

THE FUTURE OF EUROPE



by Senator Giovanni Agnelli

Florence, 5 November 1992

EUROPEAN
UNIVERSITY
INSTITUTE

FIFTEENTH
JEAN MONNET
LECTURE



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**Opening address by Mr Émile Noël,
Principal of the European
University Institute**

Badia Fiesolana, 5 November 1992

Mr Agnelli,

The European University Institute is most delighted and most honoured to welcome you here today, as both a committed European and the head of a great Italian and European company. This is the first time that a major industrialist has come to deliver our Institute's annual Jean Monnet Lecture. I thank you for having so kindly agreed to contribute to this opening of our university to the world of business.

Ladies and gentlemen, my dear friends,

I welcome you all to the Institute, and am delighted to see that so many of you have responded to our invitation to come and hear Mr Agnelli: municipal, provincial and regional authorities, distinguished citizens of Florence and of Tuscany, and members of the Institute. This meeting is an opportunity to strengthen the links between our Institute and its hosts, the towns of Florence and Fiesole; cordial as these links are, they could perhaps be more numerous.

Allow me briefly to recall what the European University Institute is. An institute for research and postgraduate training, it was set up by the Member States of the European Communities on the basis of the Florence Convention, signed in 1972. The Institute's researchers,

postgraduate students, work here in the areas of law, history, economics and political and social sciences. Their research, pursued in a European perspective, can be fundamental research, comparative research or applied research, to serve both the Community and the wider Europe.

This year, the Institute has 320 researchers coming from both the European Community countries and other countries of Western Europe, Central and Eastern Europe and the former Soviet Union. It also takes in a few researchers from the other continents. All enjoy the support and supervision of two-score full-time professors coming from both Europe and North America. After three or four years' work, they may take the Institute's doctorate.

For you, Mr Agnelli, it is a familiar thing to speak in this sort of European and international framework. There is scarcely any need to introduce you, given how well your personality and your role are known throughout Italy, and given the major role, indeed leading role, that the Fiat company plays in the Italian economy. I would, however, like here to emphasize some of the European and international responsibilities you take on, which are less known to the broad public.

I have in mind, firstly, your participation in the European Round Table of industrialists, which brings together directors of the most important firms on our continent and acts as both watchdog and top-level counsellor to the European institutions, particularly the European Commission and its President, Jacques Delors. The advice and support of the Round Table have been decisive in the launching and accomplishment of the great European internal market, and the Fiat company has in its administration taken steps to anticipate its creation.

I am also thinking of your post as Vice-President of the Association for European Monetary Union, created by Chancellor Helmut Schmidt and President Giscard d'Estaing. It was the motor for the launching of the project for monetary union at the end of the 1980s, and its resolutions



helped to guide the Maastricht Treaty negotiations and secure support for it in business circles.

I should also like to mention your participation in the Consultative Committee of the European Bank for Reconstruction and Development, the instrument for a joint effort by the Western world to aid development by the countries of Central and Eastern Europe and the Commonwealth of Independent States that has emerged from the former Soviet Union. May I recall that as early as the 1960s the Fiat company had contributed to the creation at Togliattigrad of a vast industrial complex that enabled the beginning of the spread of the motor car in the Soviet Union?

You are going to talk to us about the future of Europe and you have kindly agreed to answer a few questions after you have spoken. What I have just said brings out the fact that this is a matter which has for many years been at the centre of your concerns as a man in public life and as an industrialist. You have contributed towards the definition of the European objective, and every day, through the actions of your companies, you are contributing to make it an economic reality, and a human reality. That attests the worth of the message you are about to lay before us.



**Fifteenth Jean Monnet Lecture,
delivered at the European University
Institute, by Senator Giovanni Agnelli**

Florence, 5 November 1992

The future of Europe

*Mr President,
Students, ladies and gentlemen,*

It is a very great honour for me to deliver this lecture named after one of United Europe's most illustrious founding fathers, and it is by going back in time to Jean Monnet's day that I wish to look at the Europe of today and its future.

