# Money and the economy in the history of European integration: is there an original model?


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(pubblicato in *Governing with numbers*, a cura di C. Caruso e M. Morvillo, Bologna, Il Mulino, 2020, pp. 55-76)


*1. Premises*

The process of European integration is no doubt a wholly original one, because it has not followed any of the previously existing three models of international relations: sovereignty, unification or federalism. Sovereign States could at times agree to build alliances, but they were free to move out of them at their will. Alliances could also be of an economic nature (customs unions, or the gold standard), but they were of the same voluntary type as the military ones: states could move out, without having to motivate their decision or pay fines[1]. With the process of European integration, instead, sovereign states decided to enter into a "permanent" alliance[2] to guarantee peace, as Kant had anticipated in his 1795 essay *Perpetual peace: a philosophical sketch*[3]. Let's read the relevant passage of Kant's work:

> The commercial spirit cannot co-exist with war, and sooner or later it takes possession of every nation. For, of all the forces which lie at the command of a state, the power of money is probably the most reliable. Hence states find themselves compelled—not, it is true, exactly from motives of morality—to further the noble end of peace and to avert war, by means of mediation, wherever it threatens to break out, just as if they had made a permanent league for this purpose (1903 translation, p. 157).

The awareness of the originality of the process of European integration emerged from the same words of Schuman when it announced the creation of ECSC on 9th May 1950. Let me quote a few passages of his speech in the translation by Dean Acheson, then US Secretary of State, who wrote a book on this event (1969):

> Europe will not be made all at once, or according to a single, general plan. It will be built through concrete achievements, which first create a de facto solidarity. The gathering together of the nations of Europe requires the elimination of the age-old opposition of France and

[1] Obviously, States which broke an alliance had to face the political and economic consequences of that decision, but this is a different matter.

[2] Brexit is a demonstration that not even the EU is a really permanent alliance, though to get out of it is a lengthy and costly process.

[3] An article trying to connect the EU creation to Kant's thought is G.W. Brown (2014).

> Germany…With this aim in view, the French government proposes to place Franco-German production of coal and steel as a whole under a common higher authority, within an organization open to the participation of the other countries of Europe. The pooling of coal and steel production should immediately provide for the setting-up of common foundations for economic development as a first step in the federation of Europe, and will change the destinies of those regions which have long been devoted to the manufacture of munitions of war, of which they have been the most constant victims (pp. 383-84).

Alan Milward clarified in many of his books that the approach adopted with the creation of the ECSC was the only way to still maintain sovereign states, something that Europe was unprepared to give up, making it possible at the same time to face the new challenges by pooling together strategic sectors through peaceful negotiations, regardless of the contradictions inbuilt in this approach. In his 1984 book, he concluded that Western Europe:

> created an alternative pattern of reconstruction, a restricted but workable institutional framework for economic interdependence which has proved more effective than any previous peace settlement (p. 476).

In the many steps that followed the ECSC, the approach has always been the same: when a new area was included into the integrationist framework, a European agency that should administer the new agreement was shaped by representatives from the sovereign member States (head of States, ministers, technicians) and approved by national governments, but the decisions reached by it over time could not be re-discussed by national Parliaments and member States were obliged to embody such decisions into their national legislation. All steps were concerned with specific sectors or activities and did not impinge on the macro-level of the economy, also because monetary policy was taken care of by the gold-exchange standard, under American supervision.

It is here the proper place to recall that, as I mentioned earlier, belonging to a gold standard cannot not be considered an exception to sovereignty because it was a voluntary decision by sovereign nation-States. This means that the "rules of the game" on which the gold standard was based had no need to be formalized with numbers, being absolutely clear to all members of the club what these rules entailed. The benefits of having fixed exchange rates were considered so substantial, that all advanced countries wanted to be part of such a monetary alliance, though this could impose sacrifices. Given that today most economists have lost memory of such benefits, I will spell them out: 1) trust (no competitive devaluation to be faced); 2) long term horizon (real investments spanning years could be decided with confidence); 3) limited availability of speculative markets, which channelled capital into real investment. I want to remind that it was not by chance that the years of full working of the gold standard (1870-1914 and 1947-1973) were years of great economic expansion of the gold standard countries.

