THE "TRUTH" ABOUT EUROPE AND THE EURO
1/1/1999: COUP D'ETAT
1/1/2014: REBIRTH!?

Giussepe Guarino, 21 October 2013

Premise

A united Europe was the grand ideal set out, in the immediate aftermath of World War I, by a number of enlightened minds; in Italy, these included Luigi Einaudi and Don Sturzo, among others. Just before the outbreak of World War II, Lionel Robbins took up the theme again in his Geneva lectures. Altiero Spinelli, during his years of political confinement under Fascism, drew up the Ventotene Manifesto for a free and united Europe. Robert Schumann and Jean Monnet, endorsing the European federalist goal in 1950, proposed a step-by-step approach to its achievement. The plan called for the creation of Community bodies in specific sectors, which would be set side by side, eventually covering the entire sphere of common interests. The Treaty of Paris (1952) instituted the European Coal and Steel Community, an initial step that was followed by others. This first stage concluded with the European Economic Community (the Common Market), a marvelous construction that would make an enormous contribution to common development.

A new, second stage initiated at the 1969 summit in the Hague. Masses of liquidity in private hands, shifting from currency to currency, were distorting exchange rates and complicating the management of the four largest European economies, France, West Germany, Britain and Italy. The 1969 summit approved the proposal of Raymond Barre of France, vice president of the European Commission; this proposal was then incorporated in what was known as the Werner Plan. The idea was to arrive via a three-stage process at fixed exchange rates – functionally, a single currency – by around 1990. In 1986 and 1992 two related treaties were signed, the Single European Act and the Maastricht Treaty on European Union. The original plan for the Maastricht Treaty underwent significant amendments in the course of the negotiations.

A good many of the principles and the hopes created over the decades are still very widely held.

In drafting this essay, I am of a two-fold persuasion. First, in order to grasp the reality of the European Union and the euro area one must discard the baggage – rich and historically important though it may be – that is the fruit of earlier ideas and disciplines. One must clear one's mind and look

without blinders at what has happened in Europe since 1999. Second, to deal with Europe's current problems it is necessary to frame them not only in the European but in the global context. Europe, that is, is one component of the global economic system.

In the course of my studies on European issues, after countless examinations and re-examinations, I began to glimpse utterly unanticipated conclusions. To avoid emotional reverberations, I have held rigorously, in analysis and in exposition, to the systematic-formal method, identifying the legal forms utilized, the resulting movements, the series of causes and effects. I have not named the persons involved. The judgments bear strictly on the acts formally – legally – adopted.

These reflections and conclusions do not refer to single countries. The reference is in general to member countries without a derogation and they apply in the same manner to these member states. The consequences discussed are those that the euro-area rules entail for the European Union as a whole and for the "world" system.

1/1/1999

An obscure coup d'état

1. An expression employed even in formal European acts, including the recent "Fiscal Compact" (Article 1.1), is "Economic and Monetary Union" (EMU). Yet the Monetary Union has not been achieved. The Economic Union has not been created. The currencies in circulation that were "legal tender" within the European Union numbered thirteen on the launch date, the 1st of January 1999. One, the euro, was the common currency of eleven states. The British pound and the Spanish peseta were "national currencies". Today the currencies are twelve: the euro plus eleven national currencies.

The Economic Union has not been created. The Single European Act and the Treaty on European Union, the two accords that are credited with having done so, actually do no more than forge a "single market". This is a vast economic area in which the dominant principles are those of free enterprise and the broadest possible economic opening. Today, most of the world's trade is governed by rules based on these same principles of private initiative, hence on free enterprise in open markets. In practice, there is a "single" market at global level. But no one would venture to call this an "economic union".

2. The "common market" was the primary subject of the Act, supplemented by the Treaty. The latter governs new matters; in particular, it

laid down general rules for economic activity and member state budgets, hence implicitly on the single currency.

3. The rules that would affect the institution of the "single currency" were dealt with in the final months of discussion on the Treaty. At this point many of the key points had already been fixed. The currency would be common not to all the EU member states but only to those that submitted to a specific discipline. This decision derived from the United Kingdom's refusal to give up its own currency, the pound sterling. Without Britain the Union would be born mutilated. Britain was offered an "opting out" clause, with the possibility, if it qualified, of adopting the euro at any time. Granted to the UK, the clause could hardly be denied Denmark. And it was also granted, de facto and without a formal derogation, to Sweden, the first country to join the European Union after the stipulation of the Treaty. Article 109(k) ultimately envisaged two distinct categories of member state, those forming part of the euro area, called "member states without a derogation" and those not belonging to the area, "member states with a derogation". Article 109K of the Maastricht Treaty specifies the articles that apply only to states without a derogation.

As Britain had announced that it would not give up the pound, so Germany announced that it would join the Union and adopt the single currency only if this closely resembled the Deutschemark. The mark was Germany's historic currency, used in the Federal Republic (West Germany) since its constitution. Applying a policy guideline in effect from its foundation, the government, assisted by the Bundesbank, held strictly to anti-inflationary standards to guarantee the lasting value of money and consequently the harmonious, balanced, sustained growth of the economy.

The objective of monetary stability implied, in the judgment of Bundesbank President Otto Pöhl, which was shared by Commission President Jacques Delors, and then endorsed by the representatives of all the other countries, that all member states would be subject to ceilings on their annual budget deficit (3 per cent of GDP) and on their stock of public debt (60 per cent of GDP). The Italian and British delegations took an active part in the final discussion.

Before agreement was reached on the characteristics of the single currency, measures were adopted that would determine the entire architecture of the system. The participating member states would remain sovereign. They would waive not their sovereignty but its exercise, in very broad areas that would be specified in advance. The powers of the Union would be only those specifically contemplated by the Treaty. The resources of the Union, apart from customs duties and some other minor revenue, would consist in funds transferred by the member states (called "own

resources”). The Union’s budget would have to be balanced every year. It followed that the Union could not run a deficit, could not borrow. In the matters under its jurisdiction, the Union would issue regulations and directives with binding effect on the member states. Clauses of the Treaty, supplementing the Single European Act, would prohibit government aid to enterprises and prevent the formation of dominant market positions.

The Act had enshrined the freedom of movement not only of goods but also of persons, plus freedom of establishment, and the free movement of capital, including at short term. The Union would promote the liberalization of international trade with the generalized abolition of customs tariffs. The EU directive on the free circulation of short-term capital had been adopted by the Commission and transposed by the member countries even before the completion of the design for the Union.

4. This was the framework, with a good many fixed points, within which the national delegations set out to insert the rules that would directly or indirectly shape the new currency. The discipline would have to reflect that governing the Deutschemark in three fundamental respects.

i) It would have as objective that of promoting throughout the Community economic growth as defined in Article 2 of the Treaty: “harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States.”

ii) The task of promoting growth would be assigned separately to each member state, which would do so in its own interest and in that of the Union, by means of its own economic policy (Treaty, Articles 102A and 103).

iii) The member states would have to be endowed with the means and/or instruments necessary to pursue the growth objectives. But here the framers (the “system architects”) had to recognize that in principle the means used by the countries outside the European Union – that is, all Europe’s future competitors – were precluded, de facto, by the fixed points already settled and no longer amendable. Yet these points, given the prohibitions enacted, indicated the only possible approach, which would necessarily have to be taken: debt. For if there are factors to be capitalized on and one lacks resources to invest, borrowing is indispensable to seize the opportunities, which may not recur.

If in its ordinary operation the system does not produce resources, if all chances of seizing productive opportunities are precluded, growth itself is impeded. Debt – borrowing – should be permitted in observance of the

so-called "golden rule," namely that the investment financed by debt be reasonably expected to produce returns greater than its overall cost. When they were adopted, the ceilings of 3 per cent of GDP for the deficit and 60 per cent for the public debt could have been based on the historical experience of such major economies as Germany and the United States. They were approved: 3 per cent and 60 per cent constituted the limits that would guarantee the "stability" of the currency and the economy.

5. This is where the Italian delegation's proposal, backed also by Britain, comes in. Delegation head Guido Carli, the Italian Treasury minister, in his memoirs (*Cinquant'anni di storia italiana,* Bari, Laaterza, 1993,p. 406 ff.), attributes it to his own "stubbornness". It was unthinkable to make the fate of an economy depend on conditions that would be ascertained on predetermined dates. These conditions might be undone overnight, they might depend on exceptional circumstances, they might theoretically be the result of inaccurate or erroneous data. Accordingly, three amendments were approved, two on the indents of Article 2(a) and the third on Article 104C(2). The definitive version of Article 104C(2) established that the examination of compliance with the budgetary discipline would be "on the basis" of two criteria, specified respectively in points (a) and (b). Thus in interpreting and applying the reference values, these two criteria must be taken into account. The amendments, however, require taking into account the tendency to approach the ceiling value and of any exceptional or temporary causes for the overshoot.

The system architects had been given the assignment of creating, through abstract rules, a currency that corresponded to the German mark, that guaranteed the member states, and hence the Union, lasting, harmonious, sustainable growth like that achieved by Germany over the previous forty years. The framers kept to this model. They executed their assignment precisely. They designed a project whose implementation could and would ensure lasting, sustainable growth. The member states would generate growth in their exercise of the most typical policy-making activity, namely "economic" policy. The architects were aware that growth would be favored by two productive factors: the physical elimination of customs stations, which preparatory studies estimated would have a growth effect of between 2 and 6 per cent depending on the country's location, and the elimination of transaction costs between the single-currency countries, which was supposed to generate an addition 0.7 percentage points per year of growth.

Now the political power to take on debt was added, up to the limits laid down in Protocol 6, to be interpreted and applied according to the binding criteria of Article 104C of the Treaty. This should have been sufficient.

6. So the formal rules governing the single currency were adopted. The next step was a transitional period in which to create conditions among the member states qualifying for the euro sufficiently homogeneous to prevent the strong from prevailing over the weak when the third stage of regular application began. The rules for the transitional period of convergence are given in Protocol 5. The reference values taken were the averages for two important variables (inflation and the interest rate on long-term government bonds) of the three best performing member states. Limits to deviation from these values were set (1½ percentage points for inflation, 2 points for long-term interest rates). Before 1 July 1998 an examination was to be conducted under an agreed procedure to assess the results achieved, and the countries meeting the requirements admitted to the "euro" group.

