Preface

Andrea Bosco, Max Guderzo

This book opens a new series edited by the Jean Monnet European Centre of Excellence of the University of Florence, *Verso l'unificazione europea*. It is about the euro in a global perspective, and most chapters have been written by economists who met and discussed their diverse views at a multi-disciplinary conference organized by the Centre in May 2013. This Conference, entitled *The euro and the struggle for the creation of a new global currency: Problems and perspectives in the building of the political, financial and economic foundations of the European federal government*, owed much to Dr Matteo Gerlini's indefatigable cooperation with the activities of the Chair of History of International Relations and the "Machiavelli" Inter-University Centre for Cold War Studies (CIMA). The list of contributors also includes historians as well as scholars of European and international law. Their essays have been carefully revised on the basis and against the backdrop of an ongoing crisis of both the euro and the entire European project over recent years and months. They have been examined by a pool of colleagues at the University of Florence, among whom the editors would particularly like to thank Giuseppe Coco and Rossella Bardazzi who respectively wrote the introduction and the conclusions of the book, and Laura Sabani who together with Elisa Cencig added a new contribution as well as providing many useful comments on the chapters. Finally, the book was submitted to the usual peer-reviewing procedure organized by Firenze University Press. The editors would like to thank Fulvio Guatelli, editor-in-chief of the FUP, for his most helpful support through the stages of publication and the EACEA (Education, Audiovisual and Cultural Executive Agency) of the European Union for its cultural and financial contribution in the framework of the three-year project promoted by

Max Guderzo and Andrea Bosco (edited by), *A Monetary Hope for Europe: the Euro and the Struggle for the Creation of a New Global Currency* ISBN 978-88-6655-965-8 (print) ISBN 978-88-6655-966-5 (online)

the Centre of Excellence between 2011 and 2014: «The EU and European unification: State of the art and perspectives»[1].

As a short preface to the very interesting data and interpretations offered in the chapters, the editors would like to start from a very simple but possibly controversial comment. In the history of monetary unions the euro represents a unique case, which cannot be assimilated to other past attempts to create single or common currencies among different States, or States which had independent political and economic institutions. Furthermore, they share the opinion that it is possible to single out three models of monetary union implemented since the introduction of currency as an instrument for exchange and transactions among individuals or groups of individuals. The first model is that of monetary unions achieved through the expansion of the political, military and economic influence of a hegemonic State on other States. The second regards monetary unions established through the cooperation of independent and sovereign States. The third concerns monetary unions achieved through the creation of federal political institutions by independent and sovereign States.

These models make it possible to identify the character and historical significance of a specific monetary union related to the creation and evolution of the political institutions which produced it. Being a fundamental attribute of sovereignty, the currency in fact represented a tool which introduced a limitation, permanent or provisional, of national sovereignties, generating a process of integration, permanent or provisional, among them. The shift of monetary unions from one model into another, or their dissolution, therefore depended on the character of the political institutions which generated them and on their duration. Since the introduction of currency as an instrument for exchange and transactions among individuals or groups of individuals, there have indeed never been monetary unions existing independently from the political institutions which had generated them.

The first model can include monetary unions based on the principle of empire, colonialism, or economic supremacy[2]. The idea of a common and widely accepted currency was first realized in the Aegean Sea during the mid-sixth century BC by three major trading powers: Aegina, Corinth and Athens. While with the stater (with the turtle as its symbol) Aegina created the first international currency, largely as a result of its control of the cop-

[1] More details on the Centre's history and activities may be found on its website, <http://www.unifi.it/cmpro-v-p-4085.html>.