The gold standard however had two major shortcomings: the use of gold as an external discipline did not imply price stability (inflation and deflation could take place, though at the same pace in all the countries belonging to the gold club) and the asymmetry between deficit and surplus countries prevented the smooth adjustment of disequilibria. Keynes with his proposals at the Bretton Woods Conference[4] wanted to address the problem of asymmetry, but he was prevented from doing it, because USA did not want to back an independent central bank of the world (the *Clearing Union*, as Keynes had labelled it) empowered to supervise all capital flows connected with bops disequilibria and act to redress them by putting pressure also on surplus members. With the IMF the gold exchange standard ended up by becoming hostage of its leader, the USA, that after a quarter of a century destroyed it through monetary policies not following the rules of the game and through an unwillingness to reform the system[5]. However, before this happened, none of the members of the club really wanted to exit the system and the IMF invented negotiations that allowed a number of countries to devalue without exiting.

These being the premises, we are now going to see the consequences. I will first give attention to the birth of the EMS and of the EMU, then to the devastating impact of the 2008 international crisis, to conclude on the causes that have imposed the need of governing EU macro-economic imbalances through the use of fixed indicators.

### *2. The European Monetary System and the EMU*

We all know, but it is often forgotten, that the idea of promoting a sort of gold standard without gold in the European Union came from the sheer impossibility of continuing the process of European economic integration in presence of a highly volatile monetary context. With flexible exchange rates, major problems aroused: the custom union as well as the CAP required common prices, but it was no longer possible to ensure that the prices would be equal across borders; investments inside the Union became as risky as outside the Union; but, above all, monetary and fiscal policies could diverge, producing competitive devaluations and defeating the efforts to have a single market. It was quite clear that gold as an "external" discipline to push countries to follow the rules of the game was no longer

[4] See N. Piffaretti (2009) and A. Van Dormael (1978).

[5] Gold had become inadequate to support the growing transactions without deflation. The so-called "special drawing rights" should have helped easing the shortage, but they had a short life.

necessary nor useful, but gold could be substituted with a commitment by the part of the members of the fixed exchange rate club to have convergent monetary policies. In the agreement to build the EMS (European Monetary System) in 1979, it was decided to accept the suggestion by Keynes to share the burden of ensuring equilibrium among strong and weak partners and a mechanism was devised to reach this target: negotiations had to be asked by any member who experienced a divergence of its exchange rate from the existing parity and revaluation and devaluation decisions were shared.

What was maintained of the gold exchange standard was precisely the negotiations to adjust exchange rates when they were out of touch with the economic conditions of one or more members, to avoid exits from the system. It was in fact quite clear that even the few years of flexible exchange rates that had prevailed in Europe (they were no more than six), coupled with the "oil crisis" had such a differential impact on the EU members and their monetary and fiscal policies that it was impossible to pretend that the new system of fixed exchange rates would be in full force immediately. Not all members of the EU adhered to the EMS, which for the first time covered a macro-economic measure, namely monetary policy. However, we have seen that before the demise of the Bretton Woods system monetary policies had not been in the hands of the European national governments, because the gold exchange standard was dominated by the dollar. After USA dismantled it, the EU countries realized how supportive the gold exchange standard had been for a smooth process of integration and wanted to bring monetary stability back. In any case, it was still a voluntary step (UK could stay out) and a step that accommodated incoherent economic policies through realignments.

The story of the realignments which took place between 1979 and 1993 is depicted in table 1. Some factual but important observations are in order. First, it is pretty clear that countries which had faced the disruption of the 1970s by devaluing their currency had great difficulties in converging on to a more orthodox monetary policy, but convergence was indeed at work, so the only member that had not adhered in 1979 (the UK) in the end decided to enter, together with Spain and Portugal who had just joined the EU (only Greece remained out). However, what the table hides are other aspects of the story that loom large in what happened in 1992. First of all, not all members had clear that the rules of the game of a fixed exchange rate system entail not only a common monetary policy, but also a coherent fiscal policy and a near equilibrium in the balance of payments. The worst case in point was Italy, where, for a host of reasons[6], fiscal policy became very lax, producing an extremely steep accumulation of public debt.