The examination was held on 3 May 1998. Eleven countries passed. A twelfth, Spain, was classed as admitted with a derogation; it was admitted without a derogation the next year.

7. The expression "coup d'état" is used to describe events in which fundamental aspects of a country's constitutional system are modified in violation of the constitutional norms themselves.

Historically, coups are ordinarily effected by armed force: in ancient times, assassinating the sovereign, possibly also by poison. On 1st January 1999 a coup d'état was carried out against the EU member states, their citizens, and the European Union itself. The "coup" was not executed by force but by cunning fraud. This may appear to be quite a "stunning" declaration. Objectively speaking, it is. Outright non-belief is perhaps the most natural, comprehensible reaction to such an assertion. To demonstrate its truth, we must specify: a) which constitutional powers of the member states and which fundamental features of EU law were overturned in the "coup"; b) the acts by which the "coup" was effected and who carried it out; and c) what the "cunning fraud" consisted in.

8. a[1]) We give separate answers for the member states and for the Union. The Treaty on European Union does not envisage any specific procedure for amendment. Given that it is a multilateral, international pact, it should have been the Union's duty, and that of its governing organs, to enforce it and see to its enforcement. They should not have allowed its fundamental features to be altered in the absence of a new Treaty. The rules introduced by fraud, instead, are the subject of a regulation provided for in the Treaty as a function of a single, specific task: adopting general guidelines for the coordination of the "economic policies" of the member states (Articles 102A and 103). The constitutional law of the member states

was violated in that the domestic constitutional rules for treaty ratification were not followed. Member states' sovereignty was violated in that they were deprived of the "exclusive" function to be performed, singly or as a group, of promoting the growth of the EU and the euro area by means of their own "economic policies". The member states' constitutions were violated in that obligations and conduct were imposed on their governing bodies that are not contemplated in the national constitutions.

b[1]) The coup was carried out by means of Regulation 1466/97. As noted, the Regulation was drafted under a procedure (specified in Articles 103(5) and 189C of the Treaty) that in the very moment in which it was used was also violated, in that it was used for a purpose different from the only one contemplated.

In no way can the procedure referred to in Articles 103(5) and 189C of the Treaty be properly used to modify fundamental provisions of the Treaty. Having done so suggests the possibility not of mere illegitimacy but of absolute lack of power. The acts adopted are, consequently, not illegitimate but null, non-existent.

b[2]) The individual persons responsible for the coup and the fraudulent means for its performance are unknown. We do not know either who had the idea or who materially drafted the text of the Regulation. An enquiry by the European Parliament might yet identify them. The formal responsibility for the "coup" rests with the MEMBERS OF THE COMMISSION AND THE HEADS OF THE UNION BODIES AND THE MEMBER STATE GOVERNMENTS THAT TOOK PART IN EACH OF THE PHASES OF THE PROCEDURE FOR THE DRAFTING OF REGULATION 1466/97.

c[1]) The fundamental provisions that were illegally altered by Regulation 1466/97 differ between the Union and the member states.

As for the Union, there was a radical and irreversible alteration of the primary purpose, consisting in pursuit of growth with the characteristics and by the procedures specified in Articles 2 and 3 of the Treaty, and in having abrogated, insofar as the entire matter is regulated in a completely different way, Article 104C, which contains the rules governing the means by which the member states could discharge their obligation to promote growth.

As for the member states, the illegitimate change consists in having deprived them, with the abrogation of Articles 102A, 103 and 104C of the Treaty and of other related articles – by means of totally different rules governing the entire matter (Regulation 1466) – of the only political powers assigned to them with a view to the economic management of the Union.

c[2]) Despite its apparent innocuousness, Regulation 1466 not only modified the overarching rules of the Union and the member states, but it affected the fundamental character of the Union, the characteristic without

which the member states' participation is not legitimate, namely its democratic nature. And this may be the assertion that engenders the greatest non-belief of all.

9. It all began with the suspicion on the part of some of the stronger member states that some of the weaker, in order to pass the examination, might try to use false data. This is a plausible explanation of the origin of Regulation 1466. The Regulation was supposed to provide the remedy in the event that some member state managed to pass the examination without actually meeting the standards. This remedy would not, however, produce a cure. Instead it would cause severe damage; damage that would prove to be irremediable.

Add that at the end of 1996 the performance of the EU member states was grounds for concern. The debt/GDP ratio in the largest countries had risen to levels and at speeds that were unforeseen. The French public debt had risen from 35 to 58.7 per cent of GDP, the German debt from 40 to 59.8 per cent, the Italian from 100.8 to 116.8 per cent. A slowdown in GDP had been expected for the transitional period, but the deterioration was worse than forecast. The actual ability of the rules to attain their objectives began to be doubted; in particular, the effective correspondence of the new currency to the old mark was called into question. It was decided to overcome all uncertainty by reinforcing "stability," making the latter the object of a general constraint.

The demonstration that the democratic nature of the Union was suppressed is all the more indispensable in this light; it must be analytical, precise, detailed. It will be confirmed by the practical effects produced.

10. In what does the "fraudulent" design leading to Regulation 1466/97 consist?

The procedure used had never been used, and never could have been used according to its original scope, insofar as Regulation 1466 erased the member state "economic policies" that, under Articles 102A and 103 of the Treaty, constituted its presupposition.

The procedure leading to the Regulation began in November 1996. The first act published appeared in the *Official Journal* on 6 December. At that time the member states were totally focused on the admission examination for the euro, to be conducted by 31 December (Article 109J). The examination was then postponed to 1998. The new single currency sparked great hopes. No attention was paid to Regulation 1466. This was an act that did not affect the examination. It related to a later period. The text

specified its entry into force on 1 July 1998. The members would deal with it in due course, assuming they had passed the euro exam.

The text of the Regulation was reassuringly worded. It promised, in Article 3(1), strong, sustainable growth conducive to employment creation. If you wanted to quibble, this "strong" growth was something more, and different, from what Article 2 of the Treaty required and promised.

11. The Regulation procedure ended with the Council resolution of 7 July 1997. The member states took part in the Council with ministerial-level representatives authorized to commit their respective governments (Article 146 of the Treaty). If the member states might conceivably be excused for not having paid enough attention to the text of the Regulation at the time of the Council's first resolution, before November 1996, in 1997 they should not have been able to ignore the fate that would befall them once they passed the examination. But in fact they failed to take an interest.

One suspects that a role in this was played by an astute choice of dates. The Regulation was adopted, as noted, on 7 July 1997. This was the period when the Commission would begin to inspect the documentation submitted by the member states for the examination. On 25 March 1998 the Commission issued its proposal to admit eleven of the twelve applicants. Spain was postponed to the next year. The Council of Heads of State and Government endorsed the Commission proposal. Regulation 1466 itself set the date of its entry into force at 1 July 1998 (Article 13).

For what reason were the member states asked to adopt the Resolution before the examination was conducted and its results known, if it was to apply only to the states that would be admitted? "Dear Member State" (one can almost hear the application whisper), "if you don't sign now, your admission to the euro could be problematic." WASW THIS PIECE OF BLACKMAIL DUE TO THE ACCIDENTAL SERIES OF DATES OR DELIBERATE?

12. Every currency, always, rests upon a legal order. It can be that of the free market, that of a collectivist economy, or that of a mixed economy. These diverse types nevertheless have an element in common. THE MANAGEMENT OF THE CURRENCY IS ALWAYS ASSIGNED TO THE HIGHEST POLITICAL AUTHORITY. In the free-market regime, the political authority is flanked by the head of the central bank. The euro is the first instance of a currency for which, under the Treaty, the highest political authorities, though participating in monetary management, are not exclusively responsible for it. Instead an abstract set of rules would play a dominant role in the management of the currency. The specificity of the new

single currency would derive from the discipline to which the Treaty subjects it.

The currency governed by Regulation 1466/97 entered the market on 1st January 1999. If it is found that the rules laid down in the Regulation are different from, indeed opposed to, those of the Treaty, then we can only conclude that the euro in being since that date is a different currency from the one provided for in the Treaty. The currency envisaged and regulated in the Treaty is the only "genuine" euro. And as it was not launched either on the established date or on any other later date, the "genuine euro" is a currency that was never born. The currency that has usurped its name, been presented as if it were that of the Treaty and accepted as such by the markets is a "false" money, a counterfeit that, concealing its real nature and identity, has stolen those of the genuine euro.

13. The difference between the Treaty and Regulation 1466 turns on the constraint that is central to the rules. The Treaty sets an objective, growth in accordance with Article 2, whose attainment is entrusted to the economic policies of the individual member states, each of which was to take account of the concrete, specific conditions of its own economy. As the means to this end, economic policies could use, as necessary, debt up to the limits allowed by Article 104C, to be interpreted and applied by the criteria set in the indents and in paragraphs 2 and 3 of point 2 of that article.

THE REGULATION ABOLISHES ALL THIS. THE MEMBER STATES' ECONOMIC POLICIES ARE CANCELLED. AS A CONSEQUENCE, EVERY POSSIBLE CONTRIBUTION BY MEMBER STATES IS CANCELLED. The role assigned to the growth objective by the Treaty (Articles 102A, 103 and 104C), to be attained by the political activity of the member states, in compliance with Articles 2 ff. of the Treaty, is cancelled. The growth objective is eliminated and replaced by an outcome, namely budgetary balance in the medium term. Under the Treaty, the member states were to attain the growth objective, autonomously evaluating their countries' limits, conditions and structures. The degree of attainment would necessarily differ from country to country and, within each country, from year to year. The outcome with which the Regulation replaces the objective was in principle the same for all countries and all years. If the existing structures or the monetary conditions were not such as to allow growth, the economic policy of the individual member state would have taken this into account. On the contrary, UNDER THE REGULATION IF STRUCTURES OR CONDITIONS WERE SUCH AS TO IMPEDE THE "OUTCOME" OF BUDGETARY BALANCE, THEN THE STRUCTURES HAVE TO BE MODIFIED AND THE CONDITIONS ALTERED. THE STATE CANNOT EVADE THE PEREMPTORY OBLIGATION OF BUDGETARY BALANCE. In short, the relationship between money and reality is turned upside-down.

