

Speech delivered by Mr. Giulio Tremonti, Italian Minister of Economy and Finance

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It is pretty strange that we are talking at this stage about the Union and the state of the Union, that we are talking about it today, when an outstanding newspaper leads with “The toll for EU is too high, consensus among Italians goes down”, commenting the results of a survey. It will be my task – and I certainly cannot be suspected of being a Euro-optimist - to contend the crucial and irreversible character of the political and economic process of uniting the European continent. I am going to try and do it with both political and economic arguments.

Political arguments

Two years ago, in December 2001, the European summit in Laeken started up the procedures for the definition of a new European constitutional treaty, even before the Euro was introduced. It was followed up by the sessions for the Convention and the Inter-governmental Conference, which are currently in progress and must be concluded as soon as possible.

Clearly, there are different viewpoints which must all be treated with the same respect, there is no monopoly of culture or of politics. In February 2002 I wrote an article, which was published by “Le Monde”, in which I upheld some rather unconventional arguments, or at least, arguments which at the time did not seem conventional: the concept that there were at least two systems for the European Union; the consequent concept of the supremacy of the inter-governmental method over the so-called federalist method. These two different concepts are both absolutely creditable, since in my opinion one should not demonize other people’s opinions.

The prevailing concept has been, for a long time, the federalist one. In that article the features of the unionist concept were described, but evidently I am not the only supporter of this concept, since there are also other people who speak my same language.

You can either have a federalist or a unionist concept of Europe. The federalist concept finds its utmost expression, from a political point of view, in the speech made by the German Minister of Foreign Affairs, Mr. Fischer, at the Humboldt University. It is a complex pattern, a constitutional

architecture that while still assigning the nation States a role, gives the leading and foremost role to more federalist schemes, with the Parliament, the Commission and other European second-tier organizations having more powers than the present ones. The method which combines these political bodies in a highly sophisticated constitutional clockwork is the federalist one.

In contrast there is the unionist pattern, with its inter-governmental method. Europe is a union of States, the primary form of government is that of the ancient nation States, Europe is a scheme for aggregation and common work among nation States.

This is a stylization of the two models. Naturally, each one of them might include some elements of the other, but essentially they represent two different political views. In the Convention, when the word federal disappears and the wording “union of States” comes in, of course it is the unionist model that wins. The wording included in the text of the Convention defines Europe as a union of States. It is not a dogmatically unionist model, but a model in which federalist elements are present.

The European Central Bank, for example, is the typical expression of the federalist model. It escapes control on part of the governments, it is out of the inter-governmental method and it takes the form of a federalist structure. It is a milder federalism than the one in the United States, as shown by the different functions: stability and development, in the case of the Federal Reserve, stability only, in the case of the ECB. Nevertheless, it is a federalist model, just like some other institutions: the Commission and the second-tier lending institutions. In any case, basically the model that is established in the Convention is the unionist one. And the working method is the inter-governmental one.

The so-called inter-governmental method found its typical and empirical expression in the Ecofin Council of 24-25 November last. Some said that the rules were not applied. I reply, like I did in my address in the European Parliament, that the rules were applied. Under the rules presently in force, the Commission has the power to present proposals, while the Ecofin Council has the duty to vote.

The Commission does not have the monopoly for policy. This would belong to the federalist method. With the unionist method there is an equilibrium: the Commission presents its proposals, but it is the Council of Ministers, representing the Governments, that rules with a vote. And so it was. This is not the proper place to make further observations on the sort of request which came from the Commission, or on the concept that rules coincide with sanctions. Instead, it is the other

way round, and this is perhaps the more appropriate place – a place where the police system is studied - to understand that police machines work if they do not work, if prevention works more than repression, if sanctions are seen only as a kill-or-cure solution. It would have been really improper to impose sanctions on Countries which had accepted the proposals for compliance. In the typology of law philosophy, sanctions apply in marginal and deviant cases– they do not apply in cases where compliance is the object of an explicit declaration on part of the Governments. Inter-governmental method.

I believe that in this framework Europe has made some progress on its political path. The history of modern Europe is made up of acceleration and stagnation phases, of ups and downs. It can be split into three hypothetical stages. The first is the heroic one, the stage of high principles. The second is the very long economic one, going from the single market to the single currency. The third stage is the one which is starting now, the political one.

And I believe it is crucial that it is pursued. The history of modern Europe does not progress on a fully continuous line. There are continuity solutions, segments, accelerations, jumps, but the process continues. The heroic stage had political and economic contents, the economic stage had political contents, but the features of each stage are the following: high principles for the first one, the creation of the market for the second one, politics for the third one. Some may say that the text of the Convention is an excellent one, some that it is second best. For me it is an excellent political text and it must be pursued.

Economic arguments

The economic arguments make the union process necessary and irreversible, irreversible because it is necessary. We live in an historical phase which is characterized by a dramatic mismatch between the seriousness of the problems and the governance capacity that we have, as it has become manifest in the last two or three years. The seriousness of the problems: two wars in two years and the breaking of the world's geopolitical balance; the advent of an almost unlawful international trade competition. Some Countries are more exposed to it or have become more exposed before others, but it is developing on a global scale. I believe I was among the first Western politicians to pose the problem of China at international level – it will be solved, I think. The idea is that it has all taken place too quickly. Free trade implies rules. Either these rules are there or there is no trade.

