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THE EUROPEAN PROJECT BETWEEN PROGRESSIVE EVOLUTION AND SUDDEN DISCONTINUITY: A LONG TERM HISTORICAL ASSESSMENT

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ABSTRACT

The progress of European integration has to be judged through the lens of a very long history and without a fixed idea of the final point of arrival. The evolution of common European policies in some key areas shows that, despite the uneven progress, real massive advances have been achieved over the long term, following a specific European path that cannot be expected to conform to previous experiences elsewhere. The long story of the evolution of European federalist ideas is briefly considered.

The Euro, the European Central Bank and its instruments of intervention are some of the most significant advances in the integration process but also some of the most controversial. They represent the point of arrival of several centuries of monetary unions attempted or practiced throughout Europe and now forgotten. The inadequacy of the budget and of the fiscal resources of the Union remain a major gap in the construction of Europe, despite the post pandemic program of New Generation EU.

Important results have been achieved on the freedom of movement for EU citizens inside the Union. Common rules have also been established for non-EU migrants but the integration of policies on new flows and on refugees still fails to materialise when faced with sudden surges in population movements.

Keywords: Europe, Monetary Union Budget, Immigration.
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Introduction

The progress of European integration has to be judged through the lens of a very long history and without a fixed idea of the final point of arrival. In this article an examination of the evolution of common European policies in some key areas will be attempted, to show that, despite the apparent slow pace and uneven progress, real massive advances have been achieved over the long term, following a specific European path that cannot be expected to conform to previous experiences elsewhere.

A first paragraph will show that some prominent federalist countries (Switzerland, Germany and the USA) have reached the current form and equilibrium after many centuries, after repeated institutional reform, conflict, sometimes war. Other federations instead fell rapidly and disappeared from history.

The long story of the evolution of European federalist ideas is briefly considered from the end of the eighteenth century to the creation of the EEC and EU, highlighting steps backwards and periods of paralysis, followed by rapid progress. The transformation of military conflict into intergovernmental or parliamentary discussions, however, is the crowning achievement of the baroque architecture of united Europe.

The Euro, the European Central Bank and its instruments of intervention are some of the most significant advances in the integration process but also some of the most controversial. They represent the point of arrival of several centuries of monetary unions attempted or practiced throughout Europe and now forgotten. Monetary and fiscal policies remain ever controversial but keep evolving as the challenges of repeated economic crises force the Union to change continuously and rapidly its direction. The inadequacy of the budget and of the fiscal resources of the Union remain a major gap in the construction of Europe.

Another significant field where important results have been achieved is the freedom of movement for EU citizens inside the Union. Common rules have also been established for non-EU migrants but the integration of policies on new flows and on refugees still fails to materialise when faced with sudden surges in population movements.

1. A comparison of timing: The German, Swiss and American federations

In historical terms the European Union has developed new institutions, powers and policies relatively fast from the 1950s to today, considering the strong ingrained traditions, national cultures, interests, and institutional resistance. To prove the significance of such a statement it is useful to remember how much time, conflict and compromise it took to form the most successful examples of current federal states, in Germany, Switzerland and the USA.

1.1. The starting point for the creation of some form of confederation in Germany is the foundation of the Holy Roman Empire in 962 AD. It involved a complex set of loose institutional arrangements, including a confederate parliament or Diet in Regensburg from 1594 to 1806, whose role most of the time was that of a congress of diplomats, with limited legislative achievements, dealing with independent member states, including the Habsburg Empire. It was briefly replaced by Napoleon I with the client Confederation of the Rhine (1806-1813), which excluded Austria, Prussia and Hanover. The Congress of Vienna in 1815 re-created the German Confederation, which included parts of the Kingdom of Prussia and of the Austrian Empire. The Confederation developed among some of its members more advanced forms of economic cooperation, including a customs union (Zollverein in 1834) and a monetary or coinage union (Münzverein in 1838). During the 1848 revolution, democratic nationalists pushed for national unification in a federal state with a liberal constitution but were defeated. The old Confederation continued until 1866, when Bismarck's drive for a centralised Prussian State and the expulsion of Austria from the Confederation caused a war between Prussia and Austria, with the latter allied with most other German states. The Prussian victory at Sadowa permitted the creation of the North German Confederation, entirely dominated by Prussia. It was joined by the remaining independent German states in the German Empire after the victory in the Franco-Prussian war in 1870-1871. The German Empire was a centralized state with an Emperor (the King of Prussia), a national Parliament (Reichstag) and a Federal Council (Bundesrat) but was composed of 26 states or territories with their own governments and sovereigns, including the King of Bavaria and the King of Saxony, each with highly diminished powers. Defeat in World War I destroyed again the German institutional arrangement. The Republic of Weimar replaced the Emperor with a powerful President of the Reich, elected for seven years and capable of appointing a government without a parliamentary majority. A bicameral Parliament with a federal component was maintained (the Reichstag and the Reichsrat), and each Land kept its specific government. Hitler used the powers of the President and the Chancellor to subvert democracy and federalism and create a hypercentralised dictatorship. The constitution of the Federal Republic of Germany in 1949, extended to the whole of current Germany in 1990, restored an arrangement similar to the Weimar republic, reducing the powers of the President in favour of the Chancellor, but maintaining a bicameral federal Parliament (Bundestag and Bundesrat), an important role for the governments of the different Länder, while facilitating the creation of stable democratic parties with an electoral system that prevented paralysis through a large number of small parties in Parliament, thanks to a substantial threshold to obtain Parliamentary representation (at least 5% of the votes or a certain number of direct mandates with more than 50% of the votes).