According to the Regulation, it is the real world that must adapt to the currency.

14. We could stop here. For the purposes of demonstrating that the currency that entered the market on 1st January 1999 was a different currency from that planned by Pöhl, Delors or Carli, the foregoing is sufficient. The currency as governed by the Treaty was deemed by the man directly responsible and the main user, President Pöhl, to correspond to the pre-existing German mark. Logically speaking, then, the "euro" in circulation today, insofar as it is governed by rules in conflict with that Treaty, cannot be deemed to be similar to the old mark.

15. Doubts should have arisen at once over the ability of the euro instituted by the Regulation to produce economic growth. The mark had been a factor of growth. The "false euro" eliminated the powers and means that the member states could and should have used to generate growth. Nor did the Regulation institute any other powers or means in their place. The growth effect, which would supposedly follow as the natural consequence of the obligation imposed permanently and indistinctly on all the member states, was simply asserted "axiomatically". There was no confirmation of its validity in any actual historical experience. The public debt of the United Kingdom during the century of the industrial revolution and British imperial expansion exceeded the previous or contemporaneous debt of any other country. The public debt of the United States soared from 40 per cent of GDP in 1939 to over 100 per cent in 1945. Fifteen million unemployed found jobs. The United States emerged from the war as the world's greatest political, military, economic and scientific power.

If historical demonstrations are lacking, if objectively testable cause-and-effect arguments are not adduced, then belief in the axiomatic objective rests necessarily and solely on results. Since 1999, fifteen years have passed: a period that in present historical conditions can be considered long more than medium-term.

The statistical outturns are unequivocal. Italy, Germany and France, in the four decades from 1950 to 1991 were the top three Western countries in terms of growth, with average annual GDP expansion of 4.36%, 4.05% and 3.86%, respectively (based on harmonized data from Maddison), ahead of the United States (3.45%) and Britain (2.08%). In the six years before the Maastricht Treaty (1987-1992), owing to the restrictive effects of the last phase of implementation of the Werner Plan, the three countries had growth rates of 2.68%, 2.05% and 2.91%. These results proved to be better than those achieved during the six-year transitional period of convergence (1.34%, 1.32% and 1.40%). In the fifteen years of the euro, since 1999, the

averages have been 0.38%, 1.36% and 1.38%. Starting in 2000 the three European countries, in addition to the benefits of the physical elimination of customs stations, should have benefited from the elimination of transaction costs within the euro area and also from the expansion of the Union (thirteen new members) and the euro area (five additional members). Yet an unimpeachable source on the countries with the least economic growth in the decade from 2000 to 2010 puts Italy as third-worst, Germany as tenth-worst and France as fourteenth-worst (*Pocket World in Figures*, *The Economist,* 2013, p. 30). And more significantly still, no fewer than twelve European Union countries figure among the worst thirty-five.

In the same rankings for the previous decade, 1990-2000, not a single European country figured. One must conclude that some crucial factor in the economic depression in Europe, and in the euro area in particular, must have begun to operate just before or just after the turn of the century. Theoretically, this factor could be internal to the euro area or the EU just as easily as external. But another statistic rules out the "external" hypothesis. The average growth rate for world GDP from 1975 to 1995 was 2.8% (*Human Development Report*, 1999). World population in 1997 was 5.7 billion; today it is over 7 billion. The world's economic growth rate from 2004 to 2013 was better than 4%, topping 5% in 2006 (5.3%), 2007 (5.4%) and 2010 (5.1%). The entire world is now marked by sustained rapid growth in all continents. In the euro area, the average growth rate from 1991 to 2003 was 2.2%. For 2013 there will be a contraction of 2% (see also the *Economic Report of the President*, 2013, p. 452).

So the cause is internal to Europe. The new factor that came into play in 1999, or just before or after, is the market entry of the "false" euro governed by Regulation 1466/97 on 1st January 1999. There is no doubt. Regulation 1466 is the prime, indeed the sole, cause of the economic depression in the single member states and in the entire euro area since that date.

The de facto installation of a new regime:
The suppression of democracy

16. There is one further, distinct direct effect of Regulation 1466, more significant than any other. This is the suppression of "democracy". At the highest level, individual freedom is guaranteed. Legally, social rights are also guaranteed. But individual freedom and social rights are only preconditions for democracy, necessary but not sufficient. A regime can be called democratic only if individuals, together forming a single community,

can together, in conditions of absolute equality, influence the political guidelines relating to the exercise of sovereignty or at any rate carrying priority. Given the current conditions of development, basic economic guidelines must be deemed to carry such priority.

Citizens can exert influence directly or indirectly. In large communities, the rule is indirect influence through voting. The vote must be given in conditions of equality, on the same day (possibly with exceptions for persons in particular conditions), under the same procedures, in known and predetermined places.

REGULATION 1466/97 ABOLISHED THE ONLY SPHERE OF POLITICAL ACTIVITY SUBJECT TO THE INFLUENCE OF THE CITIZENS OF THE INDIVIDUAL MEMBER STATES, NAMELY THE AREA OF ECONOMIC POLICIES THROUGH WHICH EACH MEMBER STATE COULD AND SHOULD HAVE TAKEN PART IN THE PURSUIT OF GROWTH IN ITS OWN INTEREST AND THAT OF THE UNION. The political jurisdiction of the member states, embodying a power, was not replaced by any other of equal political nature. Instead, member states were subjected to the obligation to achieve a specifically defined result (a balanced budget) as a matter of priority, and the same for all. Its attainment implies obligations and duties on an individual basis, subject to powers of surveillance, controls and directives, and with prescribed characteristics and objectives.

With the suppression of any sphere of political decision, the corresponding sphere of expansion of the democratic principle vanishes.

The lines of march of the Union and its members are traced out. In the component of the general conditions of development that influences all the others, and which is accordingly to be considered as carrying absolute priority, namely the economy, "governments have to do their homework". The democratic institutions envisaged by the constitutional order of each country no longer serve any purpose. Political parties can exert no influence whatever. Strikes and lockouts have no effect. Violent demonstrations cause additional damage but leave the predetermined policy directives unscathed. Demonstrative actions such as camping out atop construction cranes for days or weeks on end, even the extreme gesture of suicide to protest against the indignity of being unable to pay one's workers or to provide for the needs of one's family, are totally without effect.

Grumbling, idle chatter are free, unrepressed, but first they weaken, then disappear. They are highly effective, instead, in combating authoritarian regimes, even overturning them (even anti-regime jokes have their weight!). But in the EU+euro regime, these are private freedoms, shorn of all public impact. You can't overthrow a government if, as regards the

basic economic questions, the government does not exist. Words, and deeds, are vain; they fall in a void.

17. The elimination of this level of political power and action has an additional consequence. The lack of a general political power, and its lack in all the aspects bearing on sovereignty and fundamental principles, means that all the acts of the decision-making bodies and their heads are subject to rules, single or in combination, that define their nature and object, that determine whether, how and when they can be realized. The system proves to be made up of single constrictive circumstances, bearing on conduct from which the movement of individual parts or the whole organism derives.

It follows that as guidelines and the overall movement of the system are removed from the sphere of "political," i.e. free, decision, the system is self-protecting. The only developments possible derive from the set of predetermined patterns of behavior. The organism has become an automaton. A supercomputer can perform calculations possible in no other way. But in order to do so, it must be designed and programmed for that purpose. The EU+euro area machine has options. But these are options that can only be exercised within spheres, under conditions, on a calendar and by procedures that are directly or indirectly predetermined. If errors were made in designing the machine and the machine does damage, the damage will continue to be produced as long as the machine works. It will keep working, and keep on doing damage, until it implodes.

18. Every effect, once produced, is transformed into the cause of other effects. The effects of Regulation 1466, given their importance and duration, underlie several distinct series of causes which themselves produce effects at every level that are independent but also to some extent cumulative and interwoven.

A first effect flows from the procedures used to get the Regulation adopted, all of which were designed to prevent perception of the vast scope of its innovations. In force as of 1 July 1998 (Article 13), it was to be applied only starting 1 January 1999. The stability programmes had to be presented before 1 March (Article 4). If the intention was to prevent the diffusion of awareness of the Regulation, the mission was accomplished 100 per cent. Even today the existence, the nature and the effects of the Regulation are not generally known to the heads of the offices whose powers in the single member states are affected. One presumes that the ministers at the Council that approved the Commission's proposal on 18 October 1996 (*Official Journal* C/368/96) and approved the definitive text on 7 July 1997 were not even marginally aware of the scope of their vote in representation of their governments.

Once the economic slump began to take hold after January 1999, no one thought of Regulation 1466, whose rules, and then principles, have remained in effect for fifteen years. As the original cause was unknown, like the additional causes arising year by year consequent to the cumulative effects, there arose additional effects that are now plain to see. Economists around the world, including an array of Nobel laureates, bombard us with advice and recipes. Euro-area and European Union experts do likewise. But not knowing and being unable to locate the cause – a highly singular and unforeseeable cause, to be sure – all they do is set out the results they would like to achieve (the usual laundry list: more jobs, support for firms, demand stimulus, easing the tax burden, relaunching economic growth, and so on). No one explains how to get there, with what means.

But someone must be responsible. It being impossible to get to the true origin of our ills, blame is placed always on the usual suspects: the politicians, waste, health spending, the inefficiency of government, red tape, tax evasion, etc. And since it is the government that should but does not eliminate these ills, ultimately it is always government that is held responsible. The previous governments and then, nor could it be otherwise, the government currently in office. But the government, poor thing, until the country is freed from the cage in which it is locked with the restoration of sovereign political powers, can do nothing whatever.