Forty-five years ago Europe emerged from the dreams of poets and intellectuals and took its first steps along the road to concrete realization. Europe was born as an ideal bridge over a great river, the Rhine, that for almost a century had symbolized division, war and the alternation of military occupations by France and Germany. The new project was born as a pact for peace and growth between victors and vanquished, who perhaps for the first time in many centuries abandoned their respective roles to assume those of members of a single community.

In that context, allow me to mention the far from secondary role played by the Italy of De Gasperi, Sforza and Martino in endowing the Franco-German pact with a European dimension. An Italy devastated by war, only recently freed from an oppressive dictatorship, and in the throes of doubt and uncertainty about the future, decided to lower its trade

barriers and join what was seen at the time as a great and exciting adventure.

Europe, then, was casting off the nightmare of one war, but was also facing the nightmare of another possible war: the war between the two superpowers confronting each other along the dividing line established at Yalta. Caught between a past that should not be repeated and a future that had to be avoided, the Community took shape and expanded, as its original members became more prosperous and new countries joined it to produce an overall income which made Europe the world's biggest economic area.

That historical process which drew new vigour from the setting-up of the European Monetary System in the late 1970s and the Single Act signed in Luxembourg in 1986, lacked only the finishing touches that were to be provided by a single currency and political unification. However, events of recent years have shown us that great designs, inspired by great aspirations, do sometimes have to come to grips with unpredictable historical events. That possible war that united the West on this side of the Berlin Wall never happened. What did happen was the break-up of the Soviet power system: the ideological borders that divided the world were shattered; democracy and the market economy became the common point of reference for most of the world's peoples. In the heart of the European continent, Germany recovered that identity as a united nation that had been suspended for 40 years. Around these events, we have saluted the rise of a new historical era, we have glimpsed the promise of a greater Europe, bringing together in a single, far-flung, economic, political and cultural entity what for centuries had been called Europe, though, truth to tell, Europe was precisely what it had never been. And yet, the road which had seemed so wide and smooth has proved to be a narrow, hazard-strewn path. Today, many countries in Eastern Europe are in the grip of an arduous, sometimes painful search for their own way to democracy and the market economy.

The Soviet Union, which had once seemed capable of orchestrating a relatively trauma-free and gradual emer-



gence from socialism, has broken up into several autonomous States, while its economy is on the verge of collapse, as evidenced by the 27% drop in its industrial production in the first half of 1992.

Our neighbour Yugoslavia is living through the terrors of civil war that in a sense proves the futility of the enforced unification that was stitched together by the great powers on the remnants of the Austro-Hungarian and Ottoman *mémoires* in 1918.

In Germany, legitimate and justified enthusiasm over reunification has been followed by recognition of the process's inevitably heavy economic and social costs.

In this complex, new situation, driven by tensions, we are all now asking ourselves what the future of Europe will be. There can be no doubt about one fixed horizon of that future: the single internal market will come into being on 1 January 1993. In the absence of traumatic events that we cannot predict, it seems rather unlikely that the EC nations will turn their backs on that staging post. The single market is in the interests of us all. It is surely in the interests of our economy, since our economy can only benefit from the disappearance of the barriers which have hampered transnational freedom to trade, establish businesses and invest, with all the costs and inefficiencies those barriers created and which have weakened Europe in its competitive dealings with the world's other great economic areas. However, to an extent that is often underestimated, the single market is also in the interests of Europe's citizens since it vastly extends their freedom not only as consumers and investors, but also as workers who will have the same dignity and the same rights whatever the country they choose to settle in. Naturally, the great internal market also presents its challenges. These are the challenges of efficiency, innovation, internationalization for businesses which will be forced to compete more intensively, more directly and without protection on the wider European stage. These are the challenges that will emerge from the confrontation of nation systems, which will compete openly on the terrain of the institutions, legislation, and the functional efficiency

of government and services. That confrontation could be damaging for countries like Italy where the institutional machinery is slower and more complex, the legislation is more muddled and constricting, and controls tend more to form than to substance. However, it must also be said that it is precisely that confrontation which will reveal defects and delays and could provide a major impetus towards correcting defects and bridging gaps. And this too will benefit us all, whether business or private citizens. Nevertheless, we all know that the creation of a vast domestic market in Europe would be incomplete without a single currency, a common 'language' for simple, effective dialogue between the various national economies. That was the profound conviction of another eminent European Commission President, Roy Jenkins, who took the opportunity offered by the first of these Jean Monnet Lectures to launch the proposal of European monetary union with great lucidity and passion. Fifteen years later that objective has finally been defined by the Maastricht agreements. In actual fact, those agreements have gone even further, they deal with the European Union's foreign policy and security and extend the Community's authority to cover new areas like industrial policy and the trans-European networks.

