunity to lay down the conditions to its government and parliament and consequently to EU institutions⁵², primarily to the European Council and Council. Particularly, by using the *Verfassungsbeschwerde*, i.e. a constitutional complaint procedure and replying to literally thousands of complaints made by citizens, scholars, organisations and even political parties⁵³, the BVG can clarify and strengthen domestic constitutional limits *vis-à-vis* the adoption of all the main State bail-out measures coming from both inside and outside the EU system, from the Greek bail-out to the ESM Treaty⁵⁴.

⁵¹ See above, §§ III-VI.

⁵² On the subject see Gärditz, K. F., above.

⁵³ The reference is made to the party *die Linke*, whose complaints to the BVG reveal a strong opposition against financial assistance to Southern Europe countries affecting German citizens' economy. This shows that there's a less and less international overview also by traditionally socialist parties, whose principles of solidarity with the weak apparently end at the national border. This said, it's also true that the BVG minimizes the decisions about the relationship between the *Grundgesetz* and matters relating to euro, given the really low percentage of direct actions dealt with by the Court.

⁵⁴ On the actions against the Greek bail-out (case n. 987/10 of 7 September 2011, in www.bverfg.de/entscheidungen/rs20110907_2bvr098710.html) and against the EMS Treaty (cases n. 2 BvR 1390/12, 2 BvR 1421/12, 2 BvR 1438/12, 2 BvR 1439/12, 2 BvR 1440/12 and 2 BvE 6/12, in www.bverfg.de/entscheidungen/rs20120912_2bvr139012.html), for references, Lo Bue, M., *Crisi economica e trasformazione delle istituzioni europee. Meccanismi istituzionali di governo della recessione*, Turin, 2013, 158 ff. and 202 ff., Calliess, C., "The Future of the Eurozone and the Role of the German Federal Constitutional Court", in *Year. Eur. Law.*, 2012, 402 ff.; Curzan, J., "A Critical Linkage: the Role of German Constitutional Law in the European Economic Crisis and the Future of the Eurozone", in *Fordham Int'l*

In this way, thanks to the assertion of the principle of democracy, protected by the *Grundgesetz*, and consequently of the sovereignty of the German people and their representatives, i.e. the *Bundestag*, the BVG, in maintaining control over the main budgetary decisions, exerts considerable constitutional influence over inter-governmental methods and over the possibility of modifying treaties to establish instruments designed to reform economic governance within the EU. In fact, once excluded the German government's power to introduce bail-out mechanisms that are not ratified by the *Bundestag*, or better, that have not been decided by it, any German law enacting agreements made inside or outside EU confines that introduces open-end mechanisms to provide financial assistance to States is subject to an assessment of constitutional legitimacy by the BVG, since the economic and financial effects of these mechanisms on the German system are always subject to parliamentary approval⁵⁵.

Therefore, the BVG's consent to the German government and State both on the question of financial assistance to Greece in 2012 and on Germany's capitalisation of the ESM, though at first judged positively, in reality appear to limit possible broader-based solutions. In fact, the domestic constitutional constraint posed by the BVG with regards to another Member State reduces the range of possible solutions necessary to address the current incompleteness of the EMU and the EU and resolve the contradictions of the system described above.

What is more, given that in general the search for parliamentary consent on international issues can be exploited for domestic political ends, this indirectly but significantly weakens Member States' representative institutions and the 'Community method' adopted in Europe that has for decades represented the real difference between the EU and other international organisations.

Apart from the obvious domestic political pressure exerted by *Bundesverfassungsgericht* case law, the legal limits of the Court's decisions on the German government in European negotiations and on the Union as a whole are clear.

Law Jour., 2012, 1543 ff.; Schmidt, S. K., "A sense of déjà vu? The FCC's Preliminary European Stability Mechanism Verdict", in *Ger. Law Jour.*, 2013, 1 ff.; Wendel, M., "Judicial restraint and the return to openness: The Decision of the German Federal Constitutional Court on the ESM and the Fiscal Treaty of 12 September 2012", in *Ger. Law Jour.*, 2013, 21 ff.; Schneider, K., "Yes, but... One more thing: Karlsruhe's ruling on the European Stability Mechanism", in *Germ. Law Jour.*, 2013, 53 ff.

⁵⁵ As it will be said, in *Gauweiler* the Court of Justice takes a very different position (see *infra*, § VIII).

Unsurprisingly, the BVG's first request for a preliminary ruling by the ECJ on article 267 TFEU was assertively and almost rhetorically worded, expressly indicating to the Court the conditions under which the measures announced by the ECB as part of the OMT programme were compatible with EU law⁵⁶. In actual fact, the BVG was asking the Court to declare the OMT programme incompatible with the Treaties, using for this purpose the weaknesses present in *Pringle*, in particular with reference to the scope of monetary policy – and so the very mission of the ECB – as set forth in the TFEU.

The distance between a European institution and the supreme judge of one of the Member States is unprecedented in the history of EU law. In some way, this conflict, let us say, 'breaches' also the principle of loyal cooperation established by article 4.3 TEU, a principle that from the BVG's point of view was perhaps in fact breached by the ECB. The affair has changed the nature of the dialogue between national judges and the ECJ expressed as we have known it for decades in the form of the reference for a preliminary ruling⁵⁷.

However, as we will see, the Court was in no way conditioned by this method and if anything wanted to reaffirm, first, its exclusive prerogative as interpreter of EU law and, second, the binding nature of its decision on any national court⁵⁸. Such a stance has significant consequences: the first and most immediate is the legitimisation of the OMT programme under EU law. The Court however also indicated the systematic control it intended to exercise on the instruments chosen by the ECB to carry out its mandate⁵⁹; the second and considerably more complicated outcome potentially concerns Germany, which after *Gauweiler*, faces the dilemma of, on one hand, respecting EU law as interpreted by the ECJ's

⁵⁶ See De Petris, A., *Un rinvio pregiudiziale sotto condizione? L'ordinanza del Tribunale Costituzionale Federale sulle Outright Monetary Transactions*, in *federalismi.it*, 4/2014. For further information see press releases available at: http://www.ecb.europa.eu/press/pr/date/2012/html/pr120906_1.en.html; <http://www.ecb.europa.eu/press/pressconf/2012/html/is120906.en.html>; <http://www.ecb.europa.eu/press/key/date/2013/html/sp130902.en.html>. In literature see also Altavilla, C., Giannone, D., Lenza, M., *The financial and macroeconomic effects of OMT announcements*, BCE working paper series 1707/2014, in www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1707.pdf; Petch, T., *The compatibility of Outright Monetary Transactions with EU law*, in *Law and Financial Market Review* (from now on *Law & Fin. Mark. Rev.*), 2013, 133 ff.; Cour-Thimann, P., Winkler, B., *The ECB's non-standard monetary policy measures the role of institutional factors and financial structure*, BCE working paper series 1528/2013, available in <http://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1528.pdf>.

⁵⁷ On the topic see Thiele, A., above.

⁵⁸ See *Gauweiler*, above, point 16.

⁵⁹ See also above § IV.

preliminary rulings whilst, on the other, overcoming the constitutional rigidity produced by BVG case law⁶⁰.

8. Tensions from the Mediterranean EU, but not only from there

However, it is not only the *Bundesverfassungsgericht* that is weakening Member States' shared constitutional traditions. In fact, an interpretation of national primary laws in support of a political stance grounded on rigour in interpreting European decisions (EU or not) on financial assistance for Member States in difficulty, runs up against an interpretation of the constitutional laws of those States opposed to the application of measures adopted by them in implementing the 'strict conditionality' required by financial assistance programmes.

So, whilst in *Pringle* the ECJ rejected the admission of fundamental rights and individual freedom as a yardstick for the legality of financial assistance measures, Greece's Court of Audit and Supreme Court judged the Greek government's public spending cuts unconstitutional⁶¹. A few months later, Portugal's Constitutional Court declared that provisions contained in the 2013 Budget Law passed by the Portuguese parliament as part once more of the austerity measures made necessary by the 'new normative instruments' adopted to save monetary union violated the principles of equality and of fundamental social rights⁶². The Court was to confirm this judgement three more times⁶³.

⁶⁰ So much that someone (Cafaro, S., above; Kumm, M., above) assumed that because of BVG's rigidity on these issues, Germany could be in breach of the EU law rules with the related consequences.

⁶¹ Particularly, with the opinion of 31 October 2012, the Court of Audit issued a negative decision on the raising of the retirement age and on the cuts to pensions and to the allowances provided to Greek pensioners. On 7 November 2012 the Supreme Court declared unconstitutional cuts to Greek judges' salaries. On 27 February 2013, again, the Court of Audit declared unconstitutional the rules retroactively adopted by the Greek legislator to cut public salaries and wages. Since I don't have any knowledge of Greek language, I'd like to thank Chiara Cellerino and Nikolas A. Verras for the summary of the three above mentioned decisions.

⁶² Tribunal Constitucional, 5 April 2013, Case No. 187, also available (together with a summary in English) in www.tribunalconstitucional.pt/tc/en/acordaos/20130187s.html. For comments and remarks, Gallo, D., Cisotta, R., "Il Tribunale costituzionale portoghese, i risvolti sociali delle misure di austerità ed il rispetto dei vincoli internazionali ed europei", in *Diritti Umani e Diritto internazionale*, 2013, 465 ff.

⁶³ For further details, see Fabbrini, F., "The Euro-Crisis and the Courts: Judicial Review and the Political Process in Comparative Perspective", in *Berkeley JIL*, 2014, 64 ff.

In this conflict between Courts and their respective founding values, worthy of note are two judgements (Nos. 223/2012 and 116/2013)⁶⁴ of the Italian Constitutional Court, which declared unconstitutional cuts to judges' salaries carried out by the Berlusconi government in 2010 and to 'fat cat' pensions decided by the Monti government in the second half of 2011, i.e. at the height of turbulence when the spread of Italian bond yields over comparable German *bunds* ballooned to over 500 basis points⁶⁵. Although both judgements, particularly the second, were seen by some as an inappropriate defence of the unacceptable benefits of a privileged few, here I would like to highlight how also the Italian Constitutional Court revealed an evident conflict between, on one hand, the application of austerity measures decided by Member States in an EMU setting and the founding principles of the Italian constitution on the other⁶⁶. The same Court's judgement No. 70/2015 can be seen in a similar vein: though basing its argument on the inadequacy of the reasoning offered by the Italian legislator, the Court declared the Italian government's decision to block pension upgrades unconstitutional despite the fact that the measure was taken as part of cost containments required to meet euro-zone convergence parameters 'imposed' by the EU⁶⁷.

⁶⁴ Respectively, Cost. Court October 11 2012, Case No. 223, "A. e altri c. Min. giust.", in *Giur. Cost.*, 2012, 3293 ff.; Cost. Court 5 June 2013, No. 116, "B.G. e altri c. Inps e altri", in *Giur. Cost.*, 2013, 3587 ff.

⁶⁵ More precisely, the judicial reviews as to constitutionality were, respectively, related to art. 18, par. 22-bis, Law Decree of 6 July 2011, No. 98 (*Disposizioni urgenti per la stabilizzazione finanziaria – Urgent provisions for financial stabilization*), converted, with amendments, by Law of 15 July 2011, No. 111, as amended by art. 24, par. 31-bis, Law Decree of 6 December 2011, No. 201 (*Disposizioni urgenti per la crescita, l'equità e il consolidamento dei conti pubblici – Urgent provisions for growth, fairness and consolidation of public finances*).

⁶⁶ For a recent and persuasive reconstruction of the case-law of our Constitutional Court acting also as "European" judge, see Ivaldi, P., "Diritto dell'Unione europea e processo costituzionale", in *Diritto dell'Unione europea*, 2013, 191 ff. More generally see also Rosas, A., "The National Judge as EU Judge; Some Constitutional Observations", in *SMU Law Rev.*, 2014, 717 ff.; Grabenwarter, C., "National Constitutional Law Relating to the European Union", in Von Bogdandy, A., Bast, J. (eds.), *Principles of European Constitutional Law*, Oxford, 2010, 83 ff.; Tizzano, A., "Ancora sui rapporti tra Corti europee: principi comunitari e c.d. controlimiti costituzionali", in *Diritto dell'Unione europea*, 2007, 734 ff.

⁶⁷ The reference is made particularly to par. 25 of art. 24, Law Decree of 6 December 2011, No. 201 (*Disposizioni urgenti per la crescita, l'equità e il consolidamento dei conti pubblici – Urgent provisions for growth, fairness and consolidation of public finances*), converted, with amendments, by art. 1, par. 1, Law of 22 December 2011, No. 214. This law, as it is known, was said to be contrary to articles 3, 36, first paragraph, and 38, second paragraph, of the Italian Constitution. The Constitutional Court proved to be unwilling to support some referring judges's decisions considering the contested rules as detrimental to fundamental rights as provided for by ECHR.

Fortunately, not all constitutional courts are antagonistic with regards to EMU or ESM rules or more precisely with regards to the implications these rules have at national level⁶⁸. In an overview of the positions taken by national constitutional courts, the judgement of the Estonian Supreme Court is significant. The Court was asked whether the 85% majority foreseen within the ESM Board of Governors was compatible with the country's constitution, on the basis of the fact that only three Member States (Germany, France and Italy) can exercise a veto, meaning that the other members have to comply with the Board's decisions⁶⁹.