The second observation is that 1990 brought about the liberalization of international capital markets, which had been considered an inevitable move after the liberalisation of the goods markets had gone very far. This meant that the speculative money flows that had been restricted by protective national walls could now target any weak economic position in the entire world with a fire power unknown in previous times. A long list of financial crises were chalked up in the 1990s, starting with Europe (Italy and the UK were forced out of the EMS in September 1992) and Japan (a major banking crisis) to continue with Mexico, Thailand, Malesia, South Korea, then Russia and Argentina (Paul Krugman, 2009. Finally, the same 1990 brought about German re-unification, which strengthened the propensity to tie together the European States.

**Table 1 Realignments of the Central Parities in the EMS, 1979–1993**

| Currency | 24 Sep 1979 | 30 Nov 1979 | 22 Feb 1981 | 5 Oct 1981 | 22 Feb 1982 | 14 Jun 1982 | 21 Mar 1983 | 20 Jul 1985 | 7 Apr 1986 | 4 Aug 1986 | 12 Jan 1987 | 12 Jan 1990 | 13 Sep 1992 | 16 Sep 1992 | 2 Feb 1993 | 14 May 1993 | 2 Aug 1993 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgian franc | | | | | -8.5 | | +1.5 | +2 | +1 | | +2 | | +3.5 | | | | b |
| Danish krone | -3 | -4.8 | | | -3.0 | | +2.5 | +2 | +1 | | | | +3.5 | | | | b |
| German mark | +2 | | | +5.5 | | +4.25 | +5.5 | +2 | +3 | | +3 | | +3.5 | | | | b |
| French franc | | | | -3.0 | | -5.75 | -2.5 | +2 | -3 | | | | +3.5 | | | | b |
| Irish pound | | | | | | | -3.5 | +2 | | -8 | | | +3.5 | | -10.0 | | b |
| Italian lira | | | -6 | -3.0 | | -2.75 | -2.5 | -6 | | | | -3.75 | -3.5 | a | - | - | - |
| Dutch guilder | | | | +5.5 | | +4.25 | +3.5 | +2 | +3 | | +3 | | +3.5 | | | | b |
| Spanish peseta | Entry 19 June 1989 | | | | | | | | | | | +3.5 | -5.0 | -6.0 | -8.0 | b | -7.0 |
| British pound | Entry 8 October 1990 | | | | | | | | | | | | +3.5 | a | - | - | - |
| Portuguese scudo | Entry 6 April 1992 | | | | | | | | | | | | | -6.0 | -6.5 | b | -3.5 |

Notes: [a] exit from the EMS; [b] fluctuation band ± 15
Source: CEC, *General Report on the Activities of the EU*, various years.

The last observation has to do with the *Maastricht Treaty*. When the new head of the Commission Jacques Delors took up office in 1985, there was a situation of stagnation in the process of European integration. Delors took upon himself the duty of making new proposals and his dynamism was accepted and supported so as he became the longest serving president of the European Commission (1985-1994). His first proposal was to lift the non-tariff barriers to reach a really “single” market in the EU, a target which was approved in 1986 with the *Single European Act* and went in operation in 1993. As the EMS had proved capable of bringing about convergence in monetary policies and as a single market cannot properly

[6] I have discussed of this elsewhere, see V. Zamagni (2018), ch.3.

function without a single currency, in 1988 Delors set up a Committee to prepare a proposal for the creation of an EMU, proposal that was issued in April 1989. If all the previous steps of the process of integration had been original, because never in history sovereign states had bound themselves together into such a deep and lasting collaboration without becoming a federation or reaching unification, this step was considered so "original" to be even charged of being out of line with economic rationality. Never in history a single currency had existed without a government power backing it.