[2] The historical data offered in this preface are taken from the interesting volume by P.L. Cottrell, G. Notaras, G. Tortella (eds.), *From the Athenian Tetradrachm to the Euro: Studies in European Monetary Integration*, Ashgate, Aldershot-Burlington (Vt.) 2007. Andrea Bosco has elaborated the three-model interpretation in line with the thought of Mario Albertini: philosopher, political leader and key figure in the European federalist movement in the last century.

per mines and its hegemonic political and economic role in the East Aegean Sea, Corinth then introduced its own stater (bearing the image of Pegasus) particularly in its colonies in the Ionian and Adriatic seas. Athens then replaced the stater with the tetradrachm, featuring the owl and using silver from Laurion. For two centuries the hegemony of Athens extended to the entire Aegean Sea: from the early fifth century BC (following the victories over the Persian navy at Salamina in 480 BC and Mycale in 479 BC) to the fourth century, despite its defeat in the Peloponnesian War. The Alexandrian tetradrachm replaced the Attican tetradrachm up to the third century BC, becoming the common currency of the Hellenistic world. Rome and Byzantium replaced the tetradrachm with various coinages – the denarius, the sestertius, the aureus and the dupondius – extending the area of the common currency to coincide with the borders of the Empire and neighbouring regions, with the Mediterranean as its heart.

Spain, in the age of Charles V and Philip II, introduced the silver peso and the gold escudo as the common currencies of an Empire with its centre in the Mediterranean. Maria Theresa's thaler – the currency of the Austrian Empire – created the larger Continental currency area after the fall of the Roman Empire. This was replaced by the 'continental system' of Napoleon I, manifestation of the French struggle for European hegemony which inevitably aroused British rivalry. However, the French attempt to conquer the sea by the power of the land lasted for six years only and collapsed after the Russian disaster. The florin was created through the German monetary unification of 1837 between six German States: Bavaria, Baden, Württemberg, Hesse, Nassau and Frankfurt. This was extended to the rest of the country through three wars by Bismarck and then to Austria in the period from 1857 to 1866. The Piedmont lira spread to the rest of Italy in 1861 as a consequence of the completion of Italian unification.

The second model can be applied to monetary unions established through the cooperation of independent and sovereign States as a result of the temporary convergence of their 'reason of State', namely, their vital national and strategic interests. The nineteenth century was characterized by the Anglo-French duopoly of financial power, and within this context the Latin monetary union emerged, which included France, Italy, Switzerland, Belgium and Greece and lasted from 1865 to 1914. It was based on bimetallism: namely on gold and on silver, which was about 15 times less valuable than gold. National and international monetary problems during most of the nineteenth century were the consequence of the oscillation of the gold/silver market prices sparked by waves of new mining discoveries in new countries such as the United States, Australia, and South Africa. In fact, during the nineteenth century France and Great Britain adopted opposing monetary policies, even though their central banks cooperated to maintain the highest possible degree of monetary stability within their own spheres of influence. While from 1717 Great Britain let the price of silver float freely by choosing a mono-metallic gold standard, France decided in 1785 to fix the parity between gold and silver and managed to hold to this up to the outbreak of World War I. During the nineteenth century France and Great Britain were the two main lending States, marking the first time in history when the main lending States were also great powers.

The rise to the rank of world powers of Germany, the United States, Italy, Russia, the Habsburg Empire and Japan, however, marked the crisis and the end of the international financial system based on the Anglo-French alliance with the Channel as the centre of gravity of world power. The Latin monetary union was put to test by the divergences in Franco-Italian relations over colonial policies in North Africa, by the German victory over France in 1871, by the decline of silver (and bimetallism) as a base for currency and by the creation of the German Gold Standard Reserve, which put an end to bimetallism. The Scandinavian monetary union – inaugurated in 1872, following the French defeat – was the most successful of all European monetary unions. It established the gold crown and, in 1885, a Bank Clearing System which guaranteed monetary and economic stability to countries such as Denmark, Norway and Sweden, which were, nevertheless, largely peripheral to the centre of world power politics.

The third model is represented by the monetary union of the United States of America, established since 1789, with the exclusive competence of Congress on monetary policy. However, it was not until the 1930s that all the American States became component parts of a single 'optimal currency area'. The principle of federalism gave precedence to political rather than economic reasons for integration between independent and sovereign States. Only by pooling of monetary and fiscal sovereignty within a new supranational institution, responsible before Parliament, could monetary union be permanent or indissolubly bound to the existence of the federal government. The first example of the application of federal government outside North America was provided by the Swiss Confederation, which came into existence in 1848, merging 22 sovereign Cantons. Germany provided another example for the application of the federal system. However, the existence of a largely preponderant State within it – Prussia – produced a *de facto* shift of the federal into the unitary principle. Born federal, the German Constitution was progressively transformed into the most centralized and despotic system of government in modern Continental Europe.