The Estonian Supreme Court had no hesitation in judging this rule consistent with the principle of proportionality and therefore legitimate even though it restricts the financial competence of the Estonian Parliament, the principle of rule of law and the sovereignty of Estonia⁷⁰. Without wanting to overemphasize the significance of this judgement, it does nevertheless show that, at least on economic issues, the most recent EU Member States – and their judges – believe in European Monetary Union and the 'community' method perhaps more than others.

9. The Gauweiler Judgement and its Possible Impact on the Structure of the EMU

Amongst the varying opinions on the constitutional effects determined by the shortcomings of the EMU, the ECJ has had, at least so far, the last word in *Gauweiler*.

Clearly, the judgement was the product of a solely EU perspective. Admittedly, few doubted that the Court would have delegitimised the OMT programme and by doing so sound the death knell of monetary union.

However, apart from the outcome, a reading of the judgement motivation suggests that the Court had no intention of obtaining a minimum result, but instead bravely – and at least on the political level persuasively – sought to offer a system-wide indication and at the same time halt perhaps once and for all repeated attempts to delegitimise and weaken the ECB, i.e. the institution that, over the last few years, had

⁶⁸ A short overview of the internal constitutional case-law on ESM is provided by Cucchiara, M. F., *above*, 110 ff.

⁶⁹ See art. 4.4 of ESM Treaty.

⁷⁰ Estonian Supreme Court, judgements of 3-4 1-6 of 12 July 2012, available at www.riigikohus.ee/?id=1347, §§ 208-209.

more than any other taken on the task of saving the euro and the EU against a backdrop of political (and has we have seen, for some, also legal) paralysis characterised by the actions of Member States.

The Court's *iter decidendi* is not perfect, nor does its attempt to create a continuum between its judgement and *Pringle* fully convince. Also because, as I have already pointed out, it was by no means easy to counter the BVG's astute referrals on the basis of the weaknesses inherent in the *Pringle* judgement.

The Court, however, clarified point by point the issues raised in the referral, so providing a structured defence of the workings of the ESCB, which can be summarised as follows.

First and foremost, a 'strong' legal review of ESCB and ECB measures is not allowed as these institutions enjoy absolute autonomy and independence with regards to any form of political pressure and consequently a considerable margin of discretion in making technical decisions⁷¹. The only limit they have in performing their institutional mission concerns the motivations of the decisions they take, which can be subject to judicial review where there is a 'manifest error of assessment'⁷². On this question, a reading of ECB documents regarding the transmission of monetary policy in the euro area, made up by all 'the various channels [and I include the OMT programme as one of them] through which monetary policy actions affect the economy and the level of prices in particular'⁷³ will suffice to show, also jurists, how difficult it is to interpret and categorise in a rigid way (and in doing so, mistakenly) measures that are extremely complex and variable. In this sense, the Court is to be commended for those parts of the judgement motivation where, clarifying that the objective of the OMT programme is to remedy instabilities in the monetary policy transmission mechanism, it recognises that assessments made by the ECB should be respected even though these may concern selective measures that have indirect consequences

⁷¹ *Gauweiler*, above, esp. points 68 ff.

⁷² *Gauweiler*, above, point 74. Even more emblematic – and symptomatic of the Court's will to promptly reply to BVG – is point 75: "[...] the fact, mentioned by the referring court, that that reasoned analysis has been subject to challenge does not, in itself, suffice to call that conclusion into question, since, given that questions of monetary policy are usually of a controversial nature and in view of the ESCB's broad discretion, nothing more can be required of the ESCB apart from that it use its economic expertise and the necessary technical means at its disposal to carry out that analysis with all care and accuracy".

⁷³ See the analysis "La trasmissione della politica monetaria nell'area dell'euro", in *Boll. mensile BCE*, 2000, 41 ff.

on the economic policy objectives established in parallel adjustment programmes agreed on (or imposed) as part of the EFSF or ESM⁷⁴.

Having made this clarification, the Court had little difficulty in reaching further conclusions that strengthened the EMU and consequently the Union as a whole. Above all, we have already seen how the Court's preference for an analysis of relevant treaty norms that does not seek the rigid compartmentalisation of economic policy and monetary policy measures implies also its preference for a more flexible interpretation of the principle of conferred competences. It is here, I believe, that the greatest divergence emerges between the Court of Justice and the principles of conferral theorised by the *Bundesverfassungsgericht* already seen in the *Lissabon-Urteil* judgement. Indeed, in *Gauweiler*, the Court sought to take this opportunity to stress, in contrast to the rigidity of the German judgements, the need for and legal correctness of a flexible approach *vis-à-vis* the interpretation of rules assigning powers to institutions, particularly those of the ECB. Such flexibility is fully consistent with the principle of loyal cooperation and presupposes the need to allow the ECB to be able to assume the role and the responsibility also institutional which, in the current critical situation, the ECB itself has marked out.

Furthermore, and once more in contrast with the BVG's line of reasoning, the ECJ clarified that the bond-purchase programmes established for certain Member States and for categories of bonds issued (such as the OMT programme) are already 'circumscribed and limited', so making it unnecessary and indeed wrong to set 'a quantitative limit [...] prior to its implementation, such a limit being likely, moreover, to reduce the programme's effectiveness'⁷⁵.

Obviously, we are a long way from the legitimisation of any open-end measure, which puts the ECB's independence and capacity to act at risk and infringes therefore article 123 or article 125 TFEU. Nevertheless, there is an unmistakable similarity between the Court's judgement and Mario Draghi's famous 'whatever it takes' declared during the announcement of the OMT programme as an instrument to counter speculative attacks on certain euro-zone States' public debt. So, the assessment in terms of proportionality made by the Court with regards to a programme that does not have quantitative but rather methodological limits takes on an importance that goes beyond the specific case in question and can help

⁷⁴ *Gauweiler*, above, points 55 ff.

⁷⁵ *Gauweiler*, above, point 88.

to design further instruments to be used by EU institutions as part of an overhaul of the EMU.

It is of little importance if this discretionary action includes ‘generally, the possibility of the ESCB purchasing from the creditors of such a State, bonds previously issued by that State’. If this in fact occurs with a series of ‘sufficient safeguards to ensure that the latter does not fall foul of the prohibition of monetary financing in Article 123(1) TFEU’, this decision also appears legitimate⁷⁶.

In the analysis of the *Gauweiler* judgement, a question, perhaps of little real importance, does come to mind: did the Court want to challenge the *Bundesverfassungsgericht*, or at least a part of it, for having over-played their role as defenders of German democracy? Certainly more important, also for the European cause, is to view positively the position the Court took with regards to the BVG, i.e. as a natural part of the dialogue between courts and the essence of preliminary ruling referrals. In this sense, if the obligations arising from EU-membership mean a community-oriented reading of certain *Grundgesetz* rules, then this is simply how relations between national and EU laws normally work and is part and parcel of what jurists have studied since *Van Gend en Loos*⁷⁷, which has also conditioned the constitutional structure of all Member States, with the landmark *Frontini* judgement of the Constitutional Court as an example from Italy⁷⁸.

10. Conclusions

Apart from the political aspects, from the legal viewpoint the obvious shortcomings of rules concerning the EMU and financial assistance to States that I have described represent a threat to the overall stability of the European system.

Some, optimistically, characterise the current phase of European integration as being ‘semi-intergovernmental’ in method⁷⁹. However,

⁷⁶ *Gauweiler*, above, points 95 ff.

⁷⁷ Case 23/62, *NV Algemene Transport- en Expeditie Onderneming van Gend & Loos v. Netherlands Inland. Revenue Administration* [1963] ECR, 3 ff. For a reinterpretation of this judgement, fifty years later, see Kokott, J. and Prechal, S. (Tizzano, A. ed.), *Van Gend en Loos 1963-2013, Conference Proceedings*, Luxembourg 13 May 2013, available at www.bookshop.europa.eu.

⁷⁸ Constitutional Court, December 18, 1973, Case No. 183, available at www.cortecostituzionale.it.

⁷⁹ So Lenaerts, K., above, 756 ff.

the effect at a technical-juridical level determined by positions taken by national supreme courts is evident. In fact these courts, working from the perspective of their own domestic legal systems, limit room for political negotiation or anyway uphold constitutional values (no longer common) in the name of safeguarding the interpretation and application of EU or ESM rules.

In this respect, it is worth pointing out legislative initiatives aimed at formally linking the EMU and ESM systems, such as Regulation 472/2013, which establishes the conditions to be complied with by Member States in serious financial difficulties or which have applied for financial assistance⁸⁰. Interestingly, and a fact not missed by the doctrine⁸¹, the economic adjustment programmes (the so-called Memoranda of Understanding) signed by Member States' applying for financial assistance subject to conditionality are applied by the Council, the Commission and Member States, which 'shall take into account national rules and practice and Article 28 of the Charter of Fundamental Rights of the European Union'⁸². The reason why reference is made only to the social rights contained in the Charter, i.e. article 28, is not fully clear unless in the sense of referring exclusively to acts (e.g. MOUs) still considered outside the EU system and so not subject to article 51 of the Charter.

As regards the Court of Justice, *Gauweiler* represents a major step forward after *Pringle*, despite the fact that some questions remain unanswered. The danger of not implementing real mechanisms of financial assistance for Member States has been averted. Judgements, like *Pringle*, I would define as emergency decisions that raise doubts and generate conflicts in the system which need to be resolved by normative reforms. If these reforms are not forthcoming, the Court risks becoming an institution more political than it should be, with critical effects on the entire EU legal system.

With this in mind, the *Gauweiler* judgement offers up one final point that deserves attention. This can be found in the part already referred to that establishes the jurisdictional limits to the Court's review of the ESBC's activities: the recognition of these limits with regards to

⁸⁰ Official Journal of the European Union L series (from now on OJEU L) 140 of 27 May 2013, 1 ff.

⁸¹ See again Lenaerts, K., above, 757 ff.

⁸² So art. 1.4 Regulation (EU) No. 472/2013, above, providing that "Accordingly, the application of this Regulation and of those recommendations does not affect the right to negotiate, conclude and enforce collective agreements or to take collective action in accordance with national law".

the activities of highly technical institutions like the ESBC, ECB and in the future also other bodies and agencies charged with managing the euro-zone is consistent with an increasingly complex legal environment. This situation is yet another example of the distance between citizens' political representatives, the rules adopted where these representatives sit, and the 'government choices', which I have attempted to show are certainly not limited to the economy or the currency.

The constitutional consequences in the history of European integration appear episodic, driven by different contingencies and without the attention and legitimisation, also democratic, that should instead be fundamental.

Not by chance, some proposals for euro-zone reforms doing the political rounds put forward the idea of a parliamentary institution made up by euro-zone representatives with specific and more effective powers than they have at present on the issue of reform⁸³.

The time has come to help also the Court of Justice do its job in a better way.

⁸³ In this regard, see the interview with the French Minister for Economy Emmanuel Macron, *Il Sole-24 Ore*, September 5 2015, 6.

On the Metamorphosis of the Crisis and the Prospects for European Economic Governance¹

Adriano GIOVANNELLI

1. EMU under Threat, the Bailout Funds and the Troika

The concluding article of this volume, devoted to the history of the Economic and Monetary Union, focuses on the most recent events, starting from the turbulent final years of the first decade in the new millennium and stopping just before the Brexit referendum.

The purpose of this essay is to illustrate the new microeconomic scenarios, juridical instruments, policies and perspectives of the common economic governance, giving account of the sometimes hard debates which accompany each step forward and of the problems arisen, while the crisis progressively changes its nature and cracks open in the walls of the European building.

Since the second half of the 1990s, the concept of “governance”² has spread in European documents. Its origin is closely linked to a North American corporate culture, the prevalence of the term being a good illustration of the current dominance of managerial logic on the need for representation and legitimacy. The European integration process has helped to introduce the concept of multilevel governance into scientific and political debate.

In some countries, use of the term “governance” has met with decreasing resistance. The French were the last to surrender, and at

¹ This study takes into account events occurring up to May 31, 2016. For reasons of space, in the brief footnotes of this long essay, references will be made only to few of the most recent and relevant studies, normative texts, documents and interventions examined.

² For the concept of governance see Risse Th. (ed.), *Governance Without a State? Policies and Politics in Areas of Limited Statehood*, Columbia University Press, New York, Chichester, West Sussex, 2011 and Wiszniowski, R., “New Governance: some theoretical assumptions”, in Wiszniowski, R., Glinka, K. (eds.), *New Public Governance in the Visegrád Group*, Wydawnictwo Adam Marszałek, Toruń, 2015.

the end of 2012 they became resigned to replacing the original term “*pilotage*”, in the definitive text of the *loi organique* implementing the Fiscal Compact (FC).

The expression “economic governance” is now used to indicate the set of institutions, procedures and policies which are functional to achieve common objectives in the economic field. I will try to distill in few pages some aspects of this complex issue.

The premise must be acknowledged that, in the Maastricht Treaty, issues relating to the economy and finance were placed next to the Community pillar. Even if those missions considered to be of European interest spread beyond the building of the common market, the competences required to perform them remained the responsibility of the States, and the Brussels institutions could be used simply for the coordination of national policies and measures. The non-binding character of the ambitious 2000 Lisbon economic agenda is one important reason for its failure, which became clear during the last years of the decade.