19. The effects produced by earlier effects turned into causes are countless. First of all, great confusion. Then, the diversity of effects between one country and another. Germany, which had the currency after which the euro was to be patterned, and which was taken as the model for convergence, suffered no new harm from stability. Probably forgone profits did more damage, but this is less easily perceptible. And this is enough for Germany to be deemed responsible for the constrictive measures to which the other countries are subject. The result is envy, resentment, even hatred. On the other side, Germany looks at the weaker countries with a sense of superiority, suspicion, even contempt. The European treaties exalt cohesion. It has not been achieved. And if the current regime persists, it probably never will be.

With calls for action flooding in from all around the world, the European Union's decision-making bodies could hardly remain inert. Growth, as the result of budget balance imposed by universal norms, was the effect of an axiom. This is analogous to the practice of medicine right up to the end of the 18th century: lacking the instruments to determine the origin of maladies, in the presence of grave symptoms of unknown cause, doctors ordered purges and blood-letting. If the first application brought no relief, the cure was intensified, and then again and yet again. This is what is happening now in Europe. Since the expected growth has not been realized,

it is deduced that the stability principle has not been applied with the requisite rigor. So in the wake of the first Regulation a second was issued (Regulation 1055/2005), then a third (Regulation 1175/2011), and finally the Fiscal Compact. Ultimately, to be sure that the prescription is followed, it is provided that structural changes can be prescribed and imposed from outside – simply depriving the government of its powers in favor of a sort of special administrator!

20. In the fifteen years since January 1999, a series of new treaties have been ratified and gone into effect: Nice, Amsterdam, Lisbon. The treaties are full of emphatic assertions. A string of new bodies have been created (abundance was fashionable). De facto, the rules continued to be those laid down in Regulation 1466/97 as amended by its successors. Where possible, the Regulation was further strengthened with carefully placed words, but always avoiding excessive visibility. In fifteen years a body of hundreds of acts has been built up, at the level of new rules or implementation, with the participation of a good number of people responsible for European functions both in the Union itself and in the member countries. Many politicians and administrators have advanced their careers. They have been heads of the offices with primary responsibilities and powers at European or domestic level. Their presence in positions connected with the Union or the euro is reassuring, inspiring hope and trust: one more obstacle to understanding how matters actually stand!

One additional effect – last but certainly not least – of this tangle is a "power vacuum". The vacuum is filled by institutions and administrators at European and national level positioned so as to take advantage. So we have the heads of Community bodies giving unrequested lessons to the governments of member states. The same is done, and at times with still greater authority, by the heads of other member state bodies. In every country administrative entities, especially at the highest levels, expand into contiguous areas, sometimes even to lower levels.

The confusion is great, the noise is deafening. But the political automaton of Europe and the euro continues to produce a steady flow of negative results and, with tranquility and indifference, proceeds undisturbed, inexorably along the course that has been imposed upon it.

21. Let me make one final remark on what happened on 1st January 1999. Political theory distinguishes between two types of event: the de facto installation of a new government (i.e. a change in the wielders of the highest public power) and the de facto institution of a new regime.

What we call "democracy" is (and must be) the basic principle of the regime of the member states of the European Union. Democracy was

suppressed in 1999 in the euro area and in the states without a derogation. In these member states, the right and power to help determine growth through economic policy action was cancelled, their citizens denied the power to affect the obligations to which their country, hence they themselves, are subject. In the euro area as such, this power is non-existent because no political body is envisaged with responsibility before all the citizens of the communities that make it up.

What happened can only be termed the "de facto institution of a new regime", as in France in 1789 or Russia in 1917. But with a difference. The French Revolution, asserting the principles of individual liberty and freedom of enterprise, unleashed enormous latent energies. The collectivist Bolshevik Revolution created constraints even more stringent than the old shackles it was intended to eliminate. The French and Russian revolutions, introducing new regimes, also imposed a new type of political ruler. The revolution of the "false euro," embodying the principle of stability, has forged a self-referential regime. In the Soviet Union, self-referentiality embraced most of the organization, but not the top leadership. Furthermore, the Soviet regime proclaimed the seizure of power by the proletariat. The stability regime, by contrast, lacks a top political authority and, the objective of growth having been set aside, what rules, as an unfathomable and absolute deity, is an abstract principle which generates an inexorable movement to depression and in the end, perhaps, implosion.

22. Another consideration needs to be pondered carefully. It could tell against the tardy application of the rules on the single currency laid down in the Maastricht Treaty and now in the Lisbon Treaty on the Functioning of the European Union. With hindsight we can now see that the requirement that the new currency resemble the Deutschemark was vitiated by an "error": it took account of internal but not of external stability. The German national community was tightly cohesive. For nearly a century Germany had had the strongest and most advanced welfare state in the world. Cooperative agreements between businesses and workers were in effect both at the level of central political bodies and in institutional form within enterprises. No account was taken of the external environment, which until that time had been stable. External stability had reigned for half a century and more. It appeared to be natural, and destined to endure. Actually, it was the product of highly particular historical circumstances, the division of the world into two hostile blocs: the free world, with its free market regime, and the collectivist bloc grouping the countries whose organization was to varying degree patterned after the USSR. Within the Soviet bloc, international relations and regulations were themselves rigid to an extent.

It was external stability that guaranteed internal stability, which constituted not only the objective but at the same time the prerequisite for

the success of the German economy and the German currency. But just in the years when the Single European Act and the Treaty on European Union were signed, that external stability began to waver. By 1999 it would be entirely gone. Today, the state of the outside world is the exact contrary of stability.

23. Adam Smith contended that the twofold event consisting in the discovery of the Americas and the opening of the sea route to the Indies was the greatest revolution in the history of the world. And he was right. Yet the revolution now under way, as it has evolved in the last three decades, has broadly surpassed that predecessor in terms of innovation, breadth of results, and the speed with which they have come.

What has happened in the world since around 1982? It all began with information technology. Silicon Valley, where this innovation arose, had used it to develop the "star wars" defense project. The Department of Defense sensed its strategic importance and its potential to restore US technological primacy, which had weakened from the position of absolute dominance in the aftermath of World War II.

The Reagan Administration backed this project, and within the span of a couple of decades nothing would be the same as before. A few of the countless developments will be mentioned below (detailed treatment would take us far off course). But one recent, highly significant manifestation perhaps deserves pride of place. While billions of people live and struggle around our planet, a tiny group of men and women are living together in an orbiting space station. They live there for fixed but increasingly long periods of time. They come from a wide variety of countries. They coexist peacefully and in orderly fashion. Space shuttles regularly bring new astronauts or cosmonauts to take the place of those who have completed their missions. They bring supplies. "Earthlings" have created a minuscule satellite, a tiny planet that orbits the Earth and is in "human" contact with it. This is an utterly extraordinary novelty.

24. The factors of growth, hence of the great revolution now under way, form distinct series. Their effects are consolidated, crossed, integrated, as is always the case when several factors are at work in the same environment. In this case the number of factors is enormous and the environment is the entire globe.

A first causal chain involves changes among individuals and their communities. All people, wherever they are, can now have ready access to all kinds of information – cultural, scientific, technical, political, social, and so on. Everyone can communicate, with a vast range of instruments, all around the world in real time. Every kind of relationship – scientific, work,

or other – can benefit from organizational and productive cooperation between persons in locations far removed from one another. You can travel freely almost everywhere. Goods are shipped around the world in massive volume at great speed. Thanks to these and other transformations, lifestyles and customs have been radically altered everywhere and very largely standardized. This affects consumption, hence production, products, services, and the human footprint on particular territories and on the globe itself.

25. A separate causal chain bears on institutions. A very active part has been played by an institution whose origins date back to the 1960s and which has gained steadily in importance. A protagonist in its own right in the current transformations, this institution goes by the name "international finance". It is a system that operates outside the control of central banks. The persons that make it up have not all been precisely identified. It includes "funds" instituted by national governments and known as "sovereigns", but not pursuing specific public aims. It would appear that these institutions and their instruments can be grouped under the umbrella term "derivatives". International finance is charged with an infinite range of responsibilities. Its specific "purpose" is profit. What it makes is reinvested. International finance includes illegal groups trafficking in drugs, human beings, women and children, organs, and so on, to invest and launder their massive gains. Of late, a new product – electronic money – has gained a certain currency. Its issuers and managers remain unknown.

International finance presumably played a role of some importance – but one that it has successfully concealed – in drafting the new rules for the EU and the euro: in particular as regards the principles of freedom of enterprise, the elimination of governmental powers in the economic sphere, the opening of markets, the reduction of customs tariffs, and more. And international finance was decisive in making available to the markets the massive resources necessary for an enormous volume of investment.

At institutional level, one of the greatest – and unforeseen – novelties was the opening to the market of some Chinese coastal regions in 1978, soon to be followed by others. This was the decision of Deng Xiaoping, the leader who managed, after Mao, to get all power into his own hands. Signs of this reawakening had gone before. Beginning in the early 1980s, as decades earlier Mao's "Long March" to power had taken place, China began a "great march" to economic development and growth. Now with a population of 1.3 billion, China has achieved economic growth rates of 9 per cent and more, shooting up the international rankings from number 98 (mid-level development) in 1997 (*Human Development Report*, 1999) to become the world's second largest economy today.

In 1990 the two Germanies were united. In 1991 the Soviet Union imploded. In 1986 the Single European Act was signed, to be followed in 1992 by the Treaty on European Union. A relatively neglected clause, but one whose influence on the global transformation would be substantial if not decisive, was Article 110, which reads that "the Union shall contribute to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers."

The European Union's message was received. In the 1994 Uruguay Round, the complex negotiations for uniform customs duties on most goods traded internationally were concluded. On 1st January 1995 the World Trade Organization came into being.

26. We have already mentioned the availability of sufficient liquidity for any volume of investment and the general lowering of customs barriers. Another factor was the transformation of the former Soviet republics into independent states. These new countries had a considerable quantity of residual nuclear fuel, as well as reserves of oil and other raw materials. Meanwhile former colonies in Asia and much of Africa had gained their own independence. It was soon realized that these countries possessed enormous wealth, not only oil but also "rare" materials, whose exploitation and consequent high prices were the fruit of amazing scientific innovations. The new states also had extensive territory, suitable for the production of agricultural commodities of interest to other countries, above all China.