1.2. Switzerland was formed through a series of accessions to the old Swiss Confederation, created by three cantons in 1291 and enlarged repeatedly in the course of several centuries, until 1815. Even for such a long lasting and successful confederal state, a short civil war was necessary in 1847 (the *Sonderbund war*) to block a secession of conservative catholic cantons and reinforce the federal link, giving more powers to a national Parliament, introduce a Constitution, and unify the currency.

1.3. The creation of a federal system in the USA was more rapid than Germany or Switzerland but not without controversy and with lasting conflict regarding the State's rights as opposed to those of the Union and the Federal government. Several British colonies were formed in the seventeenth century in North America. The declaration of independence of the 13 colonies in 1776 was followed by the first Constitution approved by the States in 1781. As Luigi Einaudi noted, the first US constitution was of a confederate type, with limited links between the thirteen states, guaranteeing their sovereignty, liberty, independence, and all powers not explicitly delegated to the federal government. Such constitutional arrangement therefore threatened to dissolve in the first few years of conflict and anarchy.[1] A second constitution had to be approved by the national convention in 1787 and took effect in 1788, rejecting the union of sovereign states in favour of an act of will, mentioned in the preamble, to "form a more perfect Union, establish Justice, ensure domestic Tranquillity, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty". The federal link was not always easily defined and the Civil War of 1861-1865 was fought to prevent the secession of a Confederation of southern states intent on preserving slavery and refusing what they perceived to be an unconstitutional enlargement of the powers of the Federal government at the expense of the states. After the Reconstruction, southern states repeatedly came out to reaffirm 'states' rights' against what they perceived as encroachment of the Federal government. This concerned

[1] Einaudi Luigi (1945).

particularly their policy to reimpose Segregation against Afro-Americans from the late nineteenth century onwards through local legislation or practices. It has taken several decades of civil rights strife to assert a federal role in defending voting rights and equality of all citizens in terms of access to public services, education, housing, transportation, public and private employment and so on. A strong division of voting behaviours has endured between the North and the South even after the massive gains of civil rights in the 1960s and the transformation of the South from a bastion of Conservative southern democrats to a Republican stronghold, in response to the adoption of progressive legislation under Lyndon Johnson.

1.4. It is also important to remember that so many other attempts to create supranational federations have failed to ever materialise, or were terminated after more or less brief periods, as was the case with the Federal Republic of Central America (1823-1841), the USSR (1922-1991), Yugoslavia (1918-2003), the Union of South American Nations (created in 2008 and abandoned my most of its members by 2019). Other more recent federations/confederations are still in a much earlier phase of their development, as the African Union (created in 2002).

2. The long road to political union

2.1. Europe has continuously progressed between integration and disintegration, from the construction of the Roman empire up until 1945, passing from a number of more or less short-lived empires (Carolingian under Charlemagne in the ninth century, Habsburg under Charles V in the sixteenth century, Napoleonic in the early nineteenth century), not to mention the expansion of the Nazi-Fascist Axis in 1938-1945.

The obvious originality of the new phase of political and foreign policy integration, started in 1950, is that it was non-dynastic, peaceful and democratic. It has taken place between states which decided to join on a voluntary basis, under agreed legal rules, with a programme of progressive and incremental developments of the tasks of the Union. This integration has accommodated the political traditions of liberal democracy, Christian democracy and social democracy, incorporating new political orientations consistent with the previous ones, in particular the green movement.

The early ideas of European political federalism were centred around a diplomatic idea, seeking to establish peace through arbitrage rather than war, as suggested by the Abbé de Saint Pierre in 1713 in his *Projet de traité pour rendre la paix perpétuelle en Europe* or in 1795 by Immanuel Kant, who introduced a larger concept of a federation of nations, formed as republics and seeking perpetual peace.[2] In 1814 Henri de Saint-Simon suggested a pan-European Parliament to achieve a stable peace between France and the UK, through a liberal entente. In 1848 the French writer and politician Victor Hugo developed the theme of the United States of Europe. He was followed by several other French (the socialist Proudhon, the liberal-catholic Parieu)[3] and Italian prominent figures (Mazzini, Cattaneo, Garibaldi), actively propagating the concept of democratic Europe, but without a massive following and proposals remaining underdeveloped.

The agitation for a creation of some sort of United States of Europe or a Federation of European States (names and definitions varied substantially through time and according to each proponent) grew after WWI.[4] Luigi Einaudi criticised in 1918 the prospect of a League of Nations, because only the fall of the absolute dogma of national sovereignty could end the cycle of wars.[5] Richard Coudenhove-Kalergi created in 1922 the Pan-European League in which he involved a substantial part of the European elite, including the French Prime Ministers Herriot and Briand, the Czech Foreign Minister Beneš, and the Austrian Prime Minister.[6] The Pan-European League focused initially on the creation of a political union and a customs union.

The federalist agitation peaked between the wars just before the Great Depression set in and destabilised European democracies. In 1929 French Prime Minister Aristide Briand addressed the League of Nations arguing that "some sort of federal link must be forged between people geographically so close, as the European peoples are", supported by the German Foreign Minister Gustav Stresemann, who argued in favour of launching the unification of currency and postal systems. It is worth noting, to remember the persistence of some national attitudes, that the British reaction was mostly negative, based on the persistent idea that the UK had a destiny reaching beyond Europe and the fear of a weakening of its special relation-

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2 Sainte Lorette (1955); Sweeney (2019: 42-43).

3 Felix Esquirou de Parieu (1815-1893) is little known today but played a key role in the 1860s' temporary progress towards European economic and monetary federalism. He was a lawyer, a member of parliament, cabinet Minister and during the French second empire, as vice President of the Council of State he was the architect of the French policy which led to the creation of the Latin Monetary Union in 1865 during and international conference which he chaired and then to propose its transformation into a European Monetary Union at the international monetary conference of Paris in 1867 which accelerated the adoption of a form of international gold standard. He continued to write in favour of monetary unification and proposed in 1870 a European Union, Parliament and Commission. Einaudi Luca (2001: 47-54).

