A common currency for a more united Europe?

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1) The success of the ECSC (1951) and of the MEC (1957) was so great that the complete abolition of protective duties arrived in July 1968 whereas it had been planned for 1970: the advantages of integration thus far outweighed the disadvantages.

At the same time, the need to create a single currency in Europe emerged because the integration of markets and the formation of a single political entity could no longer be achieved without a single currency, i.e. European integration could only be achieved if:

a) a single market existed in which "competitive devaluations" were not possible: if one's own currency was worth less, it was easier to export because one's own goods cost less on foreign markets;

b) if a single monetary policy was implemented that was attentive to the needs of the entire community, finding a quantity of circulating money and an interest rate on bank deposits and loans that would allow economic development.

In fact in all the confederal countries (USA, Australia, Switzerland, etc.) there is a single currency and the national central bank controls its fluctuations in value and its effects on the economy.

2) In the 1960s, the problems connected with the functioning of the Gold Exchange Standard (an international monetary system characterised both by almost fixed exchange rates, i.e. a fluctuation of no more than 1%, and by the use of the US dollar as the only currency convertible into gold) became more and more acute.

This made the need for a European currency ever stronger, both for use in the ECM and as an alternative to the US dollar as a reserve currency. But the new currency had to be the result of a real harmonisation of the economies of the EEC member countries: the single currency also implied the loss of national sovereignty over monetary policy, and it was necessary to establish to whom this power should be transferred. Those in favour of the single currency were in fact in favour of giving much more power to the Community institutions and reducing that of national governments.

3) At the end of the 1960s, attempts to find a solution to the growing tensions in the money markets and to the gloomy prospects highlighted by Triffin's dilemma (if only one currency acts as a currency reserve, the consequence will be a medium-term collapse of the international economy) led on the one hand to the IMF creating Special Drawing Rights as an alternative reserve to the dollar (for which the IMF had a special reserve currency), and on the other hand to the creation of the Special Drawing Rights as an alternative to the dollar. on the one hand led the IMF to create Special Drawing Rights

as an alternative reserve to the dollar (the outcome of which would not be satisfactory), and on the other led the EEC countries to accept significant devaluations (French franc) and revaluations (German mark), which made the creation of a single currency to protect the Community market, deprived of all protective duties since 1 July 1968, increasingly urgent. Those in favour of a common European currency emphasised that this was the only possible solution to prevent the European Economic Community from suffering the negative effects of the collapse of the current monetary system, which was considered increasingly likely.

d) In 1969, one of the world's leading economists, Friedman, pointed out that the single European currency only made sense if there was a European monetary authority with powers that could be translated into measures for economic development and full employment. In the absence of a strong central power at community level (i.e. the 'United States of Europe'), the presence of a common currency could in fact cause damage to the community economies because of the imbalances and speculation that resulted from the existence of economic gaps between member states. The supporters of the common European currency saw a confirmation of the close connection between the strengthening of the Community institutions and the creation of the new currency.

In October 1970, the Werner Plan was born with the aim of achieving a single European currency in 1980. The starting point was the progressive stabilisation of the exchange rates of the countries' currencies, but the establishment of a single central bank was not envisaged: the divisions between the six countries of the European Monetary Union ("monetarists" versus "economists") were slowing down the constitutive process. The end of the gold exchange standard (August 1971) and above all the oil shock of autumn 1973 (with the resulting stagflation and the introduction of controls on capital movements) led to the plan being abandoned.

Since the economic policies implemented by European countries no longer had any common objectives, during the 1970s the differences between those who gave priority to keeping interest rates and inflation low and those who instead let them rise by trying to revive the economy through temporary financial imbalances became more pronounced: this in fact made the realisation of a common European currency impossible, at least until the economic situation had finally improved.

4) In the 1970s, in a context of fluctuating exchange rates, the problem of how to limit 'competitive devaluations' and how to make the Community institutions work, particularly the CAP (the 'green currencies' and 'compensatory mounts' were born) and the EIB (loans were only granted in 'hard currencies'), became more acute.

The solution (the common currency) was not feasible in a short time and therefore the Community institutions tried to deal with the problem with "substitutes": a) in 1972 the European monetary snake

was created, which tried to reduce the fluctuations of the exchange rates between the European currencies; b) in 1979 the European monetary system was created, which had its fulcrum in the ECU (European Currency Unit) the "virtual" (or "scriptural") currency usable in international exchanges, whose value was given by a basket of all the currencies.