Especially the American economists rallied against the project[7], on the basis of the OCA theory (Mundell, McKinnon, Kenen). What entirely escaped the American economists was that when a single currency was adopted in the USA more than two centuries before, USA was certainly not an OCA[8], but being a federalist State the dollar was never in discussion (although it took a long time to put the various dollar issuing banks under control and to have a federal government in a position to really counter the cycle)[9]. The EU was caught in a trap: if the Union wanted to move ahead it had to introduce a single market, which in turn necessitated of a single currency, but the conditions to put in place a single currency did not exist, because Europe was not a federal State. We all know that the decision taken in the end was a political one[10], and the decision was that of breaking the vicious circle and move ahead, in spite of the absence of a federal State. A number of commentators have pointed out that this type of "political" risk had been intrinsic in all the European integration steps, starting from the Monnet's proposal of the ECSC. According to George Ball (1994):

> Monnet recognized that the very irrationality of this scheme [the ECSC] might provide the pressure to achieve exactly what he wanted – the triggering of a chain of reactions. The awkwardness and complexity resulting from the singling out of coal and steel would drive member governments to accept the idea of pooling other production as well.

Chancellor Helmut Schmidt is reported to have said about the euro that: "this is the great strength of the euro, that nobody can leave it without damaging his own currency and

[7] The best summary of the American literature against the euro can be found in L.Jonung, E. Drea (2009).

[8] It was clear that the beginnings of a single currency were never easy. See for instance what Charles Wyplosz (1997) has written: "The choice is not between EMU and heaven. It is between EMU and freely floating exchange rates, with possibly poorly coordinated monetary policies, within an area gradually becoming as tightly integrated as the United States. Would the United States have passed the currency area tests a century ago? And had it failed, all things considered, was it a mistake for the country to adopt a single currency?" p. 10.

[9] Indeed the conclusion of the previously quoted article by Wyplosz was the following: "To our knowledge, no US economist, inspired by the OCA approach, has proposed to break up the United States into smaller regional currency areas. Perhaps we should take this as a positive sign for the future of the euro: in due time, it will be accepted as the normal state of monetary affairs in Europe just like the dollar is in the United States" (p. 38).

[10] Mario Draghi too in his very famous speech of 26 July 2012, underlined the political foundations of the euro: "When people talk about the fragility of the euro, very often non-euro area member states or leaders underestimate the amount of political capital that is being invested in the euro…Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough"

his own economy in a severe way"[11]. Romano Prodi as well when he was head of the EU Commission stated that the euro would need new instruments, politically impossible to approve without a crisis which would impose their adoption[12]. Of course it could not be excluded that such a bold "political" approach, by jeopardising the resilience to shocks of some of the economies of the Union, could ignite a "meltdown" of integration, rather than other steps forward. Precisely because of the preoccupations about the sustainability of the process by the part of certain members of the EU, the EU treaty signed in 2009 provided a new article expressly devoted to allow exit from the Union, article 50, but before that decision, members were allowed not to join into further steps of integration, and indeed a number of the EU members had remained out of the euro[13]. Article 50 is the demonstration that, even after 60 years from the beginning of the process of integration and the many steps forward, Europe is still locked in the concept of sovereignty and voluntary alliances, although the disentangling of members is becoming more and more difficult.

In the light of what just said, we could ask the following question: when numerical indicators became so crucial for the euro?

## 3. *Ruling by numbers*

It was only when the euro was in trouble that numbers started to become strategic. Indeed, the EMU was fundamentally different from all the previous international monetary agreements and from all the previous steps of European integration: the fixation of the exchange rate was irrevocable and monetary policy was entirely subtracted from national agencies (the national central bank) and put into a single common institution, the ECB. The degree of "numberization", so to speak, of the EMU had been originally quite modest and served simply to spell out what an irrevocably fixed exchange rate system implied. I insist by saying that the indicators used were always the same and served to convey the historically established law that exchange rates could remain fixed only under the indicated conditions, which became all the more necessary when multiple currencies melted down into a single one. The only exception that was envisaged concerned the initial level of public debt. It seemed unfair to prevent the participation into the EMU of countries that had accumulated a higher public debt in the past: Italy was the most relevant case, due to it being a founding

[11] Interview by David Marsh, cited in D. Marsh (2009), p. 255.