A tsunami wave, which began in North America in 2008 (whereas in 2016 the turbulences have come mainly from the East), crossed the Atlantic in 2009, just when the Treaty of Lisbon entered into force. As the European Court of Auditors recognized in January 2016, the European Commission was at that moment unprepared, since it underestimated the signs of weakness of the national financial systems and fiscal imbalances. The explosion of the private debt crisis in some European countries and the public debt crisis (related to interventions supporting the banks) soon drew the attention of the markets to countries such as Italy, which seemed less exposed at the beginning. Also, the implicit partial default by Greece raises the fear of an extension of the contagion to the second indebted State, too big to fail, without systemic effects.

The doubt concerning sovereign debt soon turned into distrust about the strength of the euro, whose introduction had leveled the rates among the States at which national debts had been financed. This shock risks undermining the entire Economic and Monetary Union (EMU) architecture.

The governance of the crisis has taken shape in four different ways, which I will mention briefly in this order: through the multilateral financial support to countries in greater difficulty; through the intervention of the ECB – which faces the *Bundesbank* (BUBA) on the structure and limits of the monetary policy; through increased surveillance of fiscal

and macroeconomic policies³ and through the creation of a Banking Union (BU) aimed at breaking the vicious circle between sovereign debts and banks. I will focus briefly on each of these topics, which are closely intertwined, referring also to the prospects for the immediate future.

In 2010, bilateral loans were initially used, and the path of transitional (for this reason less contested) stabilization mechanisms was tried, derogating from art. 125 TFEU, which bans the bailout of States, a principle imposed by Berlin as a precondition of the euro and linked to the illusion of the 1990s that convergence was inevitable.

The fleeting European Financial Stabilization Mechanism⁴, managed by the Commission, and the European Financial Stability Facility (EFSF)⁵, based on an Agreement in the euro area, were born. Their legal basis is found in art. 122 concerning assistance to countries in difficulties caused by natural disasters or exceptional circumstances beyond their control, situations pragmatically assimilated to the crisis in Greece, to which German and French banks are particularly exposed. As regards the most solid European Stability Mechanism (ESM), in 2011 it was necessary to insert a new paragraph into art. 136 TFEU which authorizes its establishment and activation “if indispensable to the stability of the euro area a whole”, by adding that “the granting of any required financial assistance [...] will be made subject to strict conditionality”.

It should be noted that Italy proposed, in 2016, to transform this ESM into a European Monetary Fund in order to derive full benefit from its pool of resources. This idea was partly echoed soon in a debate in the Eurotower, where the Italian economist Giavazzi proposed the creation of a European fiscal Institute, with more resources and a more simplified governance than that of the ESM, taking away functions considered to be unfit from the European Commission and the ECB (whose hybrid nature has increased over time). In the Bank of France, reflection began concerning the creation of a European Treasury which would combine the ESM and the economic services of Palais Berlaymont. Lastly, a Franco-Italian document of April 2016 asked that the ESM should, as quickly as possible, be made the common backstop to the Single Resolution Fund (SRF) in the transitional period (up until 2024) in which resources may be insufficient to tackle a serious banking crisis.

³ See Giovannelli, A., “Vincoli europei e decisione di bilancio”, in *Quaderni costituzionali*, 2013, No. 4.

⁴ This mechanism is based on the emergency clause of Article 122 (2) TFEU.

⁵ The EFSF is not based on the EU legal framework, but on an Agreement among the euroarea States.

With the ESM, regulated by a Treaty⁶, the schemes of conditionality experienced up until then become stronger, offering also a point of reference to the ECB, suspected in Berlin of unduly sliding from the monetary sphere to the political one.

The Eurotower, playing more a political than a technical role, has, moreover, already joined the partners of the dreaded Troika, the European Commission and the International Monetary Fund (IMF). Under pressure from the big players of the euro area (despite the concerns of the emerging countries), this latter has in fact included among its criteria of intervention the “risk of systemic disruptive effects on the international financial system”.

Within the Troika, discussions have taken place on the philosophy of conditionality and on the dynamics of financial consolidation. The main criticism came in 2014 from the European Parliament (EP), which highlights the lack of democratic legitimacy and the indifference to social sustainability of the sacrifices asked in exchange for aid.

The Troika, which has been operating since 2010 in Greece (where it evokes the mythological three-headed dog situated at the gates of Hades) gave rise to the rejection by Athens in 2015, and it has been, for some time and only formally, replaced by the “European Institutions”, and then by the Brussels Group, in which first the EFSF and then the ESM joined the three partners mentioned. Since the end of March 2016, Greece has been the only country under this constraint, following the exit of Cyprus from the bailout program. Even though there are strong doubts regarding the Greek case, the Troika therapy has had a positive economic impact in several countries, generating, at the same time, social impoverishment and political instability.

In the most difficult years of the crisis, the conditionality of the Memorandums of Understanding, signed by States which need financial aid, created strong pressure for the national Parliaments, squeezed between the role played by their governments – the first counterparts of the Troika – and the activism of some Constitutional Courts. Particularly relevant is the Portuguese one⁷, constantly oscillating between pragmatic resignation to the international constraints resulting from the state of crisis and a willingness to protect social rights, deeply eroded by measures imposed by the Troika. The Constitutional Court of Lisbon

⁶ The Treaty Establishing the ESM passes the careful but pragmatic scrutiny by the German Federal Constitutional Court on September 12, 2012, case No. 2 BvR 1390/12.

⁷ See Cisotta, R., Gallo, D., *The Portuguese Constitutional Court case law on austerity measures: a reappraisal*, LUISS Academy Working Paper, Rome, 4/2014.

is even indicated as the “national figure” of 2013 (the year in which J. P. Morgan grossly points out the Constitution as having been a limit to the Lusitanian consolidation) by the influential magazine *Espresso*.

2. A Growing Political Role for the Eurotower

The condensed nature of this study forces me to step back from the guardian-of-conditionality role played by the Troika to examine the monetary policy decisions of the ECB, even if the reference to monetary policy has sometimes seemed to BUBA an alibi to cover heterodox interventions of a political nature. The Outright Monetary Transactions (OMT) program, launched in September 2012, is often referred to as ‘Draghi’s bazooka’; it represents an evolution aimed at reducing German mistrust (with reference to the strong conditionality of the ESM) and at making more effective – in terms of the potentially unlimited acquisition of government bonds – the Security Market Program (SMP) initiated by Trichet in spring 2010 with the gradual purchase on the secondary market, in order to bypass art. 123 of TFEU, of a significant amount of national treasury bonds.

Berlin seems to look the other way when the interventions concern small and peripheral countries such as Portugal, Ireland and Greece; the criticisms increase in volume when there is a need to intervene in Spain and in Italy. The *Bundesbank* seems no longer content with the statements of the Eurotower, which claims that it wants to overcome, through its interventions, the obstacles to the transmission of monetary policy, arising when national rates diverge excessively. This argument is, however, not dissimilar from that used in the 1970s by the BUBA President to buy federal bonds.

With the Long Term Refinancing Operation (LTRO), at the turn of 2011 and 2012, the EBC also granted significant funding to the banks (not forbidden by art. 104 of the Maastricht Treaty). This massive intervention is aimed at giving time to the States in a situation of imbalance. The liquidity of the *EBC* in fact replaces that of the markets, which play a destabilizing role (but make the sovereign-banks loop problem worse).

The OMT program of early autumn 2012 (legitimized by the euro area summit held the previous June, immediately after the European Council, in which Monti won a political arm-wrestling contest with Merkel) detonated growing tensions with Berlin, until the Federal Constitutional Court referred the matter to the Court of Justice of the European Union (CJEU), which finally took its reassuring decision in

spring 2015⁸, although the judges of Karlsruhe reserve the right to assess whether some of the legal limits they have set down for the protection of national sovereignty and German taxpayers are respected. The final decision could perhaps arrive in the terrible last week of June 2016, precisely the week of a possible Brexit nightmare.

If the OMT program has never been activated, and the communicative web (from “whatever it takes” of July 2012 to “whatever is needed” of April 2016) built by the “forward guidance” of Draghi seemed for some time to be sufficient, the confrontation with Berlin on the unconventional interventions of the ECB moved on Quantitative Easing (QE). Around this, Draghi gradually firmed up a laborious consensus (in a process whose last stages can be found in the speeches of Paris, Amsterdam and Jackson Hole of 2014), acceding to concessions aimed at reassuring Germany, such as the allocation of 80% of the risk in the Central National Banks.

It seems that Europe has partly moved from a Franco-German engine, for which Berlin provided the energy while Paris controlled the steering, to a Frankfurt-German engine, whose dynamics became clearly evident when Draghi was invited to speak in the *Bundestag*. France – linked to German tolerance for its high deficit – maintains only a symbolically preferential relationship, but really (as demonstrated by the fact that information on the reception of Syrian refugees has not been previously agreed with Paris, which takes a harder line on the migrants problem) plays only a covering role vis-à-vis Germany, greatly strengthened by the dynamic of economic governance. The Eurotower – even lacking in democratic legitimacy and institutionally focused on aspects of economic coexistence – has become the dynamic force for integration in the euro area, while the German Institutions, the *Bundestag*, the Court of Karlsruhe and the Government (despite there being significant differences between the balanced silent consents of the pragmatic Chancellor and the position of the Finance Minister), control the brake.

In addition, the *Bundesbank*, as former Chancellor Schmidt said in 1996, has heavily influenced even the writing of the Maastricht Treaty (at a point at which the German Minister for Foreign Affairs was, by chance, the actual Finance Minister, Schäuble).

The joint intervention⁹, on February 2016, of the BUBA President and the Governor of the *Banque de France* (who think it is important to

⁸ See the judgment of June 16, 2015, *Peter Gauweiler and Others v. Deutscher Bundestag*, C-62/14, EU:C:2015:400.

⁹ See the Weidmann, J. and Villeroy de Galhau, F. joint op-ed for the German daily *Süddeutsche Zeitung*, February 8, 2016.

restore confidence in the Franco-German axis) is symptomatic of the role of the central banks in this metamorphosis of relations between Berlin and Paris. They call for the creation of a European Minister for Finance of the euro area (which Draghi, however, had already recommended few days previously). Some see, in this unusual intervention, the aim also of reducing the psychological centrality of the Eurotower policy of supporting the economy. The Governor of the EBC replies on February 15, during a hearing in the EP, recalling that the only stimulus policy had been that of the institution he leads, which has the merit of around 50% of the economic recovery in the euro area. Downsizing the Eurotower – Draghi thought – makes sense only if States show courage in their fiscal policy.

A dynamic role is played by Germany with regard to the more political subject of the refugee crisis. In the last months of 2015, however, the daring line of Chancellor Merkel weakened her leadership within her party and later contributed to the political growth of the populist right wing in some *Länder*. The shadows cast on the national image by the Volkswagen scandal, the divergent political dynamics of some governments (not only Eastern ones) that traditionally referred to Berlin, the fall of several austerity-focused executives and the disorienting effects produced by the events of Cologne also take their toll. The *Kanzlerdämmerung* vibe and the blurred German role, at the turn of 2016, led to a withdrawal of the *BRD*; its Government has been forced to reflect on the possibility of abandoning the philosophy of centralized coordination, leaving to the States the responsibility for problems for which Berlin no longer wants to undertake risk, paying heavy costs. The ECB has therefore been left alone, playing a growing substitute role (of a more political than technical nature) as the only institution of a federal nature in the euro area, while recent elections in several States have made the national reforms, necessary to support the effects of the monetary stimuli, more difficult.

The interventions of Draghi (and of the members of the Executive Board closest to him) have progressively outlined a strategy which encourages European political convergence, as the basis for a sustainable economic and monetary integration, giving a glimpse of a new institutional level in a euro area possessing legislative capacity. Several countries, pressed by troubled public opinion, nevertheless have had difficulty receiving these messages constructively.

3. European Quantitative Easing and the Crisis

Given the disappointing effects of the TLTRO of June 2014 (a “targeted” intervention, intended to deliver to the real economy those flows which were not generated by the injections¹⁰ of the LTRO in 2012), the ECB finally takes the big step, entering into what was up until then uncharted territory. After having won consensus for the idea that the purchase of government bonds can be justified, given the presence of substantial changes in the macroeconomic situation with effects on the medium-term inflation outlook, the Eurotower assumes a no longer merely reactive but a proactive role, announcing, on January 22, 2015, a 60 billion monthly purchase (from the following March) of public sector debt instruments, always on the secondary market, in proportion to the States’ participation shares in the ECB, until inflation in the euro area should be close to 2%, a level which has long been considered maximal, but whose meaning in the new scenario has been revised to avoid or slow down a deflationary drift.

The effects on the rates for refinancing the national public debts (with important benefits for the countries of the southern periphery) and partly on the Euro exchange – which would not formally be a target of the ECB – are evident, with positive consequences for European competitiveness, encouraged also by the changed policy of the Federal Reserve Bank (FED) and, at the end of 2015, by the prospect of a further US interest rate increase in the summer of 2016; the maneuvers connected to China’s crisis unfortunately weigh negatively at the beginning of 2016.

