**One Market, One Money.**
The Political Economy of Supranational Integration

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Résumé. Le processus de globalisation montre que les grands problèmes mondiaux – tels que les rapports entre le Nord et le Sud du monde, les crises financières, le développement durable, etc. – échappent à la capacité de gouvernement des États nationaux. L’interdépendance globale impose une réorientation radicale de la théorie économique et de la politique. Les disciplines académiques traditionnelles, tels que l’Économie Internationale et l’International Political Economy, ne sont plus adéquates ni à comprendre la nouvelle réalité, ni à projeter des institutions supranationales qui puissent garantir le gouvernement de la globalisation. Sur la base de l’expérience de l’unification européenne, en particulier de l’Union économique et monétaire, cet essai propose la convocation d’une nouvelle conférence de Bretton Woods, à laquelle participent non seulement les pays industrialisés, mais aussi les pays du Tiers Monde, dans le but d’établir les bases d’un nouvel ordre économique et politique mondial.

«The displacement of commodity money by fiduciary money and ... of national fiduciary reserves by international fiduciary reserves should be viewed as one aspect of the adjustment of the former tribal, feudal, and national institutions ... to the ever-changing realities of a more and more interdependent world.

Both phenomena should be viewed in a vaster historical perspective: the long march of mankind toward its unity and a better control of its own fate».

Robert Triffin, 1968

1. The Crisis of the Nation State and of the International Economy

Economists are showing increasing discomfort in dealing with the phenomenon of globalisation. As an academic subject, international economy enables economists to devise economic policy guidelines for individual national governments, but not to tackle the problem of the government of globalisation beyond making the suggestion, as trivial as it is ineffective, of co-ordination of national economic policies (in fact global governance is not a global government). Virtually no attention is paid to the problem of ‘supranational’ governing institutions. Yet a solution to this problem should be considered as both a theoretical and practical target of high priority, since globalisation is producing a world market increasingly integrated from both trade and financial viewpoints, but also increasingly anarchical, heavily and repeatedly in crisis.

The problem cannot be tackled without radical re-examination of the international economy’s political and ideological assumptions, starting at its very roots. During the same months in which

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Keynes published his *General Theory*, Lionel Robbins, attempting to identify the world depression’s origins, denounced the ‘mistake’ made by classical economists who had not understood that an international market could not work without effective supranational government. Classical economists had understood that the internal market did not consist of a spontaneous order, but of a series of rules of the game, guaranteed by legal and political regulations. Indeed, as Robbins held, the invisible hand is the hand of the law-maker. However, these first economists, in contrast to theories put forward for the internal market, deceived themselves into believing that harmonious order, both politically and economically, could be produced at international level without any specific supranational institutions, *i.e.* without a World Federation. The practical consequence of this theoretical mistake was dramatically illustrated by the collapse of the world economy, first in the wake of the first World War and again in the Great Depression in the 1930s\(^2\).

Robbins’ writings on federalism and international order have been completely forgotten by economists. Keynes was able to offer more efficient remedies, over a short-term period, for a world in which relations between states continued to be firmly based on national sovereignty. Today, in an era so far-removed and different from that which provided Robbins with inspiration for his ideas, and perhaps in part thanks to the short-term remedies suggested by Keynes, we have not all died. But we find ourselves faced with having to make difficult decisions in order to ensure a future for the world economy, which can no longer be based on the political premises that underlay the *General Theory*, and the international economy, as an academic subject. The progress of globalisation, which crosses borders of domestic states and increasingly transforms their sovereign powers into mere appearance, forces us to re-examine relations between international economy and international politics. The international economy is a transition economy. The government of globalisation will become conceivable and feasible to the extent we are able to unite the teaching of Robbins and that of Keynes\(^3\).