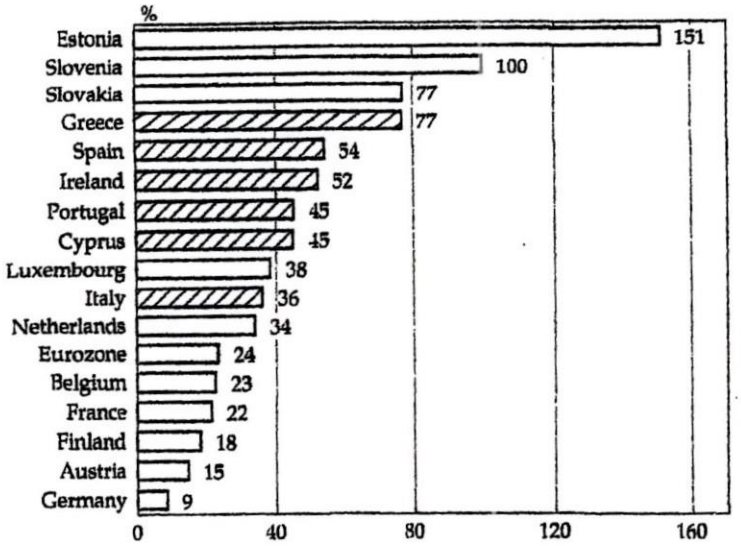
[12] L. Guiso, P. Sapienza, L. Zingales (2014), p. 8. Romano Prodi often complained that not even the national GNP accounts were transparent and homogenous.

[13] To withdraw from a single step once approved and in operation is instead something that had not been envisaged (this would have been the case of Greece exiting the euro, but not the EU).

father of the Union and also a quite substantial economy. Of course Italy promised to engage in cutting public debt, something that happened before the world economy turned sour. It is now of the utmost importance to understand why numbers that had always been treated as a matter of course were made binding. Three are the events that in my opinion made numberization increasingly rigid.

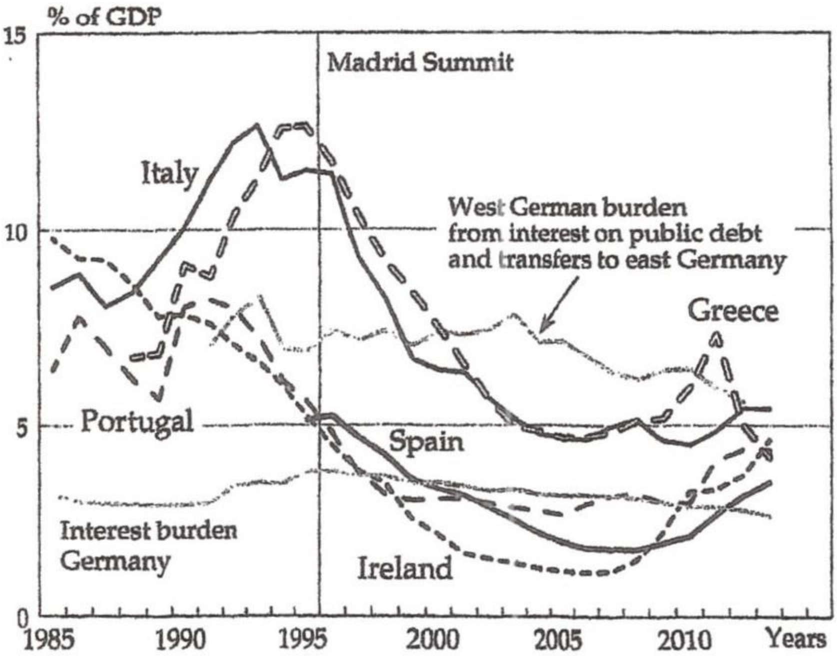
1. The first event was a divergence of prices within the eurozone**,** due to many causes, among which housing booms in some countries and the lack of supervision by national authorities in other countries. All Italians remember that, while the exchange rate of the lira had been fixed around 2000 lire per 1 euro (1936,27 lire per 1 euro) and therefore prices in lire should have been divided by 1000 and then halved, many times only the first operation was done: e.g. 20.000 lire became 20 euros, instead than 10 euros. This obviously implied loss of competitiveness. Graph 1 reports the comprehensive price increase 1995-2007 in the countries of the Eurozone. It can be seen how prices almost did not move in Germany, thanks above all to the 2003 labour market reform that cut the cost of labour. Italy was not the worst case, but the country also had some structural problems in its labour market and industrial specialization that were made worse by an excessive price increase. This loss of competitiveness by the part of some of the eurozone members who let their prices run was worsened by the appreciation of the euro against the dollar, which started in 2003 and peaked between 2007 and 2009, remaining high until 2014. Loss of competitiveness meant current account balance deficits, facilitated by the low interest rates prevailing which allowed an increase in public spending and the further accumulation of public debt. Graph 2 on the fall of the interest burden of public debt is startling. The other instrument that facilitated the relaxation of public finance in some countries was the automatic compensation system called TARGET (Trans European Real Time Gross Settlement Express Transfer), which allowed an easy inflow of capitals into deficit member countries. In countries like Germany the opposite mechanism was at work: slow increase in prices and compressed wages meant (together with a solid industrial structure) a rise in competitiveness, with a subsequent increasing surplus in bop and an outflow of capitals, mostly towards deficit