The QE effects, by contrast, are still modest in relation to the level of inflation (which represents the formal objective of the intervention). This latter is kept very low by various factors, including the dynamics of oil and raw material prices, globalization (which everywhere reduces the ability of Central Banks to control inflation), and the new demographic, technological, macroeconomic scenarios. If they do not replace Friedman’s “helicopter drop” (an extreme measure for the Belgian executive board member Praet) invoked by some economists who study the Bank of Japan, the monetary stimuli nevertheless mitigate the impact of the slowdown of the emergent countries on the European economy.

After the enlargement, in September, of the national public debt shares which can be purchased, QE is still being reinforced in various

¹⁰ The Long Term Refinancing Operation is a process by which ECB provides liquidity to Eurozone banks. The cheap loans are backed up by collaterals and banks can use assets such as sovereign bonds.

ways (among them the extension to debt instruments issued by local governments), via a decision taken by a large majority in November 2015; the deadline for QE is extended from September 2016 to March 2017. Further liquidity will also be introduced into the system, reinvesting the incomes of the matured bonds in other securities.

In December, Draghi declared that there are no defined time limits to hard intervention by the ECB (suggesting to some ironic analysts that he could move to the logic of “forever it takes”). QE is a drug from which it will be difficult to free the euro area.

The Eurotower reports soon show the possibility for further reinforcement of the intervention. This was a review which, before the EP, the ECB Governor had envisaged for March (a time when, because of the principle of rotation in the Governing Council, the German Central Banker and other northern “hawks” do not vote), even if, presenting the 2015 BUBA budget, the President of the latter invited to consider the risks of an ultra-accommodative monetary policy. The position was taken over, in the Financial G20 in Shanghai, by the German Minister Schäuble, who stated that growth driven by debt even creates “zombie economies”.

In a deflationary scenario, the shock therapy of the BCE (whose armoury is not yet empty) preceded by further warnings by the German banks, was finally decided by an “overwhelming majority” in the Governing Council on March 10, who adopted a synergic package of calibrated measures (of which I summarize the most relevant). Their aim is to normalize inflation, while other policies cannot or do not contribute to higher growth, to use the words of the vice-president Costancio¹¹, which well reflect the solitude of the Eurotower (recognized also by the IMF), whose hyperactivity is the other side of the coin of the States’ inaction at a time when strong headwinds blow against the European boat.

With its monetary policy, the Eurotower (which is becoming the main holder of European debt in a silent process of implicit potential mutualization) buys time for the implementation of national reforms, which remain essential for bringing actual growth close to potential growth.

The monthly purchase – a window of opportunity for improving resilience, open until March 2017 – is expanded to 80 billion (more

¹¹ See the opinion piece by Vítor Constâncio, March 11, 2016, *In defence of Monetary Policy*, available at https://www.ecb.europa.eu/press/inter/date/2016/html/sp160311_1.en.html.

than the market expectations) and, in addition to public sector bonds, investment grade bonds issued by non-bank corporations of the euro area, chosen by a special committee, are included in the list of eligible assets in order to strengthen the financial conditions of the real economy. It is interesting to observe that, at present, the relatively small European corporate bond market is wider in Germany (and moreover, because of their size, the Italian companies should profit less from this opportunity).

The issuer and the issue share limit for the bond purchase of international organizations and multilateral development banks (for which there is no capital key, thus disallowing an adequate increase in interventions in small, fragile countries of the European periphery, as becomes evident in April) are raised.

The reference rate is lowered to zero. Four new quarterly TLTROs will be launched from June; their interest rate could be as low as that of the deposit facility of the ECB – which decreases to minus 0.40 points – if banks lend to households for business more than a fixed benchmark. These TLTROs, in which banks are paid by the Eurotower to lend money, should compensate for the effects of the negative deposit rate (lenders pay for holding their excess reserves with the EBC) against the profitability of the banking system. Later, Draghi informs the International Monetary and Financial Committee of the IMF that the negative rates could go below the horizon of the asset purchase.

In the German press, this set of accommodating monetary policy measures was seen as a massive transfer of economic resources from the savings-rich north to the indebted south of the continent. Some in Mediterranean Europe began to wonder what will happen after 2019, when the ECB Governor will be chosen from the Central Bankers of the north, and prudent Merkel will perhaps be replaced in the *Bundeskanzleramtsgebäude*.

The growing political ambitions of Minister Schäuble – in the context of the *Bundestag* elections of 2017 – become evident. In April, expressing the fears of the *Sparkassen* regarding the negative rates (despite the German traditional insistence on the autonomy of the Central Banks, which must not suffer public officials' interference), he strongly attacks the ECB, accusing it of creating “extraordinary” problems and of impoverishing German savers, encouraging the growth of populism¹². A surprise reply

¹² On April 8, 2016, receiving in Kronberg the Wolfram Engles prize from the *Stiftung Marktwirtschaft*, the Federal Minister went so far as to blame the ECB President for the rise of rightwing *AfD* party. See on this <http://blogs.reuters.com/macroscope/2016/04/10/schaeuble-vs-draghi/>.

by Weidmann (in the past an advisor to Merkel), who defends the ECB, disorients Schäuble.

The battle for the succession to the Chancellorship crosses with that for succession in the Eurotower. The Bavarian CSU openly calls for the option of a guarantor of the German tradition of monetary stability (after Trichet and Draghi, considered responsible for encouraging deficit spending policies). This helps to further understanding of the new approach of the *Bundesbank* President (outvoted in many important decisions of the ECB Governing Council). His dissent now no longer concerns quantitative easing policy, but rather the specific decisions taken in order to carry it out. In Rome, at the end of April, Weidmann's fire shifts to the European Commission (also in relation to many choices shared with the Eurogroup and Ecofin), considered responsible for subordinating its technical role to a political pragmatism (more cunning than intelligent) that leads it to be over-tolerant towards States such as Italy, encouraging their moral hazard¹³. In the meantime, discussion in the German press about Draghi's "Italianness" appears aimed at preparing the rise of a Teutonic saviour at the Eurotower.

Aware of Schäuble's criticism, Draghi remembers that the ECB has a mandate, established by a treaty, "to pursue price stability for the whole of the Eurozone, not only for Germany" (a statement on which, at the end of May, the German Finance Minister, surprisingly, resigns himself to converging), and announces that the Governing Council is unanimous in defending ECB independence. We obey laws, the Governor adds, not politicians. The German Chancellor immediately replies (to avoid being caught in an intermittent but strong political headwind within her party), stating that German discussion of Eurozone interest rates "is legitimate and should not be taken as an interference in the ECB's independent policies".

The internal tensions in Germany increasingly spread to the European debate while, in the opinion polls, the *Große Koalition* parties fall below 50%.

¹³ See Weidmann, J., *Solidität und Solidarität in der Europäischen Währungsunion*, speech delivered at the German Embassy in Rome, April 26, 2016, available at https://www.bundesbank.de/Redaktion/DE/Reden/2016/2016_04_26_weidmann.html.

4. The Greek Stress-Test for the Eurozone

The intervention of the EBC, anesthetizing the markets, assumes particular importance during the phases of the Greek crisis, which explodes once again violently in January 2015, three days after the launch of QE. Concern, snaking across Europe, about a possible contagion arising from the Hellenic situation is contained, and the ECB intervenes, towards Athens in particular, with a calibrated use of Emergency Liquidity Assistance (ELA).

The effects of this complex crisis (to which it is possible here to devote only a few pages) deserve specific analysis. It seems that, after the fall of the Berlin Wall, the conflict between East and West was replaced by tension between North and South; the Hellenic events appear, in 2015, the most significant symptom of this dialectic. However, very soon, reactions to the refugee crisis and the political dynamics in Central and Eastern Europe re-exacerbate to some extent the divisions between East and West which were considered a thing of the past but which instead now combine with those between the north and south of the continent.

The Greek referendum, during the (politically) hot July of 2015, and the strong reaction of the northern countries, seem at one point even to call into question the reversibility of the euro. As Juncker writes at the end of that difficult year¹⁴, some bridges between States are destroyed, words not easy to retract are said, and there is confrontation between the democracies of Europe. Berlin even threatens a (legally dubious) temporary suspension of Greece from the euro area.

Just when things are on the brink of collapse, European pragmatism prevails once again, owing not to a sudden burst of solidarity but to the need to save the euro (and perhaps to pressure from Washington, worried about a destabilizing geopolitical drift). However, it expresses itself in terms of a dilatory intervention which is considered insufficient by the IMF, subject to pressures from the emerging countries (whose voting rights increase over time) and hostile to the use of resources in a rich continent like Europe. Even if Foggy Bottom reenters the game, its positions are more and more divergent from those of the other members of the rescue group.

The bomb has not yet been defused, as is shown in February 2016 by the increased spread (even if it is slowed by the QE) between the bonds of the peripheral States and the German *bund* at the first sign of the

¹⁴ See Juncker, J.-C., “La vera forza dell’Europa è la sua perseveranza”, *Il Sole 24 ore*, December 29, 2015.

fragility of the Athens Government, subject to widespread protests over the reforms necessary to obtain aid of the third recovery plan.

It seems at one point that a glimmer of hope appears, because a restructuring of public debt begins to be seen as possible compensation for the role played by Athens in the refugee crisis; this solution is proposed to Berlin by the IMF, which considers the Greek fiscal targets unrealistic and the debt unsustainable in the long run. The main problem is the consent of the *Bundestag* to a “haircut”, owing to the divisions in Merkel’s party and the fear of further increasing the growth of populism in Germany.

A compromise is close to being found in the Eurogroup meeting of April 23, 2016, which in exchange for strong commitments by Athens gives its President a mandate to examine forms of reprofiling not involving a real “haircut” to the nominal value of Hellenic public debt (which is by now held by the ECB and by States, whereas in 2011 it was largely in the hands of banks and privy funds). In this way it is hoped to keep the IMF in the aid plan for Greece.

However, resistance to the new austerity measures required by Foggy Bottom, and initial Greek constitutional doubts about the possibility of an automatic contingency mechanism (an “Italian-style” safeguard clause requested by the IMF), make it necessary to postpone a decision to the Eurogroup meeting scheduled for April 28. Tsipras immediately demands the convening of the Eurosummit, which (because of negative German reaction) is refused. While liquidity in Greece is running out and, without the new tranche of European aids, it is impossible to refund the proportion of matured Greek debt owned by the ECB, a stress scenario recommences, causing even more concern (including in the US Government) lest it impact on the aforementioned UK referendum, helping the Brexiteers.

Something is now very slowly changing in Berlin, where the Vice-Chancellor, Gabriel (a social democrat), shows signs of being open to a restyling of the Greek debt. Below the surface of several erratic statements by Schäuble, the tactical intention becomes ever more obvious of making the German public digest decisions as difficult as they are inevitable. However, the growing claims of the IMF (which wants a moratorium on capital repayment and interest until 2040), and the commitment made by the Chancellor before the *Bundestag*, not to pay money to Athens without the involvement of Foggy Bottom (much less accommodating than Palais Berlaymont), make the solution ever more vexed. Only with the IMF psychological shield would it be possible to win approval in Germany for substantial changes to the 2015 decisions.

The requisite additional unpopular austerity measures are voted for by a slim majority in the Greek Parliament on May 22, and, after many hours of negotiation, another ambiguous agreement, between the Eurogroup and Foggy Bottom, is reached in the early morning of May 25¹⁵, putting a temporary end to the new Merkel–Lagarde chess match. The tranche of bailout aids agreed in 2015 is divided into two parts, the first paid in June to refund the ECB and the second at the end of the following summer after implementation of the Greek reforms has been checked.

The 2012 commitment to lighten Greece's debt when the country reaches a primary budget surplus is postponed to 2018. In that year Greece must respect a target of 3.5 of GDP as requested by Berlin; the surplus target for the following years is nevertheless left unspecified. Regarding the short term, the Eurogroup asks the EFSF and ESM boards to take technical decisions to smooth the repayment profile and reduce the interest rate for the 2012 bailout program to the level of that currently paid to the ESM. As regards the medium term, a complex policy package is decided upon, including decisions such as to use the SMP profits to reduce future financial needs of Greece, to utilize unused resources within the ESM program to cut interest rate costs and to cap and defer interest due to the EFSF.

This process could bring possible true debt relief in mid-2018, after the German federal elections (and this postponement is for sure a Schäuble victory). A contingency mechanism would be activated after the bailout program in the event of an adverse scenario. This mechanism could entail measures such as further reprofiling, capping and deferral of interest payments. Greece's financial needs should remain below 15% of GDP during the post-program period and below 20% (considered sustainable) thereafter; in any case, a permanent recession is in prospect.

Without the involvement of the *Bundestag*, the IMF Managing Director recommends to its Washington executive board a decision to be part of the third rescue plan, approving the arrangement before the end of 2016 (though nobody knows what will be the position of non-European countries, which call for a true "haircut", even if US political influence is not to be underestimated). The new temporary equilibrium found in the Eurogroup opens the door to ECB acceptance of the debt instruments issued by the Greek Government as collateral in the banks' refinancing operations.

¹⁵ See the *European statement on Greece*, May 25, 2016, available at <http://www.consilium.europa.eu/en/press/press-releases/2016/05/24-eurogroup-statement-greece/>.