4 Stirk (1989: 17).

5 Einaudi Luigi (1948).

6 Coudenhove-Kalergi (1923).

ship with the USA. Churchill argued that "for what concerns England, we are with Europe, but not of Europe, we are linked but not comprised".[7]

The ravages of WWII were of course the reason why national reluctance to federalist ideas was overcome by the six founding states of the European economic community in 1957, in order to stop the infernal cycle of wars destroying Europe, its liberty and its citizens. Already in 1941 the Italian political detainees confined by the fascist regime in the island of Ventotene, Altiero Spinelli and Ernesto Rossi, produced the Manifesto of Ventotene; Luigi Einaudi stepped up his call for a united political Europe in 1944, with a role in economic policy, in communications, transportation, currency and international trade, and autonomous taxing powers, including both customs duties and a specific income tax charge. A single European currency and Central Bank would simplify transactions, reduce costs and deprive national governments of the ability to debase the currency and create inflation through excessive budget deficits.

2.2. The institutional steps of European integration after WWII were not linear, moving from the initial developments required to manage Marshall plan aids, including the European Payment Union (EPU) in 1950 and the Schuman Declaration in the same year, leading to the creation of the European Coal and Steel Community (ECSC) in 1951. In 1954 the refusal by the French Parliament to approve a European Defence Community was perceived to be a major step back. That setback on the military side did not prevent a more significant progress with the creation in 1957 of the European Economic Community (EEC) and the European Atomic Energy Community (EAEC), led by their respective Commission, which were merged together with the High Authority of the ECSC in 1965 to form a single Commission of the European communities. A Common Assembly of the European Coal and Steel Community was created in 1952, with mere consultative powers, and then enlarged to become the European Parliamentary Assembly in 1958, which in turn became the European Parliament in 1962. The latter received some powers and true democratic status only with the first European elections in 1979. Parliamentary powers have been limited by the monopoly of legislative initiative allocated to the European Commission and the political initiative of the European Council with its intergovernmental approach. The European Parliament received progressively a growing role in determining the budget and in the legislative process. In the 2019 European elections an attempt was made to reinforce democratic accountability in the process leading to the appointment

[7] SAINTE LORETTE (1955: 87).

of the President of the European Commission by the European Council. The idea was that voters would implicitly choose the leader of the winning parliamentary party group in the European elections as the new head of the Commission (the so-called model of the German *Spitzenkandidat*). This proved to be a missed opportunity as the final choice of the European Council was not the candidate put forward by the winning European Popular Party (Manfred Weber) but another unannounced German candidate (Ursula von der Leyen).

Despite a number of additional steps taken, the EEC encountered a phase of stasis in the 1970s and did not progress substantially until the mid 1980s, when the combined Franco-German leadership of Mitterrand-Kohl and Delors, together with the collapse of the communist regimes in Europe and the reunification of Germany provided a strong motive and opportunity for further integration.[8] It was considered urgent, to defeat monetary instability after the fall of the Bretton Woods monetary regime in the early 1970s, to accelerate economic growth through the creation of a single market. Leaders also felt the need to engage a new united Germany and prevent the risk of a drift eastwards of its centre of interest. This produced the transformation into the European Union, the Single Market in 1993, the Schengen agreement on free movement and common external borders in 1995, and economic and monetary union in 1999 through the Euro and the European Central Bank.

Further progress was concentrated for some time on the enlargement of the EU towards central and eastern Europe and the Mediterranean, to integrate former communist countries in the EU, even if it came at the price of reducing the cohesion of the block (the apparent conflict between 'Old Europe' and 'New Europe', cultivated by the Bush Administration during the Iraq war in 2003). New crises contributed to new waves of innovation, in 2008-2009 and 2011-2013, as we will discuss in a later section. The Covid Pandemic crisis of 2020-2021 has also caused a new discontinuity, hopefully towards integration through an enlarged budget and with increased attention to ecological sustainability, digital transformation and solidarity. The striking difference between 2020-2021 and the response to the financial crises of 2008-2013 has been that austerity has been discarded in favour of a choice to create a common European debt to fund transformative investment to spur sustainable economic growth and social cohesion.

Despite periods of immobility or slow development, and despite the apparent inadequacy of some policy responses, the long view of the EU

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[8] Olivi (1998).

shows that the advance has been impressive.[9] The natural tendency of organizations to expand their powers and their influence has helped to address every new crisis through the creation of new components of the system (institutions and policies). A radically negative assessment of the EU comes generally either from a predetermined and unrealistic vision of the final destination of a complete European federation or, in the opposite direction, from a prejudice against anything which reduces the power of national governments and weakens absolute national sovereignty.

3. The last of a long line of monetary unions

While controversial in terms of policy results and loss of policy instruments, European monetary unification is one of the most advanced forms of federal integration in Europe so far, thanks to the Euro, the European Central Bank and the various monetary instruments which it has developed over the last two decades of turmoil.

Money is one of the earliest symbols of national sovereignty and a concrete basis for its financial independence. It is also one of the main tools of economic policy to support the level of economic activity, manage inflation, but also the instrument to simplify transactions and reduce their cost. Therefore monetary unification has been a constant corollary of political unification between different states and of advanced federal states, while confederations have often kept multiple diversified monetary systems, at least initially (the Helvetic confederation until 1847, the German Confederations until 1872, the initial US colonies until 1787).