In addition these newly independent countries, and also China and India, had apparently inexhaustible reserves of extremely cheap manpower. Another factor, and no secondary one, in the process was the emergence of the rich Gulf states where the world's oil greatest oil reserves were found. In the past they had made little local use of these resources, both for cultural reasons and for lack of labor. In the new global atmosphere, they drastically changed their approach and engaged in gigantic urban projects that changed their culture and lifestyles. They were able to draw on the enormous reserves of cheap labor around the globe, above all South and East Asia.

27. As we have reiterated, every effect produced by antecedent causes becomes the immediate and necessary cause of further effects. The brief foregoing remarks on the broad outlines of the "great revolution" of which the world is simultaneously the architect and the user, comprise three distinct series of effects. The first is the radical transformation of economic geography. *The Economist*'s "World in Figures" (2013, p. 30) lists the 54 fastest-growing economies in the decade 2000-2010. These are countries – beginning with No. 1 (Equatorial Guinea, with an average annual growth rate of 17.0%) – whose very names may be unfamiliar to some. The next

nine countries have average rates of 9%, the first six topping 10% and the others ranging from 8% to 9%. The list includes China (sixth) and India (twentieth). The only European country on the list is Albania (5.5%), one of the continent's handful of non-EU members. The Americas contribute three fast-growth economies (Panama, Peru and the Dominican Republic). All the others are in Africa or Asia.

Turning to the second series of indirect effects, we see that the new technologies have been exploited also by terrorist groups (the attacks on the World Trade Center and the Pentagon on 11 September 2001) and mass movements featuring not only religious but other ideologies, with actions that have revolutionized entire regions (the "Arab spring") and that, at global level, may taken on terrorist characteristics.

The third series of side effects comprises the modification of the political geography of the world, like that of its economic geography. With the implosion of the USSR, the United States – which had already regained world primacy in innovation and military power in the 1980s – "proclaimed" itself to be the world's sole superpower. And in that period it truly was. The US abused this power. Forgetting the lesson of Vietnam, it became embroiled in conflicts in Asia. American prestige was compromised. Nor was that the most important problem. For decades now the United States has run a balance-of-trade deficit, balancing the current account by selling dollars, which have been purchased and held as reserves all over the world. The dollar is the currency that central banks have long preferred in building up their reserves. Since the end of World War II the main holders of dollar reserves had been three solid US allies, Germany, Japan and Italy. For a few years now, however, the leading creditor has been China, America's main competitor. In 2011, China's reserves amount to $2,087,326 million dollars (*Economic Report of the President*, 2013, p. 451).

The two countries, debtor and creditor, are bound together. The creditor has an interest in not devaluing its claim. The debtor wants to make sure nothing happens to induce the creditor to sell. Now add the fact that the same ideological and other pressures that drove Europe to tie itself to the principle of budget stability have led the United States, whose debt/GDP ratio, probably for reasons of defense spending, has risen to107.7% (*Economic Report of the President*, 2013, p. 418), to set its own debt ceiling. For different reasons, the United States finds itself in difficulties analogous to those of the euro area. The United States and China are flanked by other countries of respectable size and economic power, some allied with the one, some with the other.

This world geography, given present circumstances, can hardly be considered reassuring.

28. Now let us put all the factors together, side by side. Abundant liquidity, masses of cheap labor, the race to control raw materials, some "rare", and farmland. Demand, goods and liquidity, and the related interests, shift rapidly from place to place, sector to sector. Variations in exchange rates among the main currencies are reflected in commercial and productive sectors that are neither adjacent nor related. No one can know the moves of all the others. The role that Europe is now playing in the world, as others have observed, is far removed from its tradition. Europe is the leading buyer of American goods and services. It is the market where US multinationals make their greatest profits. It is the principal foreign investor in the US (*Economic Report of the President*, 2012, p. 131 ff., and 2013, p. 46). If the European economy is sluggish or, worse, in a permanent slump, then both the American and the Chinese economies will slow down. And the contagion will spread to other countries. For centuries if not millennia the exporter of civilization, Europe is now appreciated as the prime importer of other countries' goods and services.

To buy, you must produce. Europe's capacity to do so is unquestionable. Simply as an example, Europe is the world's leading exporter of manufactures. A detail makes these reflections still more interesting. Germany, France and Italy, though beginning at different times and from different initial conditions, are three countries that realized the welfare state model extensively and also those that achieved the highest growth rates from 1950 to 1991. The welfare state formula, unwittingly, has overturned Marx's prophecy of the proletarianization of the bourgeoisie; instead it is the proletariat that has turned bourgeois. In a well developed welfare state the borderline between the two groups becomes blurred. Economic welfare and the related lifestyles that the proletariat aspired to, those of the middle and lower-middle classes, have now largely been attained.

It can be taken for granted that on 1 November 1993, when the Maastricht Treaty went into force, the three main continental countries were still under the effect of the glorious advance of the previous four decades. At that time some 70 per cent of the population of France, Germany and Italy had a standard of living on a par with the middle and lower-middle class. This corresponded to some 130 or 140 million household spending units. Middle-class spending units and the like are the natural market for durable goods for individual and household use and for mass consumer products, especially foods and minor manufactures, plus day-to-day services.

Turning to the import statistics, we find that the sectors in which European imports from the US and China fell most sharply between 2009 and 2011 were farm products and manufactures, with declines of 21 per cent in imports from the US and 30 or 31 per cent in those from China. For the

United States, one must also consider the decrease in the profits of American multinationals in the European mass consumer market. Other sectors too have felt the impact of the decline. The impoverishment of European beneficiaries of the welfare state has repercussions on the US and Chinese economy. Who would have imagined it?

29. Let us pursue another, totally different reflection. The role assigned to Europe in the global concert, namely that of prime purchaser, is distressing. But in the present situation it may also have a positive side. International finance, fearing a general slowdown in world trade, may have an interest in not weakening Europe any further, given the relative importance of European demand for both the United States and China. This might be the reason for the easing of the financial markets' pressure on the EU government securities, including at long term, at a time when these countries' economic performance would warrant the contrary. This is pure hypothesis. But it refers to a sector whose very nature precludes the possibility of obtaining reliable data. So it is a hypothesis that could well prove, in the end, to be correct.

30. A single objective may attract interests larger than it can accommodate. The creation and bursting of speculative bubbles cannot be ruled out. The world has developed conditions, indeed a general climate, that could be compared, on a larger scale, to the saga of the American West. But then there was a US federal government. Undesirables could be kept out. Now there are uncontrolled forces capable of suddenly roiling the waters. And there is no central government.

The two-power system of US and China, with the convergence of Brazil, Russia, India and others, does not appear to have the strength to impose a return to order in the event of unexpected rupture. A link is missing.

What to do?

31. It is hard to say. There is one obstacle that can be considered decisive. Other, related obstacles are added.

The decisive obstacle is the direct consequence of the lack of a political authority at the highest level. The EU and the euro area constitute a complex political "automaton". The administrators, at all levels including the highest, must observe and enforce the rules. This is what the top officials

should have done between 1996 and 1999. They did not. Unfortunately, they are doing it now. They are obliged to.

To escape from automaton status a new coup d'état would be required to create a new (democratic) regime or at least to belatedly restore the one abrogated in 1999. This appears unlikely.

32. One obstacle, already mentioned, could be the involvement of the current holders of high office in the Union and in the member states in the passage of the acts by which the 1999 coup was carried out (but given the time that has elapsed since, this should mean a fairly limited group of persons), or in the adoption and issue of implementing rules or acts deriving from Regulation 1466/97 and its successors, or who applied it, when it was their institutional duty to prevent its adoption or to undo its effects. And this is probably a large group.

The question needs to be examined not only for the European Union as such but also, perhaps primarily, for the single member states without a derogation. Yet past involvement in the approval or execution of illegal acts on the part of those holding high public office in the member states could be transformed from obstacle to favorable factor. Many people, especially in recent years, have been influenced by precedent, believing in good faith that they are obliged to follow it. Discovering the "truth" and stimulated by the present positions of authority, they themselves may step forward as the leading actors of an innovative restoration.

33. The stricken state of the economy has affected the governing class and common conduct. Today's governing class feels the lack of political prospects, given the "automaton" status of political action. Will anyone be prepared to raise the flag of "revolution," i.e. to do what has to be done to open to doors to the future (rebirth)? Yes, it is possible. In 1945 Britain, America and the Soviet Union continued to be governed by the architects of victory. Germany, Italy and also to some extent France had a new governing class. Some of these men were unknown, initially. They would discharge their collective responsibility with success and prestige. It is great historical emergencies that create great leaders, not great men who forge events. When the prospects are there, an experienced politician, a young but already successful leader, or even a totally new figure can play the role of protagonist.

34. Can the system be liberated from its automaton status, legally?

The nature of *automaton* is bound up with the peculiarities of the particular system. To disentangle the components, we must first identify the prime principal in effect before the system was turned into an automaton and compare it with that in place afterward. The prime principal is to be deduced from the rules in effect. What is the "legal" order now in force? It is the Lisbon Treaty on the Functioning of the European Union, signed on 13 December 2007 and in effect as of 1 December 2009. This is the supreme, highest source of law. It abrogates all earlier legislation not compatible with it, of equal or lower rank. With immediate effect it precludes the observance of lower-ranking subsequent acts, if incompatible. It prevails over all subsequent acts. Articles 120, 121 and 126 of the Lisbon Treaty literally transcribe Articles 102A, 103 and 104C of the Maastricht Treaty.

It is not enough, however, to have precisely defined existing law. It is further necessary that there be formed a solid, widespread general conviction on this point. It follows, to begin with, that no public legal agent at whatever level must let himself be unduly influenced by false idols or undue respect. Impositions, suggestions, even simple expressions of opinion that derive from legal principles or the application of norms and acts not traceable to the Lisbon Treaty must be firmly rejected. One must be implacable in demanding that any and every act or expression of opinion on the part of functionaries of the Union or of single member states who undertake initiatives or make statements concerning member states other than their own specify in formal and precise fashion the Treaty clause upon which they consider their action to be based. If this indication is not correct, they must be firmly asked to recognize the error, and the possibility of establishing legal liability must be left open.