On the basis of this very brief historical survey of past monetary unions in line with the three models described, it is possible to propose a number of conclusions as to their relation with the euro experiment analysed in this book.

First, it emerges that small States outside monetary unions have limited policy autonomy because of the pressure exercised on them by capital flows in particular, and economic globalization in general. Monetary unions represent centres of gravity, attracting an increasing number of States into their orbit for as long as they exist. The historical trend of successful monetary unions is therefore to expand their area and to enter into conflict with other monetary unions, unless there is a convergence of global interests.

Second, regional monetary unions can be created and work successfully for a limited period only within a stable political, economic, military and financial system. If during the nineteenth century this backdrop was provided by the British Empire, during the twentieth it was provided by the Atlantic union policy, which since 1941 – with the signing of the Atlantic Charter – created a new centre of world gravity in the North Atlantic. The Bretton Woods agreements, based on the dollar gold exchange, created an international monetary system which since 1949 guaranteed European reconstruction, anti-inflationary policies, price stability and full employment. The crisis of the sterling gold exchange – consequence of the crisis of the British Empire – had triggered the long period of international financial and economic instability which was a major cause of the two world wars. The crisis of the Bretton Woods system, followed by Nixon's unilateral decision to revert the dollar convertibility into gold, did not produce a major international crisis because of the process of European monetary union, which not by chance began in the aftermath of the crisis of the dollar as a global reserve currency. This crisis became manifest when the reserves of American gold began to markedly diminish and capital controls were progressively lifted, highlighting the incompatibility of the dollar retaining a link to gold and remaining at the same time an instrument of national and international policy-making.

Today the new economic and financial centre of gravity has shifted from the North Atlantic to the Pacific, without however producing a new 'Bretton Woods', since China has an autocratic government, Japan is a declining economic power and India is not yet a world power. The shifting of the world's economic centre of gravity has not therefore been accompanied by the creation of a new political organization to replace Atlantic institutions. Today the world is experiencing a split between economic-financial and political leadership. This is one of the main sources of the current international instability. The completion of the process of European monetary unification, and the parallel creation of a single Atlantic common market on the model of the European experiment, could bring economic-monetary power back to the North Atlantic, or to the Atlantic as a whole, if Brazil, Argentina and South Africa were included in the system.

Third, the creation of the euro was made possible by the stability provided by the 'Atlantic system'. The euro today has a predominantly regional dimension, since it is the currency of an area including some half-million European citizens. It embodies the successful attempt to stabilize international finance by stabilizing the European region in the aftermath of the crisis of the Bretton Woods system. Today we are also experiencing the possible transition of the euro from being merely regional into a new global currency, capable of joining the dollar as international reserve currency, and therefore also able to promote the creation of a new financial and economic settlement, expression of a specific dislocation of world power.

Finally, it could be said that the completion of the process of European monetary and economic unification is no longer merely one of many problems, but rather one of the most pressing and important of our time. The ultimate success or failure of the European experiment depends on the solution to this problem. The fundamental reason for the existence of the European Union is not the defence of a specific cultural, racial or religious identity, but the creation of a specific method of resolving conflicts among States by peaceful and constitutional means. The first Community institutions were not imagined and created 65 years ago simply to establish a free-trade area and promote economic development among its members. They were conceived as the first step in a political process which, through the pooling of certain vital governmental functions such as economy and currency, aimed to achieve a federation, not a league of nations, establishing economic stability as a fundamental condition for political stability. The experience of the attempted monetary unions of the past shows that the only ones which did not fail were those generated by a federal union, as in the American and Swiss examples, or those which generated a federal union, as in the example of Germany.

It appears therefore plausible to support the thesis – and the chapters of this volume provide some evidence for this, or at least very interesting material for thought – that unless the euro becomes the expression of the financial institutions of a federal government, responsible to a democratically accountable Parliament, it will prove to be reversible. And with it, the whole European experiment will be at risk, with the inevitable consequence for Europe of falling back into its political division into conflicting groups of States. The choice is therefore, as it has always been, between reaching a union through the pooling of sovereignty or through its exercise and projection in terms of old-fashioned and short-sighted power politics.