There has been a great deal of discussion about the Treaty on European Union in recent months. It has certainly brought to light all the contradictions, reservations and fears that have long lain hidden in the depths of the collective consciousness of the nations which make up the European Community. Many charges are now being levelled at the Treaty. It is accused of imposing constraints that will lead to a deflationary monetary policy. It is accused of drafting a bankers' rather than a people's Europe. An accusing finger is being pointed at the bureaucratic excesses of Europe and the lack of democracy inside the Community. I believe there is a great deal of confusion in all this. First of all, let it be said that we feel the full significance of economic and monetary union has not been grasped. It means exactly the opposite of what many appear to believe: it absolutely does not mean subordination to the Deutschmark and the Bundesbank. What it does



do is introduce a system in which a joint monetary authority coordinates the creation of currency. It is a system in which, as members of the Central European Bank, each country will manage a common monetary sovereignty. People have also failed to grasp the full significance of the Central European Bank which will have the task of guaranteeing the monetary stability that is such a vital asset. We all know that in order to ensure stability the Bank will have to be independent of governments and will not be entitled to finance public spending deficits by printing money. We are convinced that this is a vital guarantee for correct economic management: lacking the power to finance public expenditure by way of inflation, governments will be forced to use the fiscal lever and to answer for how they use it to the electorate. I really feel this should be seen not as a favour to the bankers, but as a step forward towards more transparent, more responsible management of public affairs.

There is also another aspect to be borne in mind. The stability guaranteed by a common currency is an essential lever for growth. It relates to the short- and long-term certainty of monetary values. What this means is that by reducing the threat of inflation it will be possible to protect long-term savings and enjoy lower interest rates. In this context, the long-term planning of manufacturing investments and the creation of a continental capital market become far easier to achieve. Let us not forget that even today the volume of European savings equals that of the USA and Japan put together. So far, those savings have been unable to express their full potential, since their deployment has been impeded by the multiplicity of currencies and the national financial systems that have managed them. The creation of a European financial system around the single currency would enable Europe to regain its role as one of the world's great financial centres, to the enormous benefit not only of the EC economy, but also of the economies of Eastern Europe and indeed the less developed areas of the world in general.

Against these welcome prospects, we must also underline the fact that the Maastricht Treaty does have its weaknesses and deficiencies. The first is surely the excessively

lengthy time-scale set for the transition to economic and monetary union. As the recent, severe currency crisis has demonstrated this lengthy time-scale can be a destabilizing factor. We feel that in order to stabilize the financial markets, it will be necessary to speed up the move into the final phase of monetary unification, at least among those countries that are close to achieving the conditions of convergence laid down at Maastricht. This does not mean authorizing a two-speed Europe. It means accelerating the pace of the stages envisaged by the Treaty, which does, incidentally, authorize countries to reach the final stage at different times, as each economy permits. We are convinced that the creation of a more advanced nucleus inside the Community would be a powerful stimulus for all the other countries which have to work hard to catch up and remedy the inadequacies that have contributed to the current crisis in the European Monetary System. However, while a temporary asymmetry may be permissible at economic level, there can only be one speed politically, and that can be achieved first by confirming the full participation of all EC countries in defining the rules and *modus operandi* of the central monetary authority.

Secondly, it can be achieved by reinforcing our common institutions in such a way as to overcome a second weakness in the Maastricht Treaty, which lies at the root of much of the opposition that has emerged in recent months. I am referring to the democratic shortcomings. A great deal has been said about bureaucratic excesses and the centralization of Community decision-making. People have also brought up the principle of subsidiarity as a guarantee of the autonomy and interests of individual countries. We do not feel that the European Council in Birmingham substantially clarified these matters.