5. The Need for Increased Fiscal Discipline

In the common governance of public budgets by the European institutions, the turning-point regarding flexibility¹⁶ comes on January 13, 2015, only a few days before the QE announcement and the explosion of the dangerous Greek crisis. This change happens thanks to a specific Communication of the Juncker Commission, a text formally toned down and scattered among numerous other documents adopted at the same meeting (so as to make it less visible to public scrutiny in the most intransigent countries, whose governments have been highly perplexed about the new directions). Such a development, strongly invoked by Italy, is immediately criticized by the Eurotower, which with QE gives up the conditionality of the OMT program and is worried about calling into question the balance that had with great difficulty been achieved, giving new voice to those who link accommodative monetary policy and the danger of moral hazard in the less responsible countries.

Since 2010, numerous interventions have been implemented in the field of European economic governance, creating tools fit to make the Union stronger, preventing and treating crisis. This system has nevertheless progressively taken on a perhaps excessive complexity (a defect finally recognized in the informal Ecofin on April 23, 2016, which launches a discussion about a technical simplification, not aiming at reducing the rules but at making them more transparent and understandable by the public).

The European Semester has been established (six years later it will be revamped), setting out a framework for and an integrated calendar of common supervision on fiscal policies. With the five regulations and the directive of the Six Pack (SP) in 2011, also the public debt (a key pillar of the financial system), for better implementation of the Stability and Growth Pact (SGP), has received full evidence. It is not only financial imbalances that are considered relevant but also macroeconomic ones, even if the related obligation is so weak that Germany evades it, with a surplus of its commercial balance which would allow Berlin to develop expansive policies involving non-financial investments, with positive spillover effects for the whole euro area. In February 2016, Minister of Finance Schäuble declares that this surplus will be used entirely to help the refugees, but in March the *BRD* is for the first time subjected to light specific monitoring.

¹⁶ See the Communication of the Commission on January 13, 2015, *Making the best use of the flexibility within the existing rules of the Stability and Growth Pact*, COM/2015/012/final.

Coming back to the complex legal framework of the European economic governance, it should be said that, at the end of 2011, the slow legislative process of the Two Pack began. This came into force in 2013 and consists of two regulations applicable to euro-area countries, aimed at making financial monitoring more pressing, extending it to the second semester.

The year 2012 was dominated by the treaty universally known (from its Title III) as the Fiscal Compact (FC), according to a formula of Hamiltonian origin launched by Draghi on December 1, 2011. The Treaty on Stability, Coordination and Governance (TSCG), outwith EU law, is signed by 25 States on March 2, 2012¹⁷. The bearing structure of the FC is already in the Six Pack, and the obligation to transpose the principle of the balanced budget, via constitutional rules or provisions with substantially the same legal value, comes from the Euro Plus Pact¹⁸.

It is interesting to observe that still in May 2016 the European Commission opens a consultation about the progress made by the States in implementing FC within national juridical systems.

The FC reaffirms, in particular, the obligation to effect a percentage reduction of government debts, equal to 1/20 per annum of the difference to the 60% debt-to-GDP ratio, indicated in the Protocol on excessive deficit procedure. This controversial obligation was already present in the SP, but only after the FC did belated dismay spread, also because of the wrong interpretation often placed upon the rule.

The TSCG institutionalizes the Euro Summit, a body that has low visibility also because of the union between its presidency and that of the European Council, carried out with Van Rompuy. After the assignment of the position to the Polish Tusk and the decision not to separate it from the presidency of the Euro Summit, this latter is led by a leader from a country outside the euro area.

The more the pressure of the public debt crisis eases, the more distrust grows in some countries towards the common fiscal surveillance and the austerity imposed by European constraints, established at a time when it was necessary to send reassuring messages to the international

¹⁷ About the Fiscal Compact, its critical aspects, the problems linked to its application in several countries, its difficult future incorporation in the EU legal framework, see Giovannelli, A. (ed.), *Aspetti della governance economica nell'UE e in alcuni Stati dell'Unione*, Giappichelli, Turin, 2014.

¹⁸ The Euro Plus Pact is an Agreement signed by the Head of States and governments of 23 countries, in March 2011. This Pact was adopted under the EU's Open Method of Coordination. See the conclusions of the European Council, March 24/25, 2011, Brussels April 20, 2011, EUCO 10/1/11, REV 1.

markets. Several leaders consider the margins of flexibility which may be found within the interstices of a very stratified legislation (also thanks to the SGP reform implemented in 2005 to make it less rigid with reference to the structural balance) to be no longer sufficient. This, however, opens a discussion about discrepancies in the temporal horizon of the analysis and the methodology for calculating the output gap (different from that used by the OECD).

If, in the informal Ecofin of April 23, 2016, the European Commission is asked to work to solve a number of problems, enabling (as requested by eight countries) a medium-term analysis of the national accounts rather than a short-term one; political consensus concerning this reform seems perhaps close to being reached in Brussels at the end of May.

As regards calculation of the output gap a solution has not yet been found, because any methodological change would benefit some countries and damage others. Also, the concept of structural deficit – always criticized by the ECB – is under fire, and there is increasing convergence regarding the difficulty of understanding it because of its somewhat esoteric nature; the tangle of economic indicators that must be considered accentuates the uncertainty and makes the European Commission's evaluation fluid. The danger, however, is that, after a reform too much focusing on the benchmark of public spending (as desired by Dijsselbloem), Brussels will revert to an excessively rigid interpretation of the SGP.

6. “Stupid” Austerity and Deficit Spending Policy

Since 2014, there has been tense confrontation between certain states and the German Government. Berlin is initially willing to recognize margins of movement only in exchange for legally binding agreements, formalizing *ex ante* the commitment to reforms. Concerning contractual arrangements, which then become (more elegantly) “Partnerships for Growth, Jobs and Competitiveness”, a debate has been developing for some time; it ceases during the Italian semester of the EU Council presidency, hypnotized by the magic reflections of the long-awaited flexibility.

The connection between reforms and flexibility, however, becomes increasingly important, including with reference to the path for re-entrance below the 60% debt-to-GDP ratio. This level – equivalent to the average of applicant countries for entry into EMU in the early 1990s – evokes a now far-distant scenario, as well as the 3% deficit-to-GDP ratio, dating back to the time when annual growth

in Europe was 5% and inflation 2%. The euro, created without an adequate governance framework to reduce the Mark's strength, ends, paradoxically, by moving national planets around Berlin's hegemony, in orbits defined long ago with the aim of making the European economy resemble the German one more closely.

In July 2014, the ECB Governor¹⁹ compares the common governance of the reforms to that of the public finances (an issue which, in a less structured approach, is echoed at the end of April 2016 by an interview with Djesselbloem, who furthermore links the European evaluations to the political cycle of the governments). In Draghi's view, the first should be the subject of a new compact, in order to encourage States to make choices otherwise considered too politically costly. Without reforms – Draghi later stresses – the same QE will have limited effect in the long run. The intertwining of the various aspects of economic governance appears more and more evident.

The already-mentioned Communication of January 13, 2015 represents a temporary point of arrival of the *querelle* concerning the best use of flexibility within the existing rules of the SGP, which connotes the last months of the semester of the Italian presidency, the legacy of which is a number of controversies between Juncker and Renzi, including about the political paternity of the decisions that have been taken. The Italian premier even connects these to the agreement that has supported the election of the Luxembourg leader (*Spitzenkandidat* of the party with more seats in the 2014 election) to the presidency of the European Commission (which loses its image of technical neutrality without increasing the legitimacy of its role).

Such a Communication indeed gives substance to the commitments made by Juncker, presenting the new Commission to the EP. Without amending the European legislation, the guidelines better specify the scope for interpretation of the FC-implementing dynamic. In fact, States are allowed a longer period of time to achieve their medium-term objectives in relation to major structural reforms with positive, demonstrable long-term effects on the budget and potential growth; they can deviate temporarily from their adjustment path if investments are carried out (but without providing a true golden rule), including in these expenses the co-financing of European projects.

¹⁹ See the hearing at the Committee on Economic and Monetary Affairs of the European Parliament, Strasbourg July 14, 2014, available at <https://www.ecb.europa.eu/press/key/date/2014/html/sp140714.en.html>.

The national contribution to the ectoplasmic EFSI²⁰ (for whose establishment the Commission has proposed a special regulation, then it entered into force the following July) of the weak Investment Plan for Europe (known as the Juncker plan) is not taken into account as regards the deficit.

Coming back to the Communication, the European Commission should finally take into account the fluctuations of the economic cycle and severe economic downturns in the euro area or the EU as a whole, as a consequence reconfiguring the fiscal adjustment path.

The margins of flexibility seem thus to have significantly increased. However, they have already existed – also in relation to the debt rule, poorly written and interpreted with broad discretion, as the ECB remembers – since the same regulation of 1997 concerning the procedure for addressing excessive deficits, which made reference to “unusual events outside the control of member States”. Today, this formula evokes a further weakening of the cage of the FC in relation to the expenses – which remain to be defined precisely – connected to the management of migratory flows, including those for the contribution to Turkey or linked to security (a concept which is becoming increasingly wide, and which could be extended to embrace inclusiveness).

In January 2016, however, at the beginning of the Dutch semester, the President of the Eurogroup, Dijsselbloem, states that in its *ex-post* evaluation (based on the costs incurred by the States) the European Commission could not apply the different criteria of flexibility cumulatively as Italy requested. Shortly afterwards, the vice-president of the Commission, Dombrovskis, states that flexibility can be recognized on a “time” basis (not permanently, as Rome wishes, owing to the absence of a clear rule covering this question) and that it has limits. The European Commissioner, Moscovici, concurs, recalling that flexibility is “by definition a marginal element” and emphasizing the excessive public debt of Italy, which risks the infringement procedure. At the end of January 2016, the annual report on public finance in the EU by the DG for Economic and Financial Affairs of the European Commission highlights that high public debt limits, in the medium term, Italy’s capacity to respond to possible shocks. Heated controversies ensue, involving Palais Berlaymont, the President of the EPP Group and the Italian President of the Council of Ministers, who threatens the fall of the European

²⁰ From a historical point of view, it is worth mentioning that the creation of a fund similar to this European Fund for Strategic Investments was already hoped for in the Declaration of Messina, with which, on June 3, 1955, the ECSC’s Foreign Affairs Ministers opened the way to the establishment of the Common Market.

Commission for breaking the political pact on which the parliamentary majority in Strasbourg was formed. A calmer Roman meeting between Juncker and Renzi follows, but the search for a compromise remains difficult, partly because of the weakness of the Italian economic recovery. On March 12, at the Summit of the European leaders of the PSE, the Premier Renzi (thinking about the political costs of reforms whose positive effects are perceptible only in the medium term) reaffirms that flexibility has to be applied every year and without quantitative limits, but – owing to the doubts of some Nordic socialist leaders – the determination of a common political platform has been delayed.

In March, unusual letters from the European Commission come to several countries in the watch list. That addressed to Italy²¹ – in line with the Eurogroup and Ecofin – again draws attention to the insufficient progress towards compliance with the public debt reduction benchmark. The ECB Economic Bulletin of March recalls that vulnerable countries with high levels of debt need to use profits resulting from the low interest rate environment for building up resilience against potential shocks. Finally, at the end of April, Juncker declares that drawing expenses out of the PSC for fighting terrorism, at least, will be considered.

In May 2016, the problem of the permitted margins of fiscal movement is finally solved. Italy asks for more kinds of flexibility and, at the same time, becomes a special observed country – together with Portugal, which threatened to veto the agreement with London – due to its supportive deficit spending choice, despite vulnerability related to its huge “explicit” public debt (recalled also in the 2016 Country Report on macroeconomic imbalances), with possible negative spillover effects. If the President of the European Commission promises, pragmatically, to enact his role without falling into a rigid and “stupid”²² policy of austerity,

²¹ This letter, signed by the European Commission’s Vice President Dombrovskis and the Commissioner Moscovici, was sent to the Italian Minister Padoan on March 2016. Palais Berlaymont confirmed that the letter was sent and its text, which had to remain confidential, soon appeared in the Italian press (see *Il Foglio*, March 9, 2016, http://www.ilfoglio.it/economia/2016/03/09/caro-padoan-ti-scrivo-in-esclusiva-la-lettera-dellue-al-governo__1-v-139221-rubriche_c198.htm). It is worth remembering that also the ECB letter, signed by Trichet and Draghi, sent to the Italian Government on August 5, 2011, was soon published on the newspaper *Corriere della sera*, also if it was strictly confidential and the other countries which received similar letters kept the secret.

²² See the Juncker’s reply to the debate in the the European Parliament on February 3, 2016. The use of the term “stupid” with reference to the European budget rules was introduced in the European semantic by the President of the Commission Prodi in 2002 (*Le Monde*, October 18, 2012) and all his successors dealt with it. Before Juncker, Barroso in the press conference on May 8, 2012 said that, far from being

some in northern Europe fear that a too indulgent attitude towards Italy (which moves always later towards its medium-term objective of a balanced budget) may incite other countries to pay less attention to their fiscal equilibrium.