Graph 1. Cumulative price change 1995-2007




Source: H.W. Sinn (2014), p. 113.

Graph 2. Trend of the interest burden of public debt 1985-2013




Source: same as graph 1.

countries. There was a strong divergence of bop balances up until 2007-08, then a convergence took place, which was all carried through by deficit countries[14]. A few countries

[14] An IMF report of July 2014 by T. Tressel et Al. has recognized this clearly: "While exports have typically rebounded [in deficit countries] slumping internal demand (and imports) account for much of the reduction in current account deficits. This trend has not been matched by stronger demand and narrower current account surpluses elsewhere in the euro area …[on the contrary] the net foreign assets of surplus economies, such as Germany and the Netherlands, have continue to expand", p. 4.

have always been in surplus (Denmark, Germany, Luxembourg, Netherlands, Austria, Sweden), some have always remained in deficit (the UK, which was not in the Eurozone, as well as Rumania; Greece, whose deficits however became small since 2013, Cyprus). All other countries have recovered a surplus, sometimes quite important, at the exception of Finland, which is the only country to have had a worsening of bop since 2011, and France, which had a bop always fluctuating around the balance. As a result of these movements, the eurozone runs now a strong bop surplus. We do not know whether the divergence which took place before the crisis could find a spontaneous tendency towards re-adjustment or would attract attention by the ECB to enact re-equilibrating measures. The beginning of the world crisis came only 5-6 years after the full working of the euro, a really unfortunate circumstance for a new currency that had started on not too solid institutional grounds and certainly needed a period of stability to find a healthy path.

2. The second event that contributed to the difficulties of the euro was the under-institutionalization of the ECB. It was not the first time that a Central Bank which was put in place as a result of an external necessity was granted very limited powers. The Federal Reserve, which went in operation in 1914, is a startling example of a Central Bank without effective powers, because Americans never wanted to grant powers to central banks, starting with President Jackson Veto message of 1836, that delayed for decades the creation of a central bank in the USA[15]. The allegation by a number of distinguished economists and economic historians that the performance of the Fed was a major cause of the length and depth of the 1929 crisis is by now well established. The Fed was better institutionalized only *after* the disaster had unfolded, with the emergency Act of March 1933, when the entire American banking system was threatened of bankruptcy, and the ensuing Glass-Steagall Act of June 1933, both decisions of the new President F. D. Roosevelt, just entered in office. The ECB followed the same destiny, namely under-institutionalization at the beginning of its life, for different reasons. National governments wanted to retain as much power as possible, granting to the ECB only the narrow mandate of price control. Jean Claude Trichet was the custodian of this narrow mandate and beyond doubts his indecisiveness worsened the situation, in front of the unfolding of the third event that has brought us to governing by numbers.