In the EMS there were mechanisms to limit cyclical fluctuations in the value of the currencies in the basket: in the event of structural changes in value, realignments could be made that prevented the central banks from unnecessarily reducing their foreign exchange reserves.

In times of crisis there was obviously a need for a single central bank that could act in the common interest and not in the particular interest of individual states.

The problem had remained unchanged since the 1960s: in order to have a common monetary policy (and eventually a common currency) it was necessary to strengthen the EU institutions by reducing the sovereignty of the nation states.

5) In the 1980s, the institutional reforms introduced by the Single Act, and in particular the liberalisation of trade, i.e. the creation of a single market in which goods, services and capital circulate freely, brought back the need to create a single currency available to all European citizens. In 1988 the Delors Committee was set up, consisting of the governors of the national central banks and three experts and chaired by the President of the European Commission. The aim was to draw up a plan to achieve EMU, or Economic and Monetary Union, the path to which was ratified in Maastricht in 1992.

It set parameters that European countries had to meet in order to join EMU:

a) Inflation rate not more than 1.5 points above the average of the rates of the three best-performing member states,

b) Budget deficit/GDP ratio of no more than 3%;

c) Public debt of no more than 60% of GDP;

d) Interest rates of the banking system not more than 2 points above the average of the rates of the three most virtuous member states.

Two obvious limitations immediately emerged, namely: 1) those who entered the EMU (or Eurozone) effectively renounced a national monetary policy in the absence of a strong European central government; 2) the central bank responsible for "watching over" the single currency and guaranteeing price stability did not have many of the powers normally attributed to central banks.

In 1998 the ECB was created and the following year the euro came into force (but it remained 'virtual/written' until 2002). The single European currency had finally arrived, but the Community institutions had not been given sufficient powers with respect to the national powers, whose 'non-

virtuous' policies could only be sanctioned a posteriori (with the risk of triggering dangerous recessionary effects). Moreover, not all EU countries joined EMU or did not have currencies closely linked to the euro: they were not countries with weak currencies, i.e. the possibility of "competitive devaluations" had been left to important EU members, creating a dangerous precedent for the functioning of the single market.

6) The limitations of EMU that were evident from the birth of the euro were:

a) the ECB could not freely issue money (as all central banks have always done) and therefore the Eurozone was "physiologically" more subject to currency speculation;

b) different currencies circulated in the EU and those outside the eurozone could devalue, creating an unfair (but entirely legal) competitive advantage over EMU members;

c) two of the Maastricht parameters were based on percentage values linked to GDP and therefore their respect could lead to aggravating socio-economic crises due more to exogenous events than to the non-virtuous behaviour of institutions and citizens;

d) the parameters in force, i.e. the definition of 'virtuous' models, were not the result of objective economic rules, but were essentially based on the 'German economic philosophy' (strong fear of inflation and therefore high interest rates) and therefore had the possibility of amplifying the negative effects that the adoption of a strong common currency in a community of states with different economic-financial capacity can usually have on the weaker countries belonging to that community (in the absence of effective control and redistribution mechanisms as happened in the case of Greece, which was previously granted everything, starting with entry into the eurozone without meeting the requirements, and then punished it to the detriment of all EMU citizens);

e) in the face of serious exogenous crises and political divisions among EMU member states (which were also incapable of implementing common or at least coordinated fiscal policies), the ECB was forced to act, in accordance with its mandate to safeguard price levels, to avoid excessive deflation and to implement first the LTRO and OMT and then the better-known QE (quantitative easing), i.e. the purchase by the ECB itself of European countries' public debt securities or bonds issued by companies with registered offices in the EU, in order to guarantee the financing of states at minimum interest rates, an essential factor in ensuring support for the weaker European economies and more generally in minimising speculation against the euro.

7) The eurozone is therefore not a perfect area that guarantees growth in the income and quality of life of citizens, also because it continues to have significant limitations: however, there are no better alternatives, i.e. without the protection of the euro and, more generally, of the Community institutions,

the individual European states are destined to become increasingly subordinate to the economic policies of the great powers (the USA and China above all). This becomes a problem not only from an economic point of view, but also in relation to the protection of rights that are considered fundamental in Europe and are not so elsewhere (think of US welfare and freedom of expression in China).