Despite some forms of historical amnesia, monetary union has been an early form of cooperation, which has grown very slowly over the centuries, with a pace incompatible with the modern urge for speed, frequently concluded with failures, followed by renewed agreements later on.[10] Various German states have worked on that basis from the fourteenth century, beginning with a monetary league between the Hanseatic cities in 1379, a Monetary Federation of the Rhine in 1386, a South German monetary convention in 1566 and the Austro-German monetary union in 1753.[11] These monetary agreements did not eliminate local coinage systems, but reduced their number, making them easily convertible and exchangeable at no cost, with a predefined exchange rate, following common rules of issue.

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[9] Verhofstadt (2017); Armellini and Mombelli (2016).

[10] Einaudi Luca (2000: 90-104).

[11] Droulers (1990: 39-41).

The length of such coinage unions was highly variable and depended on political and diplomatic circumstances as well as on the restraint adopted my member states regarding the abuse of seignorage and debasing their coinage within the union. They did not include paper currencies until the Scandinavian monetary union (1872-1920). During the Napoleonic period, the introduction of the French monetary system of the Franc germinal had been planned in parts of Germany, beginning with Westphalia, while projects were prepared for Baden, already used in France, current Belgium, most of the Italian states and the Helvetian Republic, within an early project of European monetary integration explicitly pursued by Napoleon I.

After the fall of the French imperial project, a free trade agreement was passed between several German States (including Prussia and Bavaria) in 1834, followed by a coinage union, the Münzverein in 1838, between a thaler area in the north and a florin (gulden) area in the south linked by a fixed exchange rate of 1 to 1,75 and a silver standard. It was the first monetary union covering the whole of Germany and preceded by more than 30 years' political unification. The Austrian Empire joined the Münzverein in 1857, but was forced to leave it ten years later, after the defeat by Prussia in 1866. Austria chose for a time new geopolitical options and concluded a monetary agreement with France. This facilitated the transformation of the Thaler-Gulden German monetary union into a full German national currency, the German mark in 1872, after the creation of the German empire.

One of the effects of the Swiss civil war of 1847 was a full monetary union within a reinforced Confederation and the creation of the Swiss franc as a substitute to the various metallic currencies issued by the different cantons. Like its predecessor, the franc of the Helvetic Republic of 1798-1803, the new currency was identical to the French franc. The cantons initially retained the right to issue paper currency, centralising it only in 1907 with the creation of the Swiss National Bank.[12]

The Latin Monetary Union (LMU), which lasted from 1865 to 1926, was the consequence of the expansion of markets and of the process of standardisation which accompanied the industrial revolution.[13] The creation of a stable Franc Germinal in 1803, extended by Napoleon I to France, Belgium and continental Italy, together with the Swiss monetary unification of 1850, had created a common basis for intercirculation for silver and gold coinage between these four countries, given that the French, Belgian and Swiss francs had the same intrinsic content as the Italian lire

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12 Vanthoor (1996: 13).

13 Einaudi Luca (2001).

(5 grams of silver per franc-lire and 6.42 grams of gold per 20 francs-lire). The developments of bimetallism had made silver more scarce in relation to gold in the 1860s, requiring various remedies to keep it in circulation, creating differences between the four countries. In 1865 a monetary convention was signed between these four to organise a monetary union (defined as 'Latin' by the British press, to highlight its incompatibility with the UK), with common standards and rules, including a limit of issue per inhabitant. The French government attempted to turn it into a much larger political project for a European international currency, with some early success. This included a favourable international monetary conference in 1867, involving German states, the UK, Spain, the Scandinavians, the USA and the Ottoman Empire, followed by the enlargement of the monetary union to Greece and applications to join from most of Europe, excluding the UK and the German states. Some southern German states and the British Chancellor of the Exchequer considered the possibility of joining but abandoned the idea after the refusal of France to drop bimetallism in favour of the gold standard, and after the Bismarckian success in creating a united Germany with its own national currency. The LMU continued its existence, struggling to update its rules following the scandal of overissue by the Pontifical State, and the consequences of Italian and Greek financial difficulties leading to inconvertibility of their paper currencies and to a government default for Greece in 1893. Despite the absence of a full monetary union and of a common bank of issue, a limited LMU continued until a major shock (WWI) provoked such an economic divergence that the restoration of post-war national monetary convertibility resulted in the return to purely national separate currencies, ending the LMU in 1926.

The Scandinavian Monetary Union (SMU) of 1872-1920 was created to proceed towards a local monetary integration and the gold standard after the failure of the attempt to turn the LMU into a European or a global gold standard. Sweden created a common system with Norway and Denmark. As in the Münzverein and the LMU, each member state kept its gold and silver coinage locked in a fixed exchange rate with the other. From 1885 the central banks of the three countries managed the exchange rate of the paper currency within the union, unlike in the Münzverein and the LMU.[14] The SMU was dislocated like the LMU by the great shock of WWI and each state resumed its independent monetary policy in reaction to its consequences.

The move towards European Monetary Unification. In the early years of the European community monetary unification was not perceived as a

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[14] Garelli (1946); Henriksen and Kærgård (1995: 94).

priority because the Bretton Woods system already secured the benefits of stable currencies without significant fluctuations in most European countries and the US. In the late 1960s that system began to come under pressure with liberalisation of capital movements and the increasing US inflation produced by the Vietnam war, ending in 1971 when Nixon devalued the dollar and terminated gold convertibility.