3. The third event was obviously the world crisis coming from the USA banks, hitting the Eurozone member countries in an asymmetric way, as anticipated by American

[15] Things in the USA financial sector changed radically only since the 1980s.

economists, while member countries were left alone to try to counter its devastating impact on banks, state budgets and bops, because the Union did not have agencies responsible for monitoring the crisis and proposing solutions and the ECB did not have instruments to intervene. Ex-post, everybody became aware that Greece was utterly unable to face the situation by itself; Ireland was in dire straits; Portugal, Spain and Cyprus needed support, while Italy was in the very uncomfortable condition of not being in a position to help itself because of the still too high public debt. All of these developments could be anticipated, if only a Union Agency and/or the ECB were untrusted with supervision and intervention instruments. The IMF had to be resorted at, a clear declaration of helplessness. Fortunately, at that point the ECB under Mario Draghi reacted creatively and started the process of further institutionalization of the ECB, by acting as LLR, promoting the monitoring agencies (EBA, ESMA, EIOPA) and creating the Banking Union and the intervention fund (ESM). Obviously these steps forward had costs, which were a burden to the Eurozone and especially to its weakest members. Moreover, the new powers of the ECB were not so effective, because solutions for the fiscal and macroeconomic imbalances were not so quick in being adopted.

In 1997 a *Stability and growth pact* had indeed been put in place, which included fiscal indicators, as part of the criteria necessary to introduce the euro, but the numbers used, always the same, were not considered compulsory. It was only when the crisis hit hard and asymmetrically that two further agreements were reached: the so called *Sixpack* and the *Fiscal Compact*. The Sixpack, adopted on the 13th Dec. 2011, was broad and contained beside fiscal matters also a clear mention of other macroeconomic imbalances. The 5th Regulation "On the prevention and correction of macroeconomic imbalances in the euro area" in article 17 recites:

> Given vulnerabilities and the magnitude of the adjustment required, the need for policy actions is particularly pressing in Member States showing persistently large current-account deficits and competitiveness losses. Furthermore, in member States that accumulate large current-account surpluses, policies should aim to identify and implement measures that help strengthen their domestic demand and growth potential.

But only a few months later, the 2nd March 2012, a *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG,* commonly called *Fiscal Compact*) was signed, which set out rigid fiscal numerical targets that had to become binding for the Eurozone members (with only Title V applied generally also to non members) to start operation in January 2013. I will not engage in a discussion of the Fiscal Compact, also because its complications are beyond my expertise, but in my opinion it was the demonstration of desperation. Everybody knows that imposing rigidity on economic policy targets is a poor way of governing, but the euro was in dire straits and no better political solution was readily available to deal with fiscal policies. So we are not surprised that the Fiscal Compact had a very difficult life, although beyond doubts it contributed to the survival of the euro. The obligation to balance budgets was even put in Constitution in a number of countries (Italy included, in 2012). Only Germany had it in Constitution before, for well-known historical reasons. At this point, the interesting question becomes the following: were the unsatisfactory results of the Fiscal Compact due to the sheer rigidity of the numbers selected and maybe to the empirical mistakes in their application or were they also due to an inappropriate concentration only on fiscal matters? Why only fiscal targets were selected for specific and rigorous concern out of the many targets listed in the Sixpack? This is the last point I can discuss with historical tools.

Coming back to what I said earlier on gold standards, I mentioned that one of its shortcomings was the asymmetry between deficit and surplus countries. This asymmetry has been the main reason of the failure of the short lived gold standard in operation between 1924 and 1931: surplus countries (France and USA) not only sterilized their gold, but USA even went so far as pretending to recover its war loans from deficit countries[16], while France claimed reparations from Germany[17]. We cannot charge these economically unsound pretensions of having caused the 1929 crisis, which had other roots too, but the "golden fetters", as Barry Eichengreen titled one of his most famous books (1992), certainly made the 1929 crisis worse, (together with the already mentioned inadequate Fed policies), because they forced deficit countries to adopt restrictive measures to avoid exiting from the gold standard, while the surplus ones sat on their gold doing nothing. I am sure that the Keynes proposal at Bretton Woods, which was mentioned above, came out of the observation of the perverse effects stemming from this asymmetry during the 1929 crisis, which in the end destabilized the entire world economy.