But we are also convinced that the current debate is circling round a fundamental problem, namely the very nature of the Community and whether, in fact, it ought to be a Community of governments or a Community of States and citizens. Essentially, it is a question of establishing the nature of the Union and the role of the European Parliament in it. It is a fact that many vital aspects of Europe's econ-



omy, security and foreign policy can already only be addressed by the Community's central structures. The democratic gap exists because there is at present no political organism capable of effectively representing the general interests of European people. We feel that the European Parliament should become thoroughly involved in decision-making processes together with the Council. If this is to happen, we shall need a further revision of the Treaties which could be done by bringing forward the intergovernmental conference scheduled for 1996. It is a question of adding the move towards political union and the creation of a federal union to the Community agenda. Indubitably this would be an important step along the way to the creation of a democratic, supranational European power structure that would prevent the two-speed economy from reversing the integration process. There are, of course, other ways of eliminating the democracy shortcoming. Firstly, by making the Community's normative process clearer and more transparent to Europe's companies and citizens. Secondly, by intensifying the dialogue and communication with the Community's citizens.

Here, an important role might be played by the creation of truly European political parties that would not be the mere sum of a string of national parties as is the case today. This remains of course a distant prospect, even today. Nevertheless, it is imaginable that the European elections of 1994 might help to stimulate a development in that direction. However, beyond all that, beyond the specific problems that lie in the way of Europe's unification and institutions, I do feel that we currently have to overcome an obstacle that may be even more important and is certainly more insidious. The fact is that at the present time what looms over the European unification process are the fears being expressed in many places about the possibility of a German hegemony over the other Community countries.

On the one hand, we are witnessing the re-emergence of shades and ghosts from a now distant past. On the other, there is the fear that Germany's economic leadership could come powerfully to condition the economic policies of other countries. Our own opinion is that such fears are greatly

exaggerated. The history of the past 45 years teaches us that Germany has endowed itself with a solid democratic system that is one of the world's most advanced in terms of its constitutional principles and guarantees to its citizens. At the same time, despite the social tensions of recent months, there is absolutely no sign that Germany wishes to distance itself from the process of constructing Europe. Indeed, as all the German political parties agree, Germany now has an even greater need of this link with its European partners.

The rest of Europe cannot close its eyes to the fact that in recent years, Germany has felt the impact of the collapse of Eastern Europe's communist regimes more than any of us. It is not merely a question of its costly commitment to the 17 million citizens of the former German Democratic Republic. There is also the pressure generated by the inflow of huge numbers of refugees from Eastern Europe and from Asia. In the first six months of this year, 600 000 immigrants entered Germany. We have to ask ourselves what other country could have stood the strain without suffering serious political and social traumas.

We Europeans need to be perfectly aware that in a closely interdependent world like our own, no one can feel protected from such events and that we are all liable to suffer the impact of conflagrations like the one that has exploded in the East. So Germany's problems are also Europe's problems. It is a European problem to share the economic price Germany is paying for its own reunification and for its assistance to immigrants. To refuse this duty would be to swim against the tide of history. However, while we recognize Germany's needs and our own obligation to support its internal unification, we must also remind Germany of its responsibilities to Europe. Responsibilities we feel sure its rulers are well aware of.

In this context, while it is surely healthy for the Bundesbank to remain independent of the political authorities, we also feel that in carrying out its institutional mandate, the Bundesbank must also remember that sound management of the German currency can only be achieved in line with



orderly, balanced growth of the Community economy. So, while Europe is required to give concrete signs of its involvement in Germany's internal problems, we feel that equally concrete signs must emerge from the economic policy of the German Government, which cannot simply put aside the problems that are hampering greater growth by the economies of our continent. In this fair division of duties that is the prerequisite for any fair sharing of rights, Italy is currently faced with a particularly arduous task.