As Bretton Woods was weakening, the rationale for monetary unification re-emerged with the Werner Report in 1970, introducing a plan by stages for an economic and monetary union in the European Community. The growing monetary instability, inflation and divergence between member states in the 1970s made the implementation of the plan impossible and for some time it was set aside. By 1979 the intent was only to moderate wide exchange rate fluctuations through the introduction of the European Monetary System with a restricted fluctuation band. It was possible to restart the integration process only after inflation rates had structurally declined and a new policy mainstream had been created against Keynesian budgetary policies and in favour of more restricted monetarist views. The German concerns about monetary stability which dictated opposition to monetary integration were overcome only through restrictive budgetary rules (which became the Stability Pact) and the guarantee of central bank independence from political interference. The Delors report of 1989 opened the way for the Maastricht Treaty and the construction of the European Central Bank in 1998 and the Euro in 1999.

The life of the Euro has been characterised so far by a series of daunting crises (the global financial crisis of 2008-2009, the European debt crisis of 2011-2013 and the Covid Pandemic crisis of 2020-2021). There is not enough space to discuss them in detail in this paper but this period of turmoil has led to intense reform process and institutional innovations, subject to great debate and polemics on the merits of budgetary restraint, austerity, a common European debt, and the limits of monetary policy easing.[15]

Table 1 illustrates some of the main responses and how they have oscillated between large budgetary expansion and financial support in 2008-2009, austerity and budgetary contraction in 2011-2013 after the explosion of the Greek debt crisis, returning to massively expansionary fiscal policies in 2020-2021. The pendulum has been moving at an extraordinary speed, abandoning at each step what appeared to be the orthodoxy of the previous crisis. The constant reaction has been the easing of monetary policy, initially through interest rate reduction, then through credit to the private sector and then to the public sector through purchases of government debt.

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15 Stiglitz (2016); Galbraith (2016); Minenna (2016); Marsh (2013); Piga (2020).

Tab. 1. *Common European responses to economic crises in Europe in terms of funding, monetary policy, rules and institutional change*

	Funds (credit or budget)	**Monetary**	**New institutions, instruments, rules**
Oil crises (1973-1978)	Creation of the European Regional Development Fund (1975).	Creation of the European monetary 'snake in the tunnel' (1972-1973), followed by the European Monetary System (EMS 1979-1999).	
Global financial crisis and Great Recession (2008-2009)	Coordination of national budgetary stimulus by member governments (European Economic Recovery Plan) for 200 billion Euros (of which only 30 billion were EU funds).	ECB reduces interest rates and provides funding to private sector.	G20 leaders' meeting, Financial Stability Board, European Banking Authority (EBA 2011), European Systemic Risk Board (ESRB 2010).
European debt crisis (2011-2013)	Provided financial resources to peripheral countries in exchange for austerity and institutional reform through conditional bailout loans. Greek debt haircut.	ECB quantitative easing through Long Term Financing Operation (LTR) and a programme to purchase Government debt (OMT).	Creation European Financial Stability Facility (EFSF), the European Stability Fund (ESF), replaced by the European Stability Mechanism (ESM) in 2012. Fiscal Compact for debt reduction and balanced budget commitment.
Covid pandemic crisis (2020-2021)	Next Generation EU and Recovery Fund with 750 billion Euros. Use of ESM for Pandemic Crisis Support. Support to mitigate Unemployment Risks in an Emergency (SURE).	Acquisition of government funds and credit for the private sector through Pandemic Emergency Purchase Programme (PEPP) and Targeted Long Term Refinancing Operation (TLTRO).	Suspension of the Stability Pact. Creation of a temporary common European debt connected to Next Generation EU.

The speed of change has certainly accelerated in comparison to previous phases of European history.

The debate remains intense, because austerity has been phased out and the Stability Pact has been suspended in 2020, but the growth of public debt during the Covid Pandemic has been massive and will require new readjustments in a not too distant future, causing new tensions and fractures.[16] Political resistance to financial transfers to mitigate those effects will continue, not just from the self-styled 'frugals' in recent budgetary discussion within the Union, but also from all other countries that are net contributors to the EU budget. The lack of economic growth in most of the Eurozone is a structural problem that has not been solved, even if the Next Generation EU funds are expected to play a significant role in reinforcing resilience and social cohesion and facilitate digital and green transition. Their size is massive in terms of public investment but limited in comparison the overall size of the EU economy.

The Euro is still criticized by many, and some still support the idea that several countries should abandon it, but it remains a central element of the European progress and is not likely to disappear soon. Brexit has reinforced the central role of the Eurozone in the EU, by removing from the Union the largest country opposing it.

4. Looking for financial resources fit for a federation

Luigi Einaudi, whose first professional qualification was that of an expert of taxation policy, quoted Alexander Hamilton in favour of a future European federation's independent powers to levy taxes, arguing that political power does not really exist without the capacity to raise resources independently from single member states of the federation.[17]

The EU has still not passed the Hamiltonian test, neither in the size of its budget in relation to the area's GDP, nor in terms of autonomy from its member states in securing its operational funding. It is clearly one of the main obstacles to its current action. It leaves room for an unlikely but possible backward movement towards a purely intergovernmental cooperation, and it prevents a permanent and irreversible stabilization of the political and systemic role of the Union. Furthermore, the current situation makes it impossible to use efficiently the EU budget as a countercyclical tool, because it is geared mainly towards long term investments, requiring several years to be implemented, with very little room for short term changes. Therefore, it cannot change the course of an existing recession. Similarly, despite the existence of structural funds and cohesion funds, it has a limited impact in compensating possible disequilibria emerging from monetary

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16 Saraceno (2020).

17 "Alessandro Hamilton, così riassumeva in una frase scultorea la ragione dell'insuccesso della prima società delle nazioni americane: 'il potere, senza il diritto di stabilire imposte, nelle società politiche, è un puro nome'", in Einaudi Luigi (1945).

union and increasing convergence (except in the case of smaller member states, where EU annual net contribution has surpassed 4% of the GDP of the recipients for several years in countries such as Ireland or Greece).