In no way a fixed exchange rate system can work properly if there are member countries that do not play the rules of the game, but this applies to all member countries, especially if, as in the euro, the fixed exchange rates are irrevocable. The burden of re-adjustment placed only on the shoulders of deficit countries will avoid, for sometime, the breakdown of the system, but will worsen the other macroeconomic indicators of the deficit countries obliged to bop re-adjustments: GDP growth rates will plummet, productivity will

[16] I remind, however, that in 1926 Mussolini succeeded in having the Italian foreign debt largely wiped out.

[17] I remind that Germany in the end succeeded in paying some of the reparations only through USA loans, producing the well-known vicious circle of international payments: USA lent money to Germany to pay reparations to the winners, which in turn allowed these to pay their war loans to USA. See V. Zamagni (2017).

not improve, unemployment will soar, domestic consumption will shrink and the necessity for more public spending becomes pressing. We all know that this chain of events is precisely what caused many of the political troubles the EU has been recently prone to.

There are not many economists who have underlined this failure by the EU surplus members to redress their bop unbalances through an enlargement of public and private spending. Among them a group led by Marcello Messori in their 2015 volume clearly pointed out this problem:

> One of the main negative features of the European adjustment mechanisms lies in the fact that adjustments are asymmetric, in the sense that the relative costs must be borne by the main deficit countries … Hence, negative current account imbalances in a number of European member States are largely due to the poor functioning of the European institutions in putting under control the corresponding positive imbalances of Germany and a few other EMU countries (p. 181-82)

They also suggested that, to avoid deflationary tendencies inside the eurozone:

> The main solution would be the implementation of symmetric adjustments between central and peripheral[18] countries. (p. 190)

But nothing has been done insofar and most of the German and Dutch economists and politicians have always denied that the macroeconomic imbalances in the Eurozone have something to do with unchecked bop surpluses, continuously crediting the view that they were only the effect of too high a public debt in certain countries[19].

*Conclusions*

Two conclusions stem from the arguments developed in this paper. The first is that the euro is not just one of the many original steps of the process of European integration, but a very special one, because it entails an economic policy tool which sovereign States always were jealous of, namely the management of money. To build a common currency without a common State was therefore a great hazard, and it was to be expected that the institutionalization of the euro would be inadequate at the beginning. The international crisis imposed the necessity to remedy to this, but the process of institutionalization of the euro carried on by the ECB took place in difficult times, producing a painful work in progress, which raised many negative political backlashes. I am not pessimistic, however. The amount

[18] I am not accepting this expression "central and peripheral", which does not have much meaning either geographically or culturally, while economically it is also misleading.

[19] W. Jacoby (2015). At pp. 192-93 he writes: "Successive German governments have had an interest in maintaining the narrative that the euro crisis is one of public debt since the alternative interpretation – that it is driven in substantial ways by underling trade imbalances – suggests that Germany may have to bear more of the burden of adjustment. Since trade deficits generally have to be financed by private debt, the alternative narrative opens Germany to the charge that it is private debt, not public debt, that most determines the problems in the eurozone".

of “political capital”, as Draghi said, invested in the EU and in the euro is so large, and the world risks so climbing that the adventure of the euro can be won and we are already today in a more comfortable situation, though still in need of many improvements.

The second conclusion is about the misuse of numbers. For lack of political consensus on what really was and is needed to institutionalize the euro properly, and out of desperation to keep the euro alive too much pressure has been placed on obliging members to respect fiscal numerical targets rigidly. The fiscal numerical indicators were defended with stubbornness, together with the wiping out of bop deficits, while bop surpluses were entirely disregarded. The Euro cannot prosper without all the imbalances being addressed together and being addressed in substance, not with numerical rigidity. I believe that the EU can learn from its mistakes and propose projects capable of promoting investments in the real side of the economy, moving its focus to more generative actions that will diminish the pressure of using rigid numbers as governing tools.

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