After fifteen years of widespread, dominant illegality, the first and absolutely necessary step must be to bring all public actions back into the sphere of observance of legality.

How to do it?

35. Restoring democracy and propagating belief in the necessity of returning to legality are necessary steps. But time is of the essence. Decisions are needed, but if they are tardy they may no longer be sufficient, possibly not even suitable.

All the member states, including those with a derogation, may be interested in the question. The seventeen countries without a derogation are implicated most directly. They could decide to put their sovereignty in common by creating a new political entity for the management of a new, specially created common currency. No provision of the Treaty on the

Functioning of the European Union prohibits this. The member states retain full sovereignty. They can make full and free use of it, providing only that they not violate European law. The common currency created by these states would be legal tender within the Union, like the national currencies of individual member states, such as sterling or the Swedish krona. The original Treaty on European Union and its successors make no distinction between the currencies of the member states without a derogation on the basis of the size or characteristics of their economies.

There are two problems, however. The first is urgency. If agreement is not reached quickly, it could easily come too late. The list of countries that are getting alarmingly near the breaking point is lengthening. An implosion, of one or of more countries, would exacerbate the divisions.

The second problem is the failure to achieve "cohesion". Germany, the member state with the largest population and the strongest economy, did not have to undergo any significant changes to its makeup. It was one of the three economies forming the model on which the others were to converge. It has suffered considerable harm in the form of forgone profit. The other countries, whose forgone profit has generally been minimal, have undergone significant new, emerging damage.

To some extent the difference in outcomes has damaged relations. The optimal solution will be reached. But it will take time.

36. This result, while theoretically attainable by the seventeen euro-area countries, could be reached faster and more easily, in practice, by a smaller group. There would still be difficulties, but of a different sort. The individual euro-area countries, if they decided to act on their own, would be vulnerable to the pressures of the markets and also that of non-EU countries aspiring to gain economic or political control over them. The minimum, presupposing the formation of a common political authority, would be an economy large enough to respond adequately to outside pressures. Theoretically, one might suggest an aggregate GDP that would rank sixth or seventh in the world.

There are three countries without a derogation for which the distance from the point of no return has shortened alarmingly. Obviously, no names will be named here. But we can talk about Italy. For the country to reach the point of no return, a considerable distance still has to be traveled, or at least so one hopes. Together with another three hypothetical euro-area economies, we would have an entity ranking tenth in the world in population and probably fourth in GDP. Including France, it would be fifth or sixth in population and second only to the US in GDP.

37. Why Italy and why France?

Italy has been a beacon of civilization for millennia. First, all of Rome united all of Europe, for centuries, under its empire. Then, in the course of the later Middle Ages, though divided and partially subject to foreign powers, Italy gained a position of cultural pre-eminence first with Humanism and then with the Renaissance, accompanied by an exceptional economic flowering and also, in some of Italy's states, military and political power as well. Save for marginal episodes in a period of authoritarianism, Italy never sought to prevail over neighboring countries by force of arms.

France has been the European country best known throughout the world for a thousand years and more now. King Louis IX was already known in Mongolia when the Dutch Franciscan William of Rubruck asked permission to present himself to Möngke Khan, heir to Genghis Khan, in the King's name. He visited the Khan in Karakorum in 1253, decades before Marco Polo's first voyage. Was it pure chance that the court jeweler was French? Or that the jeweler's son served as interpreter in a debate between Rubruck, the local Muslim leader, and the representative of indigenous religions?

France was among the first countries to get word of the perilous approach of Tamerlane, who was at first a de facto ally, for having defeated and taken prisoner the feared enemy of the Crusaders, the Ottoman ruler Beyazit, but nevertheless remained a potential threat. Tamerlane sent an ambassador to the King of France: he too had sensed the need to know more about the strength of his probable next adversary before adventuring towards Europe. In the end he chose to move against China, but died before getting there.

Peter the Great of Russia visited France in person to study its administrative organization. This was the origin of the czarist bureaucracy, which centuries later would produce collectivism. Marie Thérèse of Austria, in her turn, sought to learn from the great institutions of France: the Academy, theaters, museums, and administration. This would be the pattern for the Habsburg administration, renowned for its efficiency even in the non-Germanic parts of the empire.

Until Napoleon Bonaparte, France had never used military force to occupy neighboring states. An exception was the Angevin reign in southern Italy. But other powers too had invaded and taken over parts of Italy: Frederick Barbarossa, Spain with its centuries-long domination of the South, and the Habsburgs in the North. Napoleon's pan-European dream failed. But he left his indelible mark in the introduction of the system of civil law, the Civil Code adopted by most of Europe, whose rules governing relations between private parties replaced those of the "common law," heir to the

Justinian Code, itself the descendant of Roman law, which ruled all of Europe for centuries.

In the course of its history France was governed for considerable periods by foreigners: the Italian cardinal Mazarin and two important queens Catherine and Marie de Medici. Three of France's historical personages, who ruled at length, de facto, as potent prime ministers, were also honored with the cardinal's cap, a privilege that no other European state could boast: Mazarin and Richelieu, of course, but also a third, De Fleury, first preceptor and later, as a practical matter, prime minister to Louis XV, who may have been no less important than Richelieu or Mazarin for the long period of peace that he managed to secure for the country.

Defeated in the Franco-Prussian war in 1870, France demonstrated its civic, cultural and political primacy in the Universal Exposition that came shortly thereafter. Until it was supplanted by New York after World War II, Paris was the world's great city *par excellence*. These may be small things, but they demonstrate well enough France's capability to represent Europe. To say nothing of the contributions of Schumann, Monnet, Barre and Delors to the European construction.

38. Step by step, we near the objective. If a select group of countries succeeded in creating a single political power to manage the single currency, this would be trail-blazing. Others would soon join, and eventually all. The initial aggregation of a small group would facilitate experimentation with organizational forms, leading to the definitive choices.

The next step requires overcoming further difficulties. Earlier, we posed the question whether under the Maastricht and now the Lisbon Treaty a member without a derogation, which passed the original admission test for the euro, if it finds it in current circumstances to be in its interest to do so, may ask on an individual basis to be shifted from the "no derogation" to the "derogation" rules. The answer is "yes". Admission to the euro depends on a voluntary decision. The country acquires a right that it can waive. No term is specified for the status of country with a derogation, which is open not only to countries that do not satisfy the eligibility requirements but also to those that meet the requirements but do not want membership. It is hard to see how the with-derogation regime could be denied to countries that participated enthusiastically in the single currency but then realized that they had not reaped the benefits the Union had promised, i.e. growth as specified in Article 2 of the Treaty.

Shifting to the with-derogation regime requires solving problems of application, above all setting the exchange rate between the new common currency and the euro. These are familiar problems; they arise whenever a new state is admitted to the European Union. And the process of

determining the exchange rate for a currency common to several euro-exempt states would also provide the proper forum for friendly resolution of the question of compensation to each exempt state for the damage done by the illegal imposition of rules on the euro that violate those agreed to with the stipulation of the Treaty on European Union.

There is another, harder problem as well. "Democracy" requires equality between all those who share in influencing the exercise of political power, which is responsible for the common currency and the common economy. At election time, with equal voting rights, all citizens participate in a single entity, the same for everyone. In that moment, as regards the policy orientation that will emerge and to which they will be subject, all implicitly and necessarily will have left their old political entity to enter the common one, which is by definition everyone's. With the vote, which fully corresponds to the democratic principle, the citizen is no longer part of his original nation. Instead, all citizens take part in the consolidation of the new, European nation. Some national identities in Europe are relatively recent. They are the fruit of struggle and sacrifice. Discarding them is no easy matter, even for the sake of a historic advance. Other identities within Europe, they too the fruit of struggle and sacrifice, are more apparent than real. The example of the Roman Empire is emblematic. Some of the greatest emperors were not Roman, not even Italian. The new identity, at a higher level, does not erase the old one; it supplements it.

By way of conclusion

39. By way of this series of steps we have now come to the conclusions. For clarity, let us recapitulate.

The European system is based on a set of precisely defined pillars:

a) Member states retain their identity and their sovereignty.

b) The Union has no political authority at the highest level.

c) A huge single market was formed, based on the principles of free enterprise, free movement of all components, opening to world trade and to all sources of stimulation.

d) The Union's principal objective is harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment and a series of other criteria specified in Article 2 of the Treaty on European Union.

e) A new currency would be created (it would be the "euro") to produce results equivalent to those of the German mark. Unlike the mark, the new currency would not be managed by a political government flanked

by an authoritative central bank. An appropriate legal system to guarantee the new currency's equivalence to the mark would have to be "invented". The system was that resulting from the combination of Articles 102A, 103 and 104C of the Treaty on European Union.

f) The EU member states were not obliged to adopt the new currency. They would be divided into two groups, those governed by the euro rules and those retaining their old currencies. The latter were defined as "states with a derogation". The Treaty articles not applying to them were specified. The states without a derogation were those that would institute the euro as their currency. All the general rules of the Treaty would apply to them.

g) Adoption of the euro was voluntary. The euro would be the "common" currency of the states accepting it. To be admitted, member states would have to undergo a process of "convergence" and a final examination to verify and ratify the achievement of sufficient convergence.

h) The states adopting the euro have the right to request and to be granted coverage by the with-derogation regime, especially where the request is motivated by serious dissatisfaction with the way in which the Union and the euro area have been managed and the resulting damage.

i) The examination for admission to the euro was carried out on 3 May 1998. Eleven countries qualified and a twelfth, given with-derogation status, would be admitted the next year. The European Union now numbers 28 members, 17 in the euro area and 11 with derogation.