The size of the EU's budget is a major indicator of its relevance and a key indicator to compare it to other Federal countries.[18] The EU budget for 2014-2020 was about 1.02% of the Union's GDP, while the federal budget of Germany was in 2019 equal to 4.4% of GDP, the federal budget of Switzerland was about 10-11% of GDP in the last decade and the US federal government is about 20.3% of GDP (average of 1968-2017, according to the Congressional budget office).[19] The scale of the possible federal budgets here described is extremely large (1-4-10-20) and suggests that federal or confederal unions can take widely different forms and are not predetermined in any way.

From the creation of the three European communities in the 1950s until the mid 1960s, the common European budget represented less than 0.1% of the budget, then increased rapidly and peaked at a maximum commitment of 1.28% of GDP with the 1993-1999 budget. However, during the negotiation of the 2000-2006 budget framework, some member states, in preparation for the massive enlargements of the EU of the first decade of the 2000's towards central and eastern Europe, insisted on reducing their commitment ahead of a redistribution of resources in favour of poorer newcomers. New accession countries would become massive net beneficiaries of the common European budget, while almost all old member states would become net contributors. The size of the budget was reduced for the first time, to 1.08% of European GDP as a maximum commitment.

That figure has remained at a little above 1% of GDP in the first twenty years of the twenty-first century and the persistence of a requirement to balanced budget had frustrated the hopes of those who wished to expand the Union and transform it. The requests to introduce a common European debt to spur growth and finance special forms of spending, such as investments or measures to mitigate climate change and face the migration crisis, have all been refused. All proposals to create Eurobonds have been refused, regardless of their form, because the wealthiest states did not wish to take the risk of taking up the fiscal burden of less rigorous countries and become responsible for part of their debts, arguing that 'profligate countries' did not adopt adequate reforms to put their public finances in order. Progress has also been hampered by the various correction mechanisms introduced to limit the highest net contribution to the EU budget, starting

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18 European Parliament (2019).

19 Congress of the United States (2019).

from the British rebate obtained by Margaret Thatcher in 1984, and followed by other smaller corrections for the wealthiest northern members.

The road towards an independent source of income for the EU has also been slow, moving from initial complete dependency upon the financial contributions of member states to the devolution in 1970 of customs duties and then of the Value Added Tax (VAT). From the 1980s the Gross National Income-based resource has become dominant, but it is again a source of dependency upon national governments. With the 2021-2027 budget new 'own resources' will be progressively introduced based on a climate friendly policy (a non-recycled plastic packaging waste based contribution in 2021 followed by a Carbon border and digital levy adjustment mechanism and resources based on the EU Emissions Trading System in 2023).

During the southern European debt crisis in 2010-2013, several proposals were floated to mutualise parts of national debt, through Eurobonds, a European redemption fund, or project bonds, with the purpose of reducing interest rates and help national governments through a limited measure of shared common European debt.

The debate about deficits, austerity and debt changed suddenly and surprisingly in 2020, as a consequence of the ravages of the Covid pandemic. The German Chancellor, Angela Merkel, who had been so adamant to restore budgetary equilibrium and impose austerity in 2011-2013, chose instead to propose a new mechanism, the Recovery Fund and Next Generation EU. One of the consequences was that the EU budget of 1,082.5 billion euros for the period 2014-2020, representing 1.02% of the EU-28's GNI, was massively increased in the proposed new budget for 2021-2027 to 1,824.3 billion euros (+68.5%), of which 750 billion in the Next Generation EU (NGEU) programme are intended as a Covid-19 recovery package. NGEU includes the recovery and resilience facility for 672.5 billion euros, to mitigate the impact of the coronavirus crisis and help a recovery based on a greener, more digital and more resilient Europe. The funds will be part loans and part grants and they will raised by the European commission on financial markets through a form of common European debt to be repaid by 2058.

5. Immigration and asylum policy dilemmas

European progress in achieving a common policy on immigration and asylum can also be seen as both a success and a failure, having advanced and sometimes regressed. Major achievements have been obtained for citizens of member states, who have now full rights within the rest of the

Union. A more complex situation has developed for legally present non-EU citizens, who have acquired substantial rights once they have become legal long-term residents. The outcome for asylum seekers, refugees, migrants with short-term permits and illegal migrants is instead more disappointing and unstable.

5.1. In historical terms it is a great achievement to have created an area of free movement without passports inside the Schengen area, considering the wall of passports, visas and other obstacles that had been built during the first and second world wars as well as during the police states of the interwar periods and in the postwar Communist countries of the Warsaw pact. In 1986 the Schengen agreement was signed to create an area of free movement without the control of documents, except when crossing the common external frontiers, together with a common harmonized visa policy towards third countries. The treaty included readmission agreements for illegal migrants found in one country after having moved from another member country. In 1990 the exchange of information was implemented with the Schengen Information System (SIS). The system was expanded step by step, including initially France, Germany and the Benelux states, followed later by Italy, Spain and Portugal and then by most EU members. The implementation was further differentiated, with the abolition of controls in 1995 in France, Germany, Benelux, Spain and Portugal, then the extension to Italy and Austria in 1997, Greece in 2000, Denmark, Sweden and Finland in 2001 and the new members after their accession, in relation to their level of preparedness. Today the Schengen agreement includes most of the EU (with the exception of Ireland – which still maintains opt-outs, and Romania, Bulgaria, Croatia, and Cyprus – which are seeking to join soon, while the UK never envisaged to join Schengen).

Temporary controls have been repeatedly reintroduced on a provisional basis, in 2001 for the G8 in Italy, in 2003 in France, in 2015 throughout much of Europe, because of the surge in refugees and migrants arriving from the middle east, and in 2020-2021 as a consequence of the Coronavirus pandemic.