The financial crisis which broke out in autumn 2001 probably had some remote and diverse causes, but definitely got faster and more radical close to the 11th of September and following it. Opinions may differ, it could be stated that there was no cause and effect relationship, but in actual fact it has been a worse crisis than the one in 1929. The effects have been different, since nowadays the social and control networks are a lot more effective, but surely it has been an all-time financial crisis.

In Europe the so-called *change over* produces effects differing from Country to Country. In some Countries it has dramatic effects of shifting of real wealth. Adjustments and rounding-offs have now become something different, with the effect of causing a huge transfer of wealth to rent formulas which are still to be identified as for their dimension and effects. The *change over* has produced effects quite different from those expected, and this is also one of the reasons of the findings of the survey I mentioned at the beginning. I believe that the phenomenon has been caused by a series of factors: a structure of the commercial network which exploded onto millions of small shops, where the formation of prices has not been properly rational; the poor ability of Italians to use metal coins with a high value, that has determined perverse illusion effects, and other causes. Incidentally, I believe that the structure of the euro system has revealed a shortcoming in the strategy according to which the single currency has been introduced. If the euro has to compete with the dollar, then it should have been created like the dollar. It seems to me that the dollar constitutes quite a successful monetary item: there must be a reason, not only technical, but also a political one, if a one-dollar banknote exists; and there must be a reason why it is possible to denominate oil contracts in euros, but we have not succeeded in making the one-euro coin accepted all around the world. I believe that the introduction of the euro was thought in too domestic terms, in terms of Europe on Europe: it is ok for the Dutch and for the German: therefore it is ok for everybody. But things are not exactly like that.

Local crises that were replicated, like the crisis in South America. The application of forms of modern, indeed postmodern finance, to archaic political systems has blown certain Countries. On Argentine bonds we have lost a percentage point of national wealth at least, just to show to what extent financial systems are interconnected and strategic to demand and to confidence in a Country's competitive strength.

A system with a regulated finance is an attractive system, a system with a not sufficiently regulated finance is a system that is not attractive, with repercussions that are limited to financial markets, but

extended to the whole economy; with repercussions that are limited to a Country's internal economic structure, but extended outside its national borders.

Vis-à-vis these problems, that heaped up in two, three years, there is an insufficient governance capacity. This is the asymmetry that the European continent has experienced. We no longer have the old powers of the national States and we do not have a European power yet. We no longer have the typical powers of national States. We have instead limits to budgetary policies: there is a Stability and Growth Pact, which defines them. We do not have powers on interest rates, that are decided by the European Central Bank. We do not have powers on exchange rates, which used to be a more or less 'saviour' solution to many domestic problems. Exchange rates are not established by national States: I have the feeling that they are set by another part of the world. And this gives the sense of the difference between America and Europe. When at the beginning of XX century Theodore Roosevelt inaugurated the transatlantic cable from the eastern coast of the United States to the Far East, he said: "We will be a new Rome, we'll do arbitrage between two oceans". And that's what happened. The United States are doing arbitrage between two oceans, but above all they show an extraordinary governance capacity. Here, we happen to do the opposite: we no longer have the governance of national States, and still do not have a proper European governance.

We are in an intermediate stage where the old system has come to an end and the new one has not started, yet. But I am not a pessimist for three reasons.

The first reason. The European Constitutional Process was started. It is a process that may be concluded in the next days; it is a process that may be concluded in the next months, but the fact that a European constitutional process has been started is fundamental. The third basic stage of the Union has begun: it is the political stage.

The second reason. As from January 2003, the European continent has started an extraordinary structural reform. The European continent is investing in its future, it is improving the welfare state architecture. From Finland to Austria, from the Netherlands to Germany, France and Italy important reforms of the labour market and of the welfare state framework have been enforced as from 2003. This is an extraordinary event. This process has not been put into legal form, it is not the direct subject of a treaty but it is a typical European process based on a voluntary and coordinated adaptation under a unitary pattern adopted by a whole continent which is investing in its future.

The third reason. An uncommon plan of political action for growth is under approval: it is the object of a proposal made under the Italian Presidency. I believe it is the first example of European economic policy after the introduction of Euro. It is a plan based on the Italian proposal, which has become a European plan and which has to reverse the declining trend of public investments all over Europe. We believe it will be successful. It is a really new plan, or rather a very old one. It is the plan Italy used after the war to build the *Autostrada del Sole*. It is a very simple financial plan, a way to make public investments without charging the State budget, thus perfectly consistent with the Stability and Growth Pact. We are convinced, and this is a widespread conviction by now, that such an efficient plan would re-launch our continent.

The Italian six-month Presidency is to be closed in the next days and will be formally closed this week in Brussels. As regards the economic issues, we are able to state that all the dossiers – inherited from the previous Presidencies or introduced on the initiative of the Italian Presidency – have been finalized. I do not know whether this is to be considered as an extraordinary fact: mine is a patriotic belief that it is absolutely extraordinary. We have achieved important results by closing the dossiers concerning financial market and taxation along with the Action Plan for Growth. It was said that such a boost was due to the fact that this was the last six-month Presidency involving 15 Countries. This is not true. The under-secretary Mr Magri was the protagonist of an extraordinary action which led to the approval of the first budget involving 25 Countries. And this is another dossier closed by the Italian Presidency. As regards the activity of ECOFIN, notwithstanding the fact of being 15 or 25, I believe that the six-month Presidency worked well also due to the technical and scientific efforts of the Guardia di Finanza and its School.