As the recommendations of Palais Berlaymont draw near, Weber, leader of the European People's Party in the EP, calls on May 2 for a "strict" application of the SGP, on which, according to him, depends the very "legitimacy" of the Union. There follows an increasing polemic between those who highlight the risks of an over-rigid approach – at a politically and economically critical time – and those who see, in the possible tolerance of the European Commission, an inadvertent assisting of the growth of populism in Germany.

The soft option wins, however, because *realpolitik* finally prevails, including in reluctant Berlin, which does not use all its influence to weaken relatively stable government or traditional political allies, while the Brexit danger is looming and the red scorpions of Karlsruhe are almost at the end of their judicial work on the OMT program of the Eurotower (a decision which could impact on the same QE).

In a letter of May 17 written by Dombrowskis and Moscovici to Padoan, it is stated that no other State "has requested or received anything close to the unprecedented amount of flexibility" asked for by Italy. Having remembered the May 9 letter in which Padoan affirms that "reducing the public-debt-to-GDP ratio is one of the key economic policy goals", they demand from him a "clear and credible commitment that Italy is set to respect the requirement of the preventive arm of the SGP in 2017, in order to grant further flexibility for 2016". The Italian Minister immediately reiterates the commitment "to broadly comply with the EU fiscal rules in 2017", including with regard to the path towards the MTO²³ of the deficit. Following intense dialogue, an exchange takes shape between flexibility in the Commission's evaluation for 2016 and the threat – scarcely credible – of a rigid approach in that for 2017 (precisely the year in which divergent public reactions will be tested in French and German elections).

While the Fiscal Compact is basically going to stand by (or be scrapped, as Pittella, leader of the Socialists and Democrats group in Strasbourg, states), the pragmatic reading of the European rules (which

stupid, the Stability Pact is designed in an intelligent way, because it allows for adaptability.

²³ The Medium Term Objective is a budgetary target defined in structural terms, taking into consideration the economic cycle and filtering on-off and temporary measures having only transitory effects.

have already been used for France in 2015) is again confirmed by the gentle recommendations made to the Council, approved on May 18²⁴.

Any sanctions against Spain (which looks forward to difficult elections) and Portugal (where a fragile Executive has just been formed) are postponed until July, at the end of the European semester: a decision politely criticized by Schäuble on May 27 during a meeting with the international press. A conditional “yes” is said to Rome, with the usual framework of recommendations for structural reforms – largely intended to remain unheard, as the ECB has long time pointed out – for the implementation of which States may request the technical support of a service established by the European Commission.

Having considered all the relevant factors highlighted by Italy, Finland and Belgium, the European Commission, without initiating an infringement procedure, concludes that the debt criterion should be considered as having been complied with. A further report on the debt will be elaborated in November and, for Italy, the test represented by the new “budget law” will be decisive (but the European Commissioner, Moscovici, suggests that a flexible approach could also be used the following year).

Germany (for which very gentle wording is chosen) must achieve a sustained upward trend in public investment, using the available fiscal space. Finally, the procedures for the excessive deficits of Ireland, Cyprus and Slovenia are closed, because the results achieved are considered sustainable; only six countries, including France, now remain under this procedure (very few when compared to the 24 States of the dangerous year 2011).

It is worth recalling that, just before the spring country-specific recommendations of Palais Berlaymont, the BUBA President again criticizes the political role that is usually played by this latter, at the expense of the common budgetary discipline. Accordingly, he relaunches the idea, shared by Schäuble, that it would be better to place the burden of objectively evaluating compliance with fiscal rules on an independent body, separating economic analysis and political decisions. In terms of general background, there is also a battle over the real degree of autonomy to be enjoyed by the new European Fiscal Board, figured by some as a counterweight to the excessive discretion of a too-political European Commission.

²⁴ The country-specific recommendations of the Spring 2016 European Semester package are available at http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm.

7. The Difficult Path towards a “Real” Banking Union

The last phase of the seventh European legislature has been absorbed by efforts to break the relationship between bank risk and sovereign risk. The fiscal compact and the surveillance of public finances would not have been sufficient to avoid crises in Ireland and Spain, initially related to private debt and to inadequate regulation of the banking system.

The fast legislative *iter* for the institution of the Single Supervisory Mechanism (SSM), the first pillar of the BU, is completed in 2013²⁵, by giving the ECB direct supervision of the big credit institutions (129 at the end of 2015) for over 80% of the activities in the euro area, even if the supervision of the opaque small national and local banks remains to be adequately harmonized. In 2014, not only a regulation and a directive on the resolution, the second pillar of the BU, are laboriously approved, but a new Intergovernmental Agreement²⁶ is even agreed concerning the progressive mutualization of privy resources (resulting from the annual contributions of the banking sector) in a Single Resolution Fund which still needs to be made strong and credible. According to the IMF, this transition has to be significantly accelerated.

On the initiative of Germany, which since the crisis began had used more than 7% of GDP in the rescue of its banks, increasing a public debt largely financed by non-residents (and benefiting from other States' contribution to the bailout of countries where its credit institutions were widely exposed), the principle of bail-in is crystallized, after having been tumultuously experienced in spring 2013 with Cyprus, which later emerges positively from the crisis (also because the costs of bail-in are partly discharged on Russian investors). Around 800 billion had been used for the public bailing out of banks between 2008 and 2014, but it

²⁵ See Council Regulation (EU) No 1024/2013 of October 15, 2013, conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions and the Interinstitutional Agreement between the EP and the ECB on the practical modalities of the oversight over the exercise of the tasks conferred on the ECB within the framework of the SSM, OJ L 320 of November 30, 2013. See also the December 11, 2013, Memorandum of understanding between the Council of the European Union and the ECB on the cooperation on procedures related to the SSM, available at https://www.ecb.europa.eu/ecb/legal/pdf/mou_between_eucouncil_ecb.pdf.

²⁶ On May 21, 2014, 26 member States signed an Intergovernmental Agreement on the transfer and mutualisation of contribution to the Single Resolution Fund. The regulation establishing a Single Resolution Mechanism for the Banking Union was published in the OJ of the EU on July 30, 2014.

The SRM became operational on January 1, 2016, implementing the Bank recovery and Resolution directive published in the OJ on June 12, 2014.

is decided now to overcome the distortions arising from the expectation of State interventions.

The bail-in – challenged by the Austrian *Verfassungsgerichtshof*²⁷ – became operational on January 1, 2016 (in a European market that remains heterogeneous in terms of cultures of saving, tradition, organization and bankruptcy legislation), creating stress in the most fragile systems, burdened with nonperforming loans (NPL) partly related to the crisis and very difficult to manage.

For the Governor of the Bank of Italy, who would have preferred a longer and less traumatic transition (as proposed by Rome during the legislative process), this mechanism needs to be reviewed, starting from 2018. The Italian Ministry for Economic Affairs and Finance denounces an increase in instability, and the absence of national or European instruments fit to prevent limited crisis from having negative systemic effects. Problematic aspects are also reported by the Advocate General of the CJEU, who asserts that the bail-in must have no disproportionate results.

The repeated formal reactions of Brussels and Frankfurt are not, however, encouraging, even if, for the first application of the bail-in, the European Commission seems to turn a blind eye to some national situations. Lastly, on May 18, 2016, the ECB Board member Praet expresses unexpected perplexity at the possible bail-in effects in the event of a crisis in important credit institutions. On May 31, Visco adds a number of critical considerations concerning the option of giving retroactive effects to bail-in rules.

In December 2014, the ESM increased – for only 60 billion – direct recapitalizations for the banks (and Italy, followed by France, proposes in 2016 that it becomes the public backstop of the SRF, in order to better safeguard financial stability in the Union), but the third basic pillar, represented by a common insurance deposit system, is still missing.

During the first years of the crisis, a heated debate focused on the partial mutualization of national public debts, at least to increase investments. Soros, in February 2016, envisages issuing European bonds to tackle the migrant crisis. This suggestion is rapidly relaunched by Italy and linked to the proposal of the 2015 Valletta Summit in a strategic hypothesizing of a migration compact. The idea (on which work has been already done in the Directorate-General for Economic and Financial Affairs of the European Commission) is to hybridize the trust fund

²⁷ See Austrian Constitutional Court's decision July 3, 2015, G. 239/2014 UA, V14/2015 UA, on the law concerning the bail-in of the Hypo Alpe-Adria Bank.

EU-Africa with the model of the rather limited International Finance Facility for Immunization, which can issue bonds. While recognizing that the migration problem is a structural issue which cannot be tackled only by derogations from flexibility, Berlin nevertheless fears opening up a path that leads progressively from migration bonds to forms of growing mutualization of national public debts (still unacceptable to the German public). The Development Minister Müller then, on May 24, unrealistically proposes to divert 10% of the (already insufficient) EU funds to deal with the refugee crisis.

With the growing debate about BU completion, the attention of the economic and political world shifts to some extent to private risk sharing, which equally gives rise to reservations in Berlin, whose sense of solidarity fades in parallel with the weakening of its leadership. Fearing that the national taxpayer could become liable for the depositors of other countries, the German Government, with the support of the whole country, affirms that, first, States must complete the path of de-risking (in a more serious sense than transferring problems from distressed to sound banks involved in a small fund pushed to participate in capital increase and acquire NPL). Furthermore, serious common insolvency rules have to be achieved (while several countries adopt the more favourable British legal model).

Looking beyond 2016, BUBA takes up the hardly acceptable idea – envisaged in 2015 by the responsible for banking supervision of the ECB, chair of the SSM Board (whose equilibrium still expresses the old Franco-German relationship), and immediately rejected by the vice-president of the Eurotower – that some limits to the sovereign bonds of a single country, held by banks, must be provided and that their levels of risk have to be taken into account, thereby giving further power to rating agencies. If government bonds are not considered risk-free, this implicitly means that the EU cannot intervene in the event of emergency.

The *Bundesbank* begins to believe also that an ordered default, via sovereign debt restructuring²⁸, should become compulsory before the intervention of the ESM: a kind of States' bail-in, to which the vice-president of the European Commission Katainen also gives attention. These ideas seem inspired by a recent study²⁹ of the German

²⁸ Such position is reaffirmed by the *Bundesbank's* President in the introductory speech at the press conference for the accounts 2015 presentation, on February 24, 2016. The text is available at <https://www.bis.org/review/r160301f.htm>.

²⁹ See the Annual Economic Report entitled "Focus on Future Viability", November 11, 2015, available at <http://www.sachverstaendigenrat-wirtschaft.de/>

Council of Economic Experts (without, however, resuming the partial mutualization of the public debts that this latter had proposed in 2011 according to a model outlined by Visco in 2010 and finally relaunched by the Governor in the form of “final considerations” proposed on May 31, 2016 presenting the “*Relazione annuale*” of the Bank of Italy). Any suggestion of a supportive pact which could accompany the transition, avoiding catastrophic effects, is completely lacking.

If banking bail-in has liberated the States from the burden of bailing out credit institutions, Berlin focuses on ridding the banks of the risks related to owned domestic sovereign bonds, by causing a certain proportion of them to be reintroduced into the market (what is more, not in normal but in turbulent times), without it being possible to exchange these securities with others issued by an European institution. In this way it would be possible to neutralize the QE, considered propitious to financial indiscipline.

Some, pointing out the country-specific risk, now say that only the international markets could push to that respect of the rules which European institutions cannot or do not want more to obtain by the States. Some in Germany perhaps think, irresponsibly, that a traumatic catharsis among the least disciplined countries could have a highly educative effect. Interference between politics and Protestant ethics, which has marked the perception of the crisis from the beginning, has returned.

The Governor of the EBC reaffirms, however, that the problem of sovereign risk feedback on the banks’ stability is on a global scale and cannot be tackled separately by Europe. The Committee on Economic and Monetary Affairs of the EP and the European Systemic Risk Board call for caution too. The danger of overcrossing the psychological effect of banks’ bail-in with that of States’ bail-in could, moreover, become highly destabilizing.

After a preparatory report by the Dutch Presidency, in which the high level of national public debt owned by banks is considered an important risk factor, the Ecofin meets in Amsterdam on April 22, and, because of the fear of turbulence in the markets, The Netherlands, Germany and Finland remain isolated in their tough positions. Rome provocatively raises the problem of the derivatives present in the BRD credit institutions (an issue which, in the Bank of Italy’s opinion, should become an object of attention for the European supervisory authority). Finally, the banks’

jahresgutachten-2015-2016.html?&L=1. This document (totally in line with the July 2015 Special Report about the euroarea) stresses the need of an insolvency mechanism for sovereign, with the aim of strengthening the “no bail-out” clause.

exposure to sovereign risk will be discussed in the Basilea Committee, where Japan will surely be against the German proposal. “Easier said than done?” is the ironic title of a study devoted by the Bank of Italy to its dangers and uncertain benefits³⁰.

8. The Debate around the Five Presidents’ Proposals

The complex choices summarized here regarding the bailout funds, the restoration of the transmission channels of monetary policy and the difficult fight against deflation, the joint surveillance of national budgets, and the BU (in a largely bank-centred economy), are closely interlinked, and they must be improved and completed through interventions of various kinds.

Gaps, rigidities and weaknesses have progressively emerged in the overall governance of the crisis, and on October 24, 2014, the Eurosummit addresses an invitation to the President of the Commission to work along with the Presidents of the European Council, the ECB and the Eurogroup in reflecting on these issues (which were already the subject of an important document³¹ presented by the four Presidents in June 2012). The European Council of December 18, 2014 formalizes the mandate to the so-called “Quartet”, to whom the President of the European Parliament is finally added, to draw up reform proposals for common governance. Discrete preparatory work by 32 “sherpas” is carried out and specific national documents are presented.