5.2. Even more relevant is the specific form of free movement for employment, which did not exist in the early 1950's and was not initially granted by the European Economic Community in 1957. Freedom to move for work within the EEC was achieved in 1968 (before the creation of the Single European Market in 1993). This happened in the late phase of the post-war mass labour migration period, which ended in the first half of the 1970s, when frontiers closed towards workers from the rest of the world. Freedom to work within the Union was extended through various enlargements of the EEC and the EU, up to 28 countries. It included 13 new member countries with significantly lower initial wage levels from 2004 onwards, which did not upset the European labour market through internal migration. Periods of temporary measures of safeguards, up to seven years long, helped to smooth the process, given that substantial numbers of migrants arrived from Romania especially into Southern Europe (particularly in Italy and Spain) and from Poland into northern Europe (particularly in the UK and Germany).

In 2021 the UK was the first country to withdraw from the EU and lose freedom of movement, having developed a particularly specious internal debate about the supposed negative effects of the arrival of EU workers on the employability of British workers. Such a debate has influenced the 2016 British referendum for Brexit, partly blamed on the inflow of eastern European workers. The British exceptionalist feelings towards Europe, however, and hostility to federalism and to European common rules and institutions were very strong even before those flows. The resentment for declining living standards and the exclusion of northern England from the benefits of growth and from London privilege, have contributed in a more significant way to the victory of the Brexit campaign.

5.3. The Schengen system, however beneficial to Europeans, has also been heavily criticised for the creation of a 'fortress Europe', recognising freedoms inside but denying it outside, especially to citizens of developing or emerging countries. It has indeed been accompanied by the creation of uniform visa requirements, external border controls, a system for the expulsion of illegal migrants, and temporary detention centres for the purpose of expulsion and denial of entry. A European border agency has been created, with patrolling missions in the Mediterranean.

Much more controversial has proven to be the immigration policy towards non-members of the Union and the management of the flow of refugees into Europe. Results have been more limited and have shown to be more reversible, given the intense political pressure on the subject, the volatility of sudden external flows and the growth of anti-immigrant parties and movements. The management of legal flows for employment from outside of the EU has always remained a purely national policy, despite common rules for work permits, residency permits and rights.

Asylum has become a common European policy but remains subject to a complex exchange, differences in implementation of common rules and a series of crises through time. The post-war mass movements of population of the late 1940s were progressively replaced in the 1950s and 1960s by internal migration and open international economic migration, without a substantial attempt to block it.[20] Post decolonization migratory flows to Europe were actively encouraged by the European economy to provide labour force during a period of high economic growth, until this was blocked in the 1970s. As long as the cold war kept borders sealed, the asylum process was quantitatively limited and was not a significant alternative to legal economic migration. In the 1980s and 1990s the effects of globalization, and the increase in push and pull factors of migration progressively increased the use of the asylum process and of illegal crossing of frontiers as a mass phenomenon. European countries developed further their procedures to seal their borders and attempt to expel overstayers as well as illegal migrants. New flows to Europe took the shape of sudden migratory and asylum crises, real or apparent. These happened after the fall of the Berlin Wall in 1989, during the war in Yugoslavia, followed by smaller Mediterranean crises from Africa and substantial but less visible flows from the Middle East and Asia, not arriving by boats.[21] The effects of the Arab revolutions, from 2011 onwards, had a larger impact on European perceptions, especially when the consequences of the rise of the Islamic State in Syria and Iraq in 2014-2015 created a huge path through Turkey, Greece and the Balkans towards the core of Europe for Syrians, Iraqis, Afghanis, Pakistanis and other nationalities.

The Geneva Convention on the status of refugees of 1951 had been the main reference in Europe in dealing with asylum claims on political grounds, but in 1990 twelve European countries signed the Dublin Convention, setting the rules for treatment of asylum applications, updated as Dublin II in 2003 and Dublin III in 2013, which stipulates that the first EU country where the asylum seeker arrives is responsible for the asylum application. Fingerprints are taken to enforce the rule, multiple applications are not permitted, and member states can return asylum seekers that have moved to a different country after having applied in their country of arrival. Such rules initially corresponded more to a situation where migrants arrived at their ultimate destination and applied for asylum there, with arrival through airplanes in northern Europe or directly at the eastern frontiers of Europe. As asylum claims have moved southwards with the enlargement of the Union and the reduction of intra-European asylum requests, southern European states have complained that large numbers of migrants arriving on their coasts have caused an excessive weight falling on their shoulder for the collective protection of common borders, of human lives and the burden of asylum applications.

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20 Bade (2001); Gatrell (2020).

21 Einaudi Luca (2007).

After the Arab revolutions of 2011 North Africa and the Middle East were destabilized, with the fall of Ben Ali in Tunisia, Mubarak in Egypt and Gaddafi in Libya, while civil war engulfed Syria and ISIS roamed in large parts of Iraq and Syria. This provoked a series of migratory waves, of very different size and length (Tunisians, Egyptians and Africans towards Italy in 2011 and from 2014 onwards, then Iraqis, Syrians and others towards Turkey and then Europe, mainly through Greece and then the Balkans in 2014-2016), as well as creating a space for the build-up of much larger flows from sub-Saharan Africa and Asia. Overall 2.3 million arrivals have been recorded in 2014-2021 by the UNHCR on the shores of Europe with more than 22,000 deaths counted in the process (table 2).