More by way of conclusion

A) OBSERVATIONS ON THE FORMAL PLANE:

a[1]) The launch of the common currency of the eleven countries that qualified was scheduled for 1st January 1999. That was the date on which the full regime, that enshrined in Articles 102A, 103 and 104C of the Treaty on European Union, would apply.

a[2]) On that date, the launch of the euro, the currency governed by the Treaty, did not happen. The currency regulated by the Treaty on European Union, for which the German government had fought so vigorously and whose adoption it had made a condition for its own adherence, was never born.

a[3]) Instead, under the name "euro", generating the fallacious impression that this was the currency created and regulated by the Treaty on European Union, a currency subject to different rules was created and introduced to the market as legal tender in the states without a derogation.

a[4]) The regime of the currency introduced on 1st January 1999 is set out in an EU regulation (Regulation 1466/97), adopted by the procedure governed by Articles 103(5) and 189C of the Treaty on European Union. The procedure used provided for no authority whatever to modify the Treaty, and the object was totally different. Regulation 1466, in the very moment in which it availed itself of Article 103, violated it, by using it for improper object and purpose.

a[5]) The discipline laid down in Regulation 1466 is not just but diametrically opposed to those of Treaty Articles 102A, 103 and 104C . It replaces an "objective" – growth with the characteristics and for the purposes specified in Article 2 – with an "outcome", namely budgetary balance to be attained in the medium term by a specified route.

a[6]) The modification that the Regulation introduced with respect to the Maastricht Treaty consisted, on the formal plane, in abrogating the right-cum-power of each member state to contribute to growth of the Union by its own autonomous "economic policies". In its place, the Regulation puts an obligation/obligation on the member state to achieve budgetary balance in the medium term and through a predetermined program. The drafters of these rules failed to realize the consequences that would follow from founding the system upon an obligation instead of a power.

a[7]) By abrogating the objective of growth, Regulation 1466 actually eliminated all political action from the system.

a[8]) The European Union has no top-level political authority, much less a political summit with general powers. As regards the member states, their power to contribute to growth with distinct economic policies has been abrogated, no political power has been attributed to them, least of all in the priority sphere of the economy and the currency.

a[9]) We can detail some of the main consequences of having altered the basis of one of the key pillars of the system, namely the economy and the currency, switching from a "political power" to an "obligation/obligation".

a[9.1]) The Treaty announced (more properly, we should say "guaranteed") to the member states economic growth in keeping with the dictates of Article 2 of the Treaty. The function of generating growth, in their own national interest and that of the Union, was assigned to the member states. They were to achieve this by their own, distinct economic policies, which the EU would simply coordinate with overall guidelines (Articles 102A and 103). The only instrument that the member states could use to generate growth would be borrowing within the limits established by Article 104C in its final version, corresponding to the modifications, cited repeatedly above, in paragraph 2(a) and 2(b) of the article.

Regulation 1466/97 abrogated Articles 102A, 103 and 104C of the Treaty on European Union by regulating the entire matter differently or, de

facto, replacing them. In this way it abrogated the Treaty rules designed to produce growth and envisaged no other "power" to do so.

$a^{9.2}$) With the elimination of the ability of the members without a derogation to effect autonomous economic policy choices for growth, their citizens are deprived of all ability to influence the economic policy decisions to whose effects they are subject. The cardinal principle of the European Union is democracy. No state can qualify for membership if its order is not democratic. With the presupposition of a complete system of individual rights and freedoms and adequate social protection, democracy consists in the power of the citizens to affect, by their votes, directly or indirectly, the government decisions that they will be subject to. In present circumstances, priority value must be attributed to economic and currency affairs. Regulation 1466 has abrogated the democratic regime in the entire sphere of economic policy and currency management.

$a^{9.3}$) The Treaties of Amsterdam (Articles 98, 99 and 104) and Lisbon (Articles 120, 121 and 126) literally reproduce Articles 102A, 103 and 104C of the Treaty on European Union. They too have remained unapplied. In their place, the Union has applied Regulation 1055/2005, Regulation 1175/2011, and now, finally, the Fiscal Compact, all patterned after Regulation 1466 but also exacerbating its rigidities.

$a^{9.4}$) The Union is liable to its member states for the damage done by the application of Regulation 1466/97 or any act implementing it. The heads of EU bodies and the functionaries who took part in adopting and/or applying them or who, having the duty to do so, failed to prevent their application, are liable to the union. This liability can be enforced directly by member states and by their citizens, singly or in groups.

$a^{9.5}$) What applies, under point $a^{9.4}$) above, to EU bodies and their heads and employees, also applies, independently, to the heads of constitutional and administrative bodies of single member states who took part in the adoption of Regulation 1466/97 or the successor acts that also caused the abrogation or disapplication of the member state powers referred to in Articles 102A, 103 and 104C and others of the Treaty on European Union and the corresponding articles of subsequent treaties, or who participated in the adoption of acts constitution the execution and application of the Regulation and its related acts.

$a^{9.6}$) The constitutional or ordinary courts of each country will enforce the foregoing liabilities within their jurisdictions.

$a^{9.7}$) Insofar as Regulation 1466/97 modified/violated the Treaty on European Union without the power to do so (the procedure laid down in Article 103(5) and Article 189C of that Treaty) – and the same goes for the clauses of the Amsterdam and Lisbon treaties corresponding to those articles – it is to be considered vitiated not by illegitimacy but by radical and

absolute legal nullity/inexistence. This conclusion extends also to the acts that apply or derive from the Regulation. All the heads of bodies of the EU or the member states who participated in the adoption and/or application of the Regulation and/or its implementing acts are to be considered liable for the damage caused by this nullity.

a[9.8]) In short, whether one follows the argument of the violation of democratic principles or bases one's case on the absolute lack of power to modify the Treaty on European Union and its successors without recourse to amendment by a new treaty, one reaches the same, identical conclusion.

B) OBSERVATIONS ON THE ECONOMIC PLANE

b[1]) Regulation 1466/97 has not produced economic growth. Objective statistics (*Pocket World in Figures*, 2013, p. 30, published by *The Economist)* show that the three largest continental economies, Italy, Germany and France, ranked among the worst-performing economies – respectively third, tenth and fourteenth from the bottom – during the decade 2000-2010; no fewer than twelve European Union countries figure among the worst thirty-five. The same ranking for the previous decade had not a single European country among the worst performers. One infers that there has to be a "single" original cause for the slump common to the entire euro area, that it must be internal to the area, and that it must have emerged around the year 2000. The only factor that corresponds to these conditions is the introduction of the euro under Regulation 1466.

b[2]) It was easy to foresee that the principle of medium-term budget balance would result in depression, for three separate reasons.

b[3]) First, the Regulation eliminated the power to go into debt (to borrow), which the Treaty on European Union had maintained, albeit subject to a ceiling, as the sole, indispensable instrument to achieve growth. Abrogating it, the Regulation failed to put any other instrument or means of equivalent nature and equal effect in its place.

b[4]) Second, there is no empirical experience to support the prediction of growth upon which the Regulation is based. There are economies that have gotten good results under policy guidelines based on stability, but all these precedents involve currencies whose management was entrusted to a political power, flanked by a central bank (like the Deutschemark). The "euro" would be the first (and certainly the only) experience of a currency whose management was governed by rigid rules, unalterable regardless of changes in the internal or external environment.

b[5]) And finally, proper assessment of the results of the six-year period of convergence 1992 through 1997 would have sufficed. The precepts applied then, constrictive but less rigid than those of Regulation 1466/97, caused a lowering of the growth rates of the single member countries that was readily appreciable by comparison with the period immediately preceding the Treaty.

C) FURTHER CONSEQUENCES – DAMAGES

40. The system ruled by Regulations 1466/97, 1055/2005 and 1175/2011 eliminated the economic policy powers of the individual member states and did not provide for any other political (hence, freely decided) contribution on their part to economic growth and monetary management. The system was transformed into a perfect *automaton*. The legal provisions that directly or indirectly governed the conduct of the policy bodies of the Union and the member states were totally prescriptive in nature. Powers and/or rights were all framed as cases consisting in obligation/power or obligation/right. The legal source behind every conduct is always a “prescription”. If an error in planning is committed, the decision-making bodies of the Union and the member states do not have the power or the authority to remedy it. They cannot even refrain from the prescribed conduct when its effects are clearly harmful. Indeed, it is their duty to put such conduct into practice. The system protects its own identity.

41. The damage provoked directly year after year by Regulation 1466/97 and its successors (Regulations 1055/2005 and 1175/2011) and finally by the so-called Fiscal Compact has itself caused additional, cumulative damage due both to the combination of each successive year’s damage with that of previous years and to the possible concatenation of causes at every level. Now, at the end of 2013, the situation is totally different from what it was in 1999. Restoration of the original situation is out of the question.

42. The effects that flow from the accumulation and/or concatenation of causes include, notably, the production and diffusion within each state of ruins, consisting in productive factors destroyed or rendered totally or partly unserviceable. These “ruins” take the form of the jobless young, the long-term unemployed, laid-off workers, firms going out of business, the destruction and dilapidation of material structures such as schools, museums, libraries, hospitals, research institutes, the dilapidation of the historical and artistic heritage, the dysfunctions of technical public services and the public administration in general. And the list could continue.