The mandate has been given at a time when the weak Juncker Plan was nebulous, before the European Commission presented the already-mentioned Communication about flexibility, the Eurotower launched the QE and the Greek elections changed the Hellenic scenario, reopening, for several months, discussion about the reversibility of the euro. All these

³⁰ Lanotte, M., Manzelli, G., Rinaldi, A. M., Taboga, M., Tommasino, P., *Easier said than done? Reforming the prudential treatment of bank's sovereign exposures*, Banca d'Italia, Occasional Papers, No. 326, April 2016.

³¹ On June 26, 2012 the President of the European Council Van Rompuy transmitted to the European Council a Report prepared in close collaboration with the President of the Commission Barroso, the President of the Eurogroup Juncker and the President of the ECB Draghi. The Report “Towards a Genuine Economic and Monetary Union” sets out a vision of the economic and monetary integration. The work of the four Presidents continued to develop proposals for a stage based process toward the completion of the EMU; this roadmap was presented on December 2012. See http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/134069.pdf.

events have an impact on the choices relating to economic governance, and they soon will influence the evaluation of the results achieved by the FC which the TSCG of 2012 asked to be implemented within five years at most (an issue that is for Italy very important).

The Five Presidents' Report³² was presented on June 22, 2015, just before the potentially disruptive referendum of July 5 on the plan proposed to Greece by the international creditors. The report is preceded, a few days beforehand, by a French–German interministerial document (which, mentioning that presented by the four Presidents in 2012, still raises the problem of a new common budget, supported with Europe's own resources) and by a Hollande–Merkel document.

According to the mandate received, the five Presidents' proposals aim to develop mechanisms for stronger political coordination, convergence and solidarity, preparing the next steps on better governance in the euro area, in order to make progress towards an economic and fiscal Union “that ensures to each economy the structural features to prosper within the monetary Union”. These proposals are outlined below, taking into consideration, on a case-by-case basis, the political debate raised and some subsequent related suggestions.

Up until June 30, 2017, working within the existing Treaties, the economic and institutional architecture of the EMU should be further consolidated also strengthening democratic control by increasing the involvement of national parliaments in the decision-making processes.

The creation of a network of independent “euro area competitiveness authorities” (aimed at analyzing and preventing economic divergences) needs to be noted, as well as the creation – which Palais Berlaymont worked promptly on, even if some rules of the game have been changed after a few months, causing criticism and suspicion – of a European advisory Fiscal Council, which will coordinate and complete the system of the national Fiscal Councils³³, independent bodies set up in the States on the basis of the Six Pack and of the FC.

³² See the Five Presidents' Report “Completing Europe's Economic and Monetary Union”, available at https://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf. It is worth observing that this report has been prepared by the President of the European Commission Juncker, in close cooperation with the President of the Euro Summit Tusk, the President of the Eurogroup Dijsselbloem, the President of the ECB Draghi and the President of the European Parliament Schulz, whereas in 2012 the coordination of the work was given to the President of the European Council.

³³ About the Fiscal Councils, see in particular Magarò, P., *Independent Fiscal Institutions: A Comparative Analysis*, in *Transylvanian Review of Administrative Sciences*, No. 39, 2013; Id., “Les institutions budgétaires indépendantes”, in *Revue Française de Finances Publiques*, No. 126, 2014 and “L'Ufficio parlamentare di

In a Position Paper of February 2016, Italy takes up this matter, submitting a daring proposal. The new European Fiscal Council “should take a pan-European view in its analysis and formulate a fiscal policy and recommendation for the euro area as a whole” in order to support an EU-wide growth strategy. It is worth mentioning that the recommendations addressed to the euro area – although no one knew who had to implement them – were already provided for (alongside those to individual States). In Italy’s view, the task of elaborating them would shift from the European Commission to the new fiscal council; furthermore, no reference is made to country-specific recommendations, but attention is focused on the aggregate level, whose symmetric implications could help to rebalance both in-surplus and in-deficit States.

The need to move from a sum of countries’ evaluations to a strategic overview has supporters in Paris, where, however, as we will see, a new figure is proposed for this task who will combine the role of Eurogroup President with that of a Minister for the coordination of economic policies and their surveillance.

The Five Presidents’ Report asks for a strengthening of the still ineffective procedure for addressing the excessive macroeconomic imbalances (to which Palais Berlaymont has nevertheless lastly begun cautiously to pay more attention, while the same BUBA has recently focused on the German surplus).

The BU should, on an optimistic assessment, be completed in the year 2017, with the addition of the already mentioned European deposit insurance scheme (EDIS), which could be conceived of as an insurance mechanism for the national deposit guarantee systems. This proposal is discussed in November 2015 by the European Commission, which envisages a process of gradual mutualization until 2024, similar to that of the SRF (and the allocation of the deposit guarantee function to the Single Resolution Board, according to a model inspired by the US experience). In the Eurogroup of January 2016, however, strong German resistance blocks the project. Draghi, speaking in the EP on February 1, 2016, asks for its implementation, with the aim of making savers confidence in bank deposits the same, regardless of States’ jurisdiction. The proposal returns in the already-mentioned Italian Position Paper (in which, on the other hand, the request to revise the bail-in is temporarily dropped). Without EDIS – so the ECB Executive Board member Praet says, imagining a

bilancio”, in Giovannelli, A. (ed.), *Aspetti della governance economica nell’UE e in alcuni Stati dell’Unione*, op. cit.

more realistic five-year path – BU is not yet “a real Banking Union”³⁴. The IMF Global Financial Stability Report confirms the importance of a deposit insurance scheme.

Finally, in a legal opinion of April 2016, the Eurotower writes that it is not possible to condition the common deposit insurance (envisaged as a third pillar in the 2012 road map) to uncertain future events, as suggested by Germany, which links it to the introduction of limits to the domestic sovereign bond owned by banks.

The five Presidents propose the launching of a new Capital Markets Union. This would be a step comparable to that fostered in 2001 by the Committee of Wise Men regarding regulation of the European Securities Market.

The union of capitals, the BU and the Juncker Plan – of which the European Investment Bank is an important agent – should be integrated, according to the already-mentioned German and French Central Bankers document, as part of a “Financing and Investments Union”. The Juncker Plan will, however, make a useful contribution only if an appropriate complex of not only privy resources (and sound investment projects specific to the euro area) can be soon identified; an indirect reference, not yet noted by economic analysts, in the ECB decision of March 10, 2016, appears interesting ...

In the second step of the institutional path to complete EMU, preceded in the spring of 2017 by a White Paper of the Commission³⁵, according to the Five Presidents’ Report the processes of convergence (by agreeing on a set of legally binding “common standards”) should be formalized.

Member States are invited to participate in dynamics leading to a new stabilization mechanism; this one has to be different from the ESM, which is functional in crisis management and not in dealing with shocks preventing crises. A permanent Eurogroup presidency and a still-elusive euro area treasury, which could be the missing counterpart of the EBC (up till now remained too isolated), are proposed. In this regard, it should be noted that the creation of a Finance Minister for the euro area was proposed in 2011 (and that in 2012 the debate on fiscal union arrived in Germany to the extent of giving life to an unprecedented hypothesis of

³⁴ See the interview with *La Repubblica*, March 18, 2016, available at <https://www.ecb.europa.eu/press/inter/date/2016/html/sp160318.en.html>.

³⁵ The document should probably evoke the European Commission’s White Paper “Completing the internal market” (COM/85/0310), discussed on June 28, 1985 in the Milan European Council. With this White Paper Delors created the premises of the Single European Act.

having recourse to a referendum). After the five Presidents' document the idea re-emerges, as outlined above, in February 2016 with the words of Governor Draghi, and, as we briefly saw, with the joint intervention of the Central Bankers of Germany and France. They link up, in a gradual and voluntary process aimed at financial union, each risk sharing to a further transfer of sovereignty, which appears at the moment quite difficult.

The creation of a Finance Minister who does not represent a bureaucratic simulacrum or an additional level of control would imply not only the power of coordination but the setting up of a real treasury of the euro area, with resources based on common fiscal capacity, a sovereign debt, and the possibility of issuing bonds (to support growth-oriented investment policies, the management of migratory flows and the strengthening of common security). Such decisions would be desirable for Italy, which imagines a Finance Minister of the euro area having a status similar to that of the High Representative for Foreign Affairs and Security Policy³⁶, but widespread reluctance still exists, because northern countries consider the Italian proposal a pretext for postponing fiscal consolidation (not to mention that, at the end of March 2016, the terrorist attacks in Brussels temporarily displace the debate on the creation of a European Minister of the Interior). On the other hand, some believe that – in their joint intervention – the French and German Central Bankers (and in particular Weidmann) are indeed pushing for a Plan B, rigidly austerity-oriented.

This suspicion is intensified by the intervention, at the end of April, of the BUBA President, in which he expresses his doubts regarding the possibility of achieving further transfers of sovereignty, alternatives to the hardening of rules and controls necessary to prevent the Eurozone from becoming vulnerable, because of the excessive debt of some States. It is contradictory to ask – he observes in Rome, referring just to Italy – for mutualization of public debt and common guarantees on bank deposits while at the same time pretending the full autonomy of national fiscal decisions.

Without the indispensable sharing of sovereignty, the two Central Bankers write, it would be necessary to return to a decentralized approach. Fiscal rules need to be further strengthened. Risks, including that of sovereign exposure, have to be properly taken into account, reducing the banks' vulnerability to turbulence caused by government debts. These

³⁶ See the document "A shared European Policy strategy for Growth, Jobs and Stability", of February 22, 2016, available at http://www.governo.it/sites/governo.it/files/ASharedPolicyStrategy_20160222.pdf.

interventions bring us back, therefore, to our previous remark concerning the difficult itinerary of the BU (and some destabilizing proposals, against the implementation of which the President of the Italian Council of Ministers threatens to use his veto).

Concerning the issue of the European resources, Berlin, which firmly contests the migration bonds, nevertheless gradually offers positive signs of willingness (up to the idea of a targeted and temporary European surtax on fuel to cover the reception costs of migrants, a surtax which could give, however, support to Europhobics and which would require unanimous consent or a willing coalition), making us aware that Germany could in context accept a specific euro area budget. Unfortunately, work on enhanced cooperation for a tax on financial transactions has not yet been done. It would have been a way of starting a limited but necessary strengthening of the common resources, which are now totally unfit to compensate for asymmetric shocks and support areas affected by crises.

Coming back directly to the Five Presidents' Report: this demands the integration of the Euro Plus Pact, of the ESM Treaty (an update to which is formally proposed in order to create a strong public backstop for the banking system), of the TSCG and of the Intergovernmental Agreement on the SRF, in the legal framework of the Union.

Following the suggestion of the French–German interministerial document, which soon precedes the Five Presidents' Report, it is proposed that the EU and the euro area should have unified representation in the international financial institutions³⁷, in particular in the IMF.

By 2025 at latest, the path towards deep, genuine, prosperous and attractive EMU (with institutions strengthened in terms of efficiency, legitimacy and transparency) should be completed. This roadmap, too vague and timid for some, is considered aware of the existing obstacles by other people.

9. Metamorphosis and Deepening of the Crisis

The European Council of December 2015 (absorbed by other problems and new tensions), after having requested the Commission to report by June 2016 on the progress made, merely states: “the legal, economic and political aspects of the more long-term measures contained

³⁷ The roadmap for moving towards a more consistent euroarea external representation in international fora is presented in the European Commission communication of October 10, 2015 (COM/2015/0602 final).

in the Report need to be further explored.” Justus Lipsius will come back to them by the end of 2017, the year of the review of the FC, of the 60th anniversary celebrations of the Treaty of Rome, but also of French and German national elections.

While several controversial decisions are postponed to the meeting of the European Council, at the moment scheduled for the end of June 2016 (soon after the Brexit referendum which could destabilize the same euro area and at the expiration of the sanctions on Russia), the ECB Governor calls for quick action. “One needs clarity on the future of the EMU”, he strongly declares on March 17, after a session of the European Council devoted to economic issues, which the German Chancellor (concerned about the growth of the populist right wing in the elections of three *Länder*) considers inappropriate for a discussion of the bank deposit guarantee.

Having regard to the risks resulting from the incomplete nature of the EMU, in the Eurotower reflection is ongoing about the best way to speed up a deepening of economic integration. This preparatory work also takes into account its persistent lack of democratic legitimacy. Playing for time is a luxury that Europe can no longer afford.

It is a moment of fragility in which the crisis suffers a further transformation, from global financial crisis to sovereign debt crisis, to economic recession, to stagnation, then – while European GDP reaches 2008 levels for the first time – to political crisis within the European States and to lack of confidence among them (with the growth of the consensus to policymakers who defend loudly national interests as if they were in a zero-sum game, losing the very sense of staying together). This is conjoined with a number of international crises: a “policrisis not yet fully controlled”, to use the words spoken by Juncker in January 2016³⁸. Even if each problem can be individually faced and managed, the interconnectedness of the shocks assumes the characters of a perfect storm, in which some see the whitecaps of “*cupio dissolvi*” while new Europhobics take the place of the Eurosceptics. As President Hollande says³⁹, “disappointment was followed by disenchantment, and after doubts came suspicions and for some even rejection or breakup”.