Tab. 2. *Migrant arrivals on the Mediterranean coasts of the EU in 2014-2021*

	Italy	*Greece*		*Spain*		*Total*	
	Sea arrivals	*Sea arrivals*	*Land arrivals*	*Sea arrivals*	*Land arrivals*	*Sea and some land arrivals*	*Dead and missing*
2021	67,477	4,109	4,826	41,979	1,218	123,318	1,977
2020	34,193	9,687	5,846	**39,563**	1,531	94,080	1,066
2019	11,471	**59,726**	14,887	26,168	6,345	123,663	1,319
2018	23,370	32,494	18,014	**58,569**	6,814	141,472	2,277
2017	**119,369**	29,718	6,592	22,103	6,246	185,139	3,139
2016	**181,436**	173,450	3,784	8,162	5,932	373,652	5,096
2015	153,842	**856,723**	4,907	5,283	10,980	1,032,408	3,771
2014	**170,100**	41,038	2,280	4,632	7,084	225,455	3,538
Total	**761,258**	**1,206,945**	**61,136**	**206,459**	**46,150**	**2,299,187**	**22,183**

Source: UNHCR. Total arrivals include sea arrivals in Italy, Cyprus and Malta, both sea and land arrivals in Greece and Spain.

While the country most exposed to these new migratory flows was initially Italy (in 2011-2014, 2016-2017 and 2021), in 2015, with the growing crisis in Syria and Iraq, those flows moved towards Greece, the Balkans and then central and northern Europe. Opposing decisions were taken by different countries. Italy launched in 2013-2014 a rescue program close to the coast of North Africa called *Mare Nostrum*, to save migrants at sea and bring them to Europe. Germany decided in 2015 to suspend some of the Schengen rule for humanitarian reasons to allow Syrian, Iraqi and Afghan refugees to enter, having spare capacity to welcome a substantial increase of refugees. In contrast the eastern members of the EU started closing their frontiers, one after the other, building protective walls of barbed wire, starting with Hungary, but then followed by others, in order to deviate flows elsewhere. By the end of the year Chancellor Merkel readjusted her line and more restrictive containment practices were progressively adopted in dealing with asylum. Merkel also led the European effort to close the Balkan route through the adoption of an agreement between the EU and Turkey to close Turkish frontiers in 2016 and host in that country Syrian, Iraqi and other refugees, in exchange for a payment of 2 billion Euros per year. The agreement proved extremely effective (arrivals in Greece had increased from 41,000 in 2014 to 857,000 in 2015 and then were reduced to 30,000 by 2017 as a consequence of the Turkish new policy). In 2017 Italy also succeeded in closing for some time the African route by concluding an agreement with the Libyan provisional government. The EU also reinforced financial assistance to Mediterranean members, and its Frontex agency, transforming the latter in the European Border and Coast Guard Agency in 2016.

In 2015 the European Commission attempted a different policy to preserve as much as possible freedom of movement between member countries, asylum rights and solidarity between states, without abandoning the principles of Schengen based on the responsibility of the member states of first entry to receive asylum requests and deal with them. The European Council adopted a common policy based on an idea of shared responsibility and burden, which included two rounds of redistribution of asylum seekers (European solidarity: a refugee relocation system) between member states for a total of 160,000 people (40,000 announced in May and further 120,000 announced in September), to reduce the weight on Italy, Greece, and Hungary. The policy concerned a restrictive number of nationalities with a high success rate in the asylum application process (in fact, only Syrians, Iraqis and Eritreans). The consequence was the introduction of quotas for countries having to receive asylum seekers redistributed from the frontline member states.

This novelty created high expectations among the seafront states and the supporters of asylum rights and of increased communitarisation of migration policies. The opposition of eastern European states, however, reduced the overall impact of the whole policy and then led to its end. By the end of 2017, after two years of the relocation scheme, only 10,842 persons had been relocated from Italy (out of 39,600 promised in 2015) and 21,524 from Greece (out of 66,400 promised). Ultimately the Czech Republic only took 12 people, Poland and Hungary zero, despite a conviction by the European Court of Justice, which rejected the argument that these three countries could disregard EU law in order to maintain public safety, law and order.

In 2020 the new European Commission under Von der Leyen has renewed attempts to replace the criterion of first entry with an allocation system for asylum requests but failed to obtain an agreement; it dropped the obligation to shelter migrants and replaced it with a financial incentive of 10,000 euros from the EU budget for each refugee or asylum seeker accepted or for the person's return to the country of origin after being denied asylum.

Conclusions

On various European policies, periods of stasis or of backpedalling have followed great advances, given that the EU is still a mixture of federalist components and of more limited intergovernmental cooperation. Countervailing forces activate after every sudden change. Periods of consolidation follow periods of advances in European integration but they do not necessarily represent the end of the hopes for future growth nor the beginning of an irreversible decline of integration, so often announced by critics without proof nor effect. The growing number of member states in the EU obviously makes substantial changes more difficult, despite the growth of policy areas to which qualified majority decision-making applies, and despite the possibility of using reinforced cooperation between a smaller number of countries that wish to progress faster.

It is often said that the EU is incomplete, but will it ever be complete? Institutional evolution is a constant, endless process in national states as well as in federations. Orthodoxy is not anymore a long term phenomenon, because it is constantly challenged from an intellectual point of view and can be reversed very rapidly at the institutional level when crises strike and leave policy makers desperate for new solutions. Austerity and the refusal of any form of common European debt seemed to be permanent features of the economic policy dogma until a short time ago and yet they have been set aside (for how long?).

Financial resources at the disposal of the EU are still inadequate, but time will provide ample opportunities to change that. The stability pact will have to be redesigned in a more realistic way once the Pandemic suspension will cease. First steps towards a common European debt have been taken and some more could be taken, provided that they do not require an open-ended commitment by the richest states to underwrite the debt of the poorest. Immigration policies towards third countries are still largely governed by national governments, but the accelerated demographic decline of most of Europe will make future joint action more necessary on economic migration, despite inevitable, persistent, political resistance.

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