43. The effects on individuals or single institutions are compounded by the collective effects.

a) Confusion of ideas, a radicalization of differences, lack of mutual trust, intolerance, outright hatred.

b) The lack of consensus on the existence and identity of a single, common original cause creates room for hope, followed by painful disillusion, hence also depression.

c) The worst damage of all is the power vacuum. It becomes ever harder to imagine how this can be filled. Many expand illicitly within it.

d) Given the automaton-like and self-protective nature of the system, to overthrow it or simply to change or adapt it would require another coup d'état – something to be avoided. Creating a new regime, as we shall see, is a delicate and complex operation. It cannot be left to chance. This would only compound the harm. It could bring into being conditions that are no longer reversible.

e) The recurrent ideas of fiscal federalism, banking federalism and eurobonds are deceptive. If implemented in the absence of an equal, hence democratic power, these projects would simply mean the acquisition of greater power for some of the major countries at the expense of the minor. In the present state of confusion and broad disillusion, this sort of result, obtained in indirect fashion, could only do still more harm.

f) In keeping with the findings of our investigation, analysis is necessarily oriented to the search for a political way out that can lead quickly to acceptable solutions. Speed is of the essence, because things could precipitate. Where total public debt in a country exceeds a given limit, implosion could ensue.

g) The debt limit mentioned just now has nothing to do with GDP ratio or the balanced-budget principle. It is related to the annual cost of the total debt and its relationship with the predictable rate of GDP growth over the years immediately following. The limit would be reached when the effective total cost of the debt during the year, net of any primary budget surplus, corresponded to a growth rate that is utterly improbable or impossible in the absence of new and unforeseen factors. If any such phenomenon were not nipped in the bud, blocked at the outbreak of the very first symptoms, the distance to the breaking point would be reduced year by year, at an increasing pace, to the point of implosion. We cannot preclude the possibility that such a danger is already present in one or more member states.

h) The crucial question, inevitably, is whether or not there exists a point of no return. Hopefully, the issue will be the subject of far-ranging and

profound reflection. If the hypothesis were to be confirmed, the consequences would be fundamental.

i) The inapplicability of the balanced-budget rule – whether one derives this from the abrogation of the "democractic regime" or from the total lack of power consequent to the legal inexistence of Regulations 1466/97, 1055/2005 and 1175/2011 – leads to one and only one conclusion: that the norms now in force are those of the Lisbon Treaty, in effect from 1 December 2009, in that these are in conformity with the original Treaty on European Union.

The member states are therefore empowered to run yearly deficits of up to 3% of GDP and accumulate total public debt of up to 60%, <u>and more</u> where the extra debt is due to exceptional and temporary circumstances.

If for a member state, lacking resources as a consequence of protracted subjection to the balanced-budget principle, it is impossible to stimulate economic growth without contracting a sufficient amount of debt, then the violation of the 3% limit should be ascribed to an <u>exceptional</u> cause, namely the obligation to balance the budget, which is also a <u>temporary</u> cause in that it will vanish as soon as the depressive effects first weaken and then cease.

j) Here, however, the looming problem of the feared breaking point comes into play. In this case borrowing would be advisable only if the investment resulting from the additional debt can produce GDP growth such as to result in a gradual reduction of the cost of the debt.

If the preconditions were lacking, or if the forecasts proved mistaken, then the utilization of the borrowing capacity guaranteed by the application of Article 104C, read in conformity with the binding contents of that article, could turn out to be a tragic irony.

D) THE AUTOMATON – AND THE CHINK IN ITS ARMOR

44. We have pointed out that the system created by the imposition of budgetary balance is an automaton and that it is self-protecting. But in the old Italian proverb, "the devil makes the pots but not the lids", and we believe we have found the chink in its armor, the tool for legitimately forcing the cage open. After the possibility of "opting out" invented to keep the United Kingdom as a member, the negotiations on the text of the Treaty on European Union went on the divide the member states into two groups, of equal dignity: those without a derogation (those of the euro) and those with a derogation (those that still had their own currency). We have raised the question of whether a state without a derogation can transfer to the with-

derogation group and answered it affirmatively. This implies one immediate consequence: namely that one "political" power for member states does exist, not perhaps policy power directed to growth as such but the power to recover that power. The individuals who make up the national communities can (must) put pressure on their governments, according to the specific constitutional order deriving directly or indirectly from their votes, to demand that the country be assigned the status of member state with a derogation. This is the indispensable step towards regaining "democratic" power and exercising it.

E) AND THE RETRIEVAL OF POLITICS

45. We have found the tool. Can we use it? Powers can be fruitfully exercised only if objective conditions, domestic and external, allow it. For our purposes here, this condition for an economy, in terms of size, is represented by its ability to respond adequately to external impulses and pressures and its inverse capability to exert pressure to adapt the external environment to its own necessities. These conditions are unlikely to be realized if the state is small, if its economy is poor or, worse, exhausted. It would be overwhelmed by the volatile, potent impulses from the outside environment. Another state could gain economic and even political control over its weaker counterpart.

46. What one country by itself is unable to do could be within the grasp of a number of states that decided to act as a group. Several states in concert could request transfer to the with-derogation regime. They could agree to create a common currency and also a common political power to manage it. This new currency would circulate within the single market in the same fashion as those of the present states with a derogation.

What is the minimum adequate size of these combined economies to be able to safely confront the other currencies within the European Union and above all the massive movements of the world market? The decisions to be taken are political. No one can take over the powers of decision of the national communities and the governments of the single member states. But some statistical data may be helpful. We set out two hypotheses, not purely abstract ones.

47. The aggregation of four Mediterranean states including Italy would produce a population of 127 million and GDP of $3,998 billion. This entity would be tenth in the world in population and fourth in GDP, behind the United States, China and Japan.

48. Adding France would bring the total population to 189 million and GDP to $6,558 billion. This would be sixth in population and second in GDP, behind the United States but ahead of China, Japan and Germany.

These results, especially the latter, are enticing indeed.

49. If all the euro-area countries together were to request with-derogation status, we would have a population of 328 million and GDP of $12,076 billion: third in population and again second, but just behind the US, in GDP.

F) EUROPE AND THE WORLD

50. Now one final, general consideration, in connection with the position set out at the beginning, bearing on Europe and the world. An error, perhaps not exactly pardonable, was made in 1991. It was repeated, in aggravated form, in 1999. A third repetition would be truly unforgiveable. It could jeopardize Europe's future for what could prove to be an extremely long time to come.

In 1991 the formation of the extensive economic area of Europe thanks to the Single European Act was at an advanced state of realization. The Treaty on European Union, enshrining the principle of opening of external frontiers and the universal reduction of customs duties, lent impetus to the unchaining of forces operating at world level whose pressure was already perceptible.

The conclusion of the Uruguay Round and the institution of the WTO, events in which the EU played a leading role, completed the work of unleashing the engine of world economic activity in the decades to follow. Unaware of the changes that it was helping to bring about, the EU, with the Treaty, began to move in what was actually the opposite direction. It set the objective of creating a currency to be managed not by a political authority, as in all the countries of the world, but instead governed by a set of abstract, immutable, rigid rules.

In 1999 a thorough examination of the statistics available would have been enough to grasp the new reality. The volume of the worldwide flows of trade and finance was at a peak, larger, faster and more volatile than ever imagined. Europe, instead, was going the other way. It assigned

the management of its economy to a highly constrictive set of norms that brought rigidity instead of flexibility.

The depressive effects the have emerged in the years since have been severe, embracing the euro area with side effects throughout the Union.

At global level, Europe's demonstrable, recognized role is that of purchaser of goods and services, especially from the two largest economies, the United States and China, with implications spreading to other economies from which Europe is also a direct importer. If the European slump were to continue or worsen, the upshot would be an alteration of the world's political and economic "governance".

In fact, what is at stake here is precisely global political and economic governance. The principal forces operating around the world are autonomous, some of them extremely powerful even on a standalone basis. In fundamental respects their activities escape the supervision and the control of governments, including those of the largest states, both individually and as a system. Illicit forces, whose power is based on violence, infiltrate the financial system and even the nerve-centers of national states. The system of national states, each controlling a part of the Earth's territory and together covering the entire globe, serves the purpose of countering the force of economic flows with their enormous volumes, extreme variability and hence unpredictability. The main national powers have grown in size, and so have a good number of other countries.

At present the global political system hinges on a duopoly, the United States and China. Economic dominance has shifted gradually from the North Atlantic area to the South Atlantic and the Pacific and Indian oceans. Within the duopoly the role of the United States could diminish in importance. One senses the importance of a crucial missing link: Europe.

51. The world is a unified, interconnected system. What happens in one region or economic sector is reflected in all the others. The political role of Europe having been annulled, its economic role has been reduced to that of principal "purchaser". Hence the inadequacy of global political governance, which in turn affects economic relations. At the global level there is no certainty of obtaining the sort of sustained, harmonious, balanced growth that Europe proposed but has failed to achieve. Cracks in the edifice are beginning to show. The seas, formerly calm, or rough – even very rough – could suddenly, on the heels of a typhoon or an earthquake, swell to tsunami proportions.

It is urgent to strengthen the world's political governance as a counterweight to the excessive pressures from the economy. In these circumstances "political action" – not only in the management of the currency but in that of the entire system – cannot be considered an "optional" for Europe. But we must not delude ourselves. Europe cannot

recover its mission in the world unless it attains a size and a configuration adequate to the task. The "solution" is the transformation of the entire European Union into a political entity. But the time factor has to be taken into account. As we have said and repeated, time is of the essence. If the citizens of Germany were truly convinced of the desitability of integrationg their national identity into another, higher one – that of Europe – the result would be at hand. This political entity would be immediately joined by all or nearly all the countries of the euro area, and even of the entire European Union. If the citizens of Germany are not prepared for this step, a grouping of the other main continental countries including France (which could and should take responsibility for external relations) would bring us close to the goal.

Is it too great a stretch of the imagination to think that Italy could initiate an aggregation that would be then joined by France, which would lead it in the subsequent stages? "Power to the imagination" – *l'imagination au pouvoir*: Has this not been the slogan of several generations? "Imagination" is the source of all scientific discoveries and all inventions, from the greatest to the smallest, and of all historic events. Imagination stimulates. Results are obtained when the right paths are traced and followed. The paths cannot be invented. If the objective is new, finding them demands study and more study.

52. One practical suggestion, if I may be permitted, is that we begin to think about and discuss the constitutional organization of a united Europe. In the early 1940s Italians debated the proper post-Fascist institutions. *The Federalist* is perhaps the greatest example of political analysis of the present and future conditions from which to deduce the techniques for governing the great new federal state, an institution that would be unprecedented also in its dimensions.

Europeans came to their date with destiny in 1991 totally unprepared on these matters. Yet the solution could be less difficult that we think. For thousands of years Europe – all of Europe – was the reign of autonomous local powers. Once the central architecture has been designed, the need is to set quantitative limits within which local powers, in compliance with the general principles, can decide independently on the forms and levels of their own entities.

Let imagination begin to be exercised!

Rome, 21 October 2013