First and foremost, the task of putting more Europe into its deeds as well as its word. We all know the first task of all is to restore our country to health. That is the underlying sense of our current difficulties; of the sacrifices we shall inevitably have to accept, of the pressure we in business are putting on our government and our parliament in order to make them do what has to be done and to do it quickly. I am disconcerted by the attitude of those who would like to keep Italy out of Europe and illude themselves that we can go on living in debt. I am disconcerted by those who propose to re-establish barriers to the free circulation of our savings and dream of reviving the subordination of our monetary authority to the politicians. I am disconcerted by the attitude of those who claim that a growth policy based on enormous waste of resources, on the continuing existence of corporative privileges, on the degeneration of the welfare state can go on and prosper. The currency crisis of recent months has clearly shown that Europe is no longer prepared to swallow that way of running the country. So we must develop the conviction that the narrow path we are treading has only one unacceptable alternative: the closure of our borders, higher inflation and higher interest rates. Not growth, therefore, but 'stagflation' leading to the decline of our country and its expulsion from a club we have long illuded ourselves we could belong to without paying the full membership fee.

The target we must keep in our sights is, therefore, a return to the European Monetary System in as short a time as possible. This return will have to be based on a new parity for the lira that enables us to set Italian interest rates at a level close to those of our main competitors, Germany in

particular. Together with the maintenance of a rigid budget and incomes policy, this is an indispensable condition if we are to regain our credibility in international markets and if we are to effectively stoke the flames of economic recovery in our country. At the same time, the pact that binds us to Europe does not entitle us to disassociate ourselves from it at what may be one of its more critical times. Looming over Italy, today the weakest member of the Community, is the responsibility not to deprive the European construction process of our support and our contribution. That responsibility to our partners is even more serious than our responsibility to ourselves. In the present situation, we are not entitled to pull back, to give in to despair, to accept as inevitable an even worse future. We possess the abilities and the potential needed to overcome the country's present crisis and to take our rightful place in our European home.

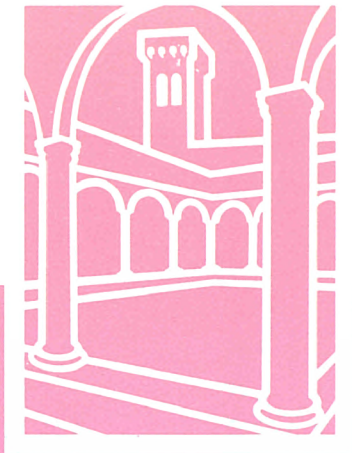
Ladies and gentlemen,

The construction of Europe is a process that began long ago. The process has not always been easy. Often, indeed, it has run into resistance, opposition, obstacles. Yet on each occasion it has been able to gather its strength and find the energy for a renewed effort. And so far it has always achieved its fundamental objectives: namely to guarantee peace and growth, in democracy, for the European peoples. Today, Europe is facing major challenges, perhaps greater than any it has ever faced in its history. They are the challenges of economic growth, the single currency, the progressive surmounting of national sovereignties, and political unification. However, in an increasingly interdependent world, Europe is also being challenged to contribute to the creation of new dealings between peoples, new dealings that are based on peace and on growth. The construction of Europe demands a great act of political creativity. The idea of unification is not new. Over the centuries it has sometimes meant an imperial vision of domination and the hegemony of one nation over others. What we are now attempting to build is a Europe



based on consensus and on popular support. That experiment is so far unique in human history. It is different from the experience of the great empires of the past and also different from that of the United States of America, a country which is, nevertheless, often quoted. The United States was the outcome of a common language, law and political tradition and even then union was only achieved after a civil war.

Real Europe, the Europe that is the final destination of that arduous journey, is a great nation in which the various traditions, local histories and languages come together in a beneficial exchange of values and in the recognition that we all share a single cultural root. It is a cultural root that over the centuries and despite fratricidal struggles has made Europe the key element of world civilization. It is that central position we have to regain now. Naturally we shall reject all suggestions of world dominion, of colonialism, of racial superiority and we shall try to stand side by side in equal dignity with the other great cultures that emerge in the global confrontation as the leading force for the civil progress of all peoples. In pursuing this objective, European cultural institutions like this one have a primary role to play. Because it is institutes like this one that must produce the people who will form Europe's future ruling class. People who, whatever their national or regional origins, take their greatest pride, a pride they are committed to disseminating among all citizens, in the feeling that they belong to a greater, common nation.



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