The scenario is made every day more complex by the nightmare of a destabilizing Brexit, which worries both the IMF and the White

³⁸ Hear the opening remarks of the President’s New Year’s press conference, on January 15, 2016 (<http://ec.europa.eu/avservices/video/player.cfm?ref=1115044>).

³⁹ See the French President’s intervention in Douaumont, at the ceremony marking the centenary of the battle of Verdun, on May 29, 2016, available at <http://www.elysee.fr/declarations/article/ceremonie-a-l-ossuaire-de-douaumont-3/>.

House, is considered by the financial G20 of Shanghai and the financial G7 of Akiu to be an important shock, and leads the Bank of England to prepare contingency plans for financial turbulences. Other problems are expected to be caused by the following: (1) the large numbers of asylum-seekers and migrants (with a resultant increase in national public spending and the use of European funds initially planned for humanitarian assistance in Third World countries); (2) ambiguities of the Turkish Government; (3) the already-clear inadequacy of the Dublin III regulation, approved when it seemed unlikely that a country could be overwhelmed; (4) the serious erosion of the Schengen Treaty, whose implications open an unforeseen breach in the Single Market and undermine the same identity of a Union built to dawn walls; (5) new dynamics in the global financial markets, less controllable through monetary interventions, as evidenced by the Bank for International Settlements; (6) geopolitical risk factors in the east of the continent and in the Mediterranean region, intertwined with security problems related to the terrorist network challenge, which accentuates British isolationism. The Security Pact – so President Hollande declares after the deadly attacks on Paris of November 2015 – “prevails over the Stability Pact”. In the shadow of Berlin’s benevolence for the spending policy of the French partner (put under political pressure by the *Front National*), the Italian Government also finds comfortable refuge. In addition to all this, the Austrian suspense – in a political battle whose outcome was decided by only a handful of votes – spreads anxiety over the whole continent, making even more evident the problem of the anti-system parties’ growth (keenly observed also by the international markets).

Increasingly discordant answers correspond to the exogenous tensions (which accentuate European divisions, calling into question traditional alliances among States and generating centrifugal pushes). The existing danger does not yet represent an external federative factor, just when a real common response is even more necessary. The aspiration to strengthen smaller and more culturally cohesive clubs (like the Visegrad Group, divided, however, over relations with Russia) arises just when it is evident that their dimensions too are largely inadequate for dealing with the new challenges, and that the real external borders are those of the Union. Rodrik’s trilemma⁴⁰ is there to remind us that only by thinking on a continental scale is it possible to reconcile globalization and democracy.

⁴⁰ On the difficult relations among democracy, national sovereignty and global economic integration, see Rodrik, D., *The Globalisation Paradox: Democracy and the Future of the World Economy*, W. W. Norton & Company, New York and London, 2011.

While the idea of a Europe of concentric circles (with a highly integrated neo-Carolingian core built through separated treaties or strengthened cooperations and a weak periphery exposed to several dangers) powers ahead, the need to keep London in the Union, avoiding a political and institutional domino effect (which could also trigger, starting from Scotland and the Crown Dependencies, an uncontrollable new secessionist dynamic in several countries), intensifies the process of differentiation between States, making the path of integration an increasingly divergent one. Some in France begin to recall the pessimistic old prophecy of de Gaulle about the consequences of UK entry into the EEC.

10. Attempts to Wake from the Brexit Nightmare

Following a letter from Prime Minister Cameron and a document by President Tusk⁴¹, discussions in the European Council of February 18–19, 2016 are very difficult, partly because the migrant crisis coincides with the nightmare of Brexit and Athens threatens for a while to apply its veto to the settlement with London. The discussions do not present a nice spectacle, but – considering the breakup of the relationship with UK, coming moreover at the worst possible moment, against the common interest the 28 leaders find a compromise, rich in diplomatic ambiguity, which reinforces British special status in the Union. The arrangement (whose possible consequences have to be better evaluated) will become effective only if the UK decides, in the difficult referendum of June 23, to remain in the EU.

On the result of this referendum (preceded by the less important, but significant, Dutch consultative referendum on the association agreement with Ukraine) are also hung important decisions concerning the revision of economic governance. “Wait and see”: many discussions are suspended, and emergency plans begin to be secretly elaborated by the ‘sherpas’ of the most important European States. In the event of a negative response by the UK people, after long technical and political negotiations, in the best scenario London will only be able to enter the European Economic Space in the manner of Norway, or else to sign a free trade treaty with the Union.

⁴¹ See the important letter of February 2, 2016 sent by President Tusk to the members of the European Council with his proposal to prevent the Brexit, available at <http://www.consilium.europa.eu/en/press/press-releases/2016/02/02-letter-tusk-proposal-new-settlement-uk/>.

The complex result of the work in the February European Council⁴² consists of a decision of the Heads of State or governments, plus several annexed declarations of the Council and the Commission, which have to submit proposals for amending secondary legislation (and the role of the EP should not be forgotten).

The decision via which treaties are reinterpreted (by applying at the highest legal level the pragmatic approach that was already behind the Communication on flexibility) is determined as being legally binding – also if we have to remember the powers of the CJEU – and may be amended only by common accord. “The substance of the decision” has to be incorporated into the treaties “at the time of their next revision” (a vague indication that raises doubts in the UK). It should be noted that the proposal to indicate also the TSCG between those treaties has finally been rejected, also owing to Italian and British opposition.

Among the many issues arising, some are worth mentioning in the context of this short analysis of the compromise that was reached. It is stressed that the Single Market is a multi-currency one. The States not involved in the deepening of EMU will not create obstacles to this process, which will respect (in all legal acts, including intergovernmental agreements) the rights and competences of the non participating States. This formula echoes the appeal to the European justice⁴³ won in 2015 by a company owned by the London Stock Exchange against an EBC text, imposing on market infrastructures operating mainly in euros the obligation to establish themselves in countries which use the euro as their currency. In the event of Brexit, the ECB should no longer accept that, in case of crisis similar to that of 2008, a large amount of financial activity in euros will take place outside its control.

Rules on the BU are applicable only to credit institutions located in the euro area or States that have concluded a close cooperation agreement with the ECB. Specific derogations are admitted for the UK⁴⁴ to the “Single Rulebook”, indicating prudential requirements which financial

⁴² See the conclusions of the February 18-19, 2016, European Council meeting, the decision concerning a new settlement for the United Kingdom within the European Union and the annexed documents, available at <http://www.consilium.europa.eu/en/meetings/european-council/2016/02/18-19/>.

⁴³ See the judgement of March 4, 2015, *United Kingdom v. European Central Bank*, T-496/11, EU:T:2015:133.

⁴⁴ This autonomy (which could help the financial hub of the City, encouraging delocalization processes from the continent) is, however, reduced by the reference to the respect for equal conditions in the internal market and by the persistent control powers of the European Banking Authority and the European Securities and Markets Authority, powers which could also be increased.

institutions must respect in the EU. Emergency measures to safeguard the financial stability of the euro area will not involve the budgetary responsibility of States outside this or the BU. The Eurogroup shall respect the power of the Council, as an institution within which States coordinate their economic policies.

In a formula richer in symbolic than in practical effects, it is recognized that the UK is not committed to further political integration into the EU, thus making clear that the reference to ever-closer union (existing from the Treaty of Rome) does not apply to the UK and cannot be used to support an extensive interpretation of the competences of the Union.

A red card procedure is created, which could give more power to the national Assemblies (despite the shortness of the time allowed). “Where reasoned opinions of non-compliance of a draft legislative act, with the principle of subsidiarity, sent within 12 weeks from the transmission of the draft, represent more than 55% of the votes allocated in national Parliaments”, the item will be discussed in the Council and consideration of this act will cease, “unless the draft is amended to accommodate the concerns” expressed in these opinions.

With regard to legislative acts related to economic governance, it is said that, if one member of the Council not participating to the BU indicates its opposition, “the Council shall discuss the issues and try to find a satisfactory solution to address concerns raised”. A request for discussion in the European Council may be presented, without “allowing a Member State a veto”. This fuzzy formula expresses the UK’s fear of being placed in a systematic minority by the countries of the euro area and allows London to refer the possible problems to an *ad hoc* summit.

The deal section on competitiveness contains platonic references to the reduction of cost and administrative burdens for companies, as well as of unnecessary legislation (commitments already existing in Juncker’s political program).

Finally: it is possible here to mention only briefly the controversial innovation according to which, in exceptional situations, it is possible to temporarily exclude residents of other EU countries from UK welfare benefits (granted, moreover, only progressively). Such a decision provokes reactions especially in the countries of Central and Eastern Europe. It is a serious step backward, which Justus Lipsius has had to accept, hoping to keep London in the Union even though it means lowering the flag of the European social model. The philosophy of the workers’ mobility and the same project of an integration not too arid are injured to the heart. A

dangerous precedent is created, and other States could try to imitate the British example. Receptive Germany is, surprisingly, the first⁴⁵.

The decline of our Continent risks becoming moral disintegration, while opinion polls show that European populations are increasingly attracted by a possible outbreak of secessionist referendums.

11. The Danger of Halting in Mid-Stream

Many events call into question the present tendency of several countries to ask for an integration *à la carte*, to step back towards forms of renationalization, or to pause hesitantly in the middle of the rushing river despite it being instead necessary to take a leap forward, reconsidering the weak institutional links of the present day, just when the world is moving towards a system of increasingly structured macro areas, called upon to assume growing responsibilities in managing planetary challenges⁴⁶ and to protect peoples from the “storm of history”⁴⁷.

The Eurozone in particular (if does not wish to resign itself to implosion or to the ordered dissolution that some in Finland evoke) should shift its focus and move, in crucial new fields, from governance via the rules to government by federal political institutions, with real decision-making powers. If not now, when?

After a common narrative of the crisis has been elaborated, after mistakes have been recognized and a more fully shared perception of the problems reached, after it has been well noted that the force of functionalism – for a long time necessary but insufficient – has had its day (whereas the euro’s symbolic fertility was, to say the least, overestimated) and that, in the long run, it may be impossible to continue the daring experiment of a currency without State, after all this, it will be necessary not only to make the baroque EMU architecture much more solid and harmonious, but also to give the Union a new democratic soul, instilling into its political processes stronger legitimacy and a deeper social sensitivity, reducing existing economic differences. These latter have grown up between the core and the peripheries of the Union (which

⁴⁵ On April 28, 2016 the German labor Minister Nahles presents a bill which cuts *Hartz IV* law social benefits for foreigners from other EU countries.

⁴⁶ These words were said on April 13, 2016 by the Italian President Mattarella in Turin, at the Italian-German High Level Dialogue (<http://www.quirinale.it/elementi/Continua.aspx?tipo=Discorso&key=309>).

⁴⁷ These words were said by President Hollande on May 29, 2016, at the already mentioned ceremony with Chancellor Merkel, in Verdun.

have been impoverished by job cuts or wage deflation) and inside the States, as is shown also by the uninspected widening of the gap between the West and the East of the *BRD* – excepting a few cities – during the crisis. It is therefore particularly important to strengthen EMU’s “social dimension”, as requested in the Rome Declaration of September 14, 2015⁴⁸ (a document which gratuitously becomes the critical target of the Brexiteers in the UK political debate).

The implementation of a long-term unemployment insurance scheme (a proposal launched in 2015 in France and in 2016 in Italy, and finally integrated in Germany through the idea of a specific European authority designed to prevent the incorrect use of public funds) could help to absorb shocks, limiting their regional impact and stabilizing the whole European economic and social system. In a medium-term perspective, to avoid legal disputes, it would be useful also to openly give a dual mandate to the ECB, similar to that of the Fed, whose target is not only inflation but also unemployment level. Above all, however, it will be necessary to tackle the widespread representation of Europe as an evil stepmother (who imposes discipline without providing an opportunity to grow up) and to win the “beginning of the end” feeling, to use again the words spoken by the President Juncker in the already mentioned first press conference of 2016.

Only a real strengthening of the intensity and quality of the common bond, reacting to the negative excesses of intergovernmentalism which have increasingly marked the dynamics of economic governance (promoting inside the European Council, for the purpose of contingent internal interests, a muscular dialectic among national leaders at the most difficult times, as Monti clearly states in the Trilateral Commission meeting of April 2016), could avoid the proliferation of destructive germs in the marshy land between declining national sovereignties and incomplete common democracy.

When the old world dies and the new one can not be born, from this shadowing, as Gramsci warned in 1937, monsters may come out.

⁴⁸ The Declaration “Greater European integration: the way forward” (available at http://www.camera.it/application/xmanager/projects/leg17/attachments/shadow_mostra/altro_file_pdfs/000/024/057/Rome_Conference_on_Europe_Declaration_EN.pdf) was signed by the Presidents of the Italian *Camera dei Deputati*, of the German *Bundestag*, of the French *Assemblée nationale* and of the *Chambre des députés* of Luxembourg. Later several other Presidents of Parliamentary Assemblies joined and the Declaration has now the signatures of 15 Presidents of national Assemblies of 13 member States.

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