To face this task, we can obtain useful suggestions from the European integration process. During the second half of the 20\(^{th}\) Century, Europeans, thanks to their supranational institutions, were able to transform an international economy, on a regional scale, into a Common Market, more specifically into a customs Union and, subsequently, into an Economic and Monetary Union, *i.e.* into a real home market governed by institutions with limited but real powers. Although there are significant differences between European integration and the globalisation processes, including such obvious points as differences in income, culture and political tradition, we shall attempt to show, in the following paragraphs, that the globalisation process consists of “a specific stage in the development of the world economy, during which the international market gradually transforms into the global village’s internal market”\(^4\). We shall seek in the last paragraph to identify the most urgent institutional reform required for the existing world organisations to allow the development of the first form the government of globalisation process.

2. The World Market

If we consider the evolution of the international economy in the modern age, we can single out at least three historical and well-defined stages. The first is the transformation of the feudal economy, previously having transformed Europe into a “city of cities”, to use an appropriate expression of Henri Pirenne, into a series of national economies, potentially dominated by a sovereign whose

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\(^2\) ROBBINS, 1937; 1963

\(^3\) On the relationships between Robbins and Keynes thought, see MONTANI, 1996.

\(^4\) MONTANI, 2001
control of a particular territory determined which goods and which people were subject to his jurisdiction. The creation of a trade balance, of Central Banks and especially of a free internal market are the result of this stage that, within the history of economic thought, was defined as the era of the mercantile system. It was only at the end of the 19th Century, when industrial revolution had spread from England to the European continent, to the United States and, at least in embryonic form, to Japan and Russia, that the increasing of international trade and the establishment of the gold standard signed the birth of the age of international liberalism. This extraordinary epoch of prosperity and stability for the world economy was dramatically interrupted by the outbreak of the First World War, an event that Robbins does not hesitate as defining as “the nationalistic reaction” towards a process that was taking on some of the features of modern globalisation.

The world economy’s third stage of development, the contemporary stage, features not only the spreading, on a world scale, of the post-industrial mode of production, of which the New Economy only represents one of the most striking aspects, but also innovative organisation in international economic relations. Since the beginning of the second World War the United States had actively promoted the creation of international organisations so as to encourage, on return to peace, stability and expansion of the world economy. This grand United States design can be summed up by the formula “One Market, One Money”, in the sense that new international institutions would be able to transform the world economy into a wide free exchange area, based on a universally accepted currency: the dollar. The Cold War between the two super-powers has partly overshadowed the importance of these institutions, but after the fall of the USSR, it became obvious that all countries, Russia and China included, intended to become a part of the economic order guaranteed by Pax americana. It is, as theorists of International Political Economy have correctly asserted, a hegemonic order: without active policies, in the last resort, of the USA, none of the ‘collective goods’ essential to running a world market would be guaranteed. The world economy is unable to function without the vital rules of the game concerning the international trade and the use of a world currency, which is obviously the hegemonic power’s currency.

During this stage, the theory of international economy developed without particularly taking into consideration the new world institutional framework. Let us now consider the international economy’s very foundations, i.e. David Ricardo’s theory of comparative costs. The numeric example in the chapter On Foreign Trade of his Principles is often used in textbooks to point out that, when two countries, England and Portugal, producing two kinds of goods, cloth and wine, with Portugal having absolutely lower production costs for both goods, start to trade, international trade is feasible and profitable for both. David Ricardo’s skilful demonstration is based on the fact that each country specialises in production of the good the relative labour productivity of which is higher. In the case used by Ricardo as an example, it is advantageous for England to specialise in cloth production and Portugal in wine production. Thanks to specialisation, each country can achieve, for equal working hours, a higher quantity of both goods (after exchange).

This model is convincing and well-suited to explaining the second stage of world economy’s expansion, the stage of international liberalism. But careful reading of Ricardo’s Principles reveals a possible further stage of economic integration between two countries. What happens if capital and labour can move freely between England and Portugal? Ricardo’s answer is clear: “It would undoubtedly be advantageous to the capitalists of England, and to the consumers in both countries, that under such circumstances, the wine and the cloth should both be made in Portugal, and therefore

\[^{5}\text{On the doctrine of hegemonic stability, see BALDWIN, 1993 and CHASE-DUNN, 1995.}\]
that the capital and labour of England employed in making cloth, should be removed to Portugal for that purpose. In that case, the relative value of these commodities would be regulated by the same principle, as if one were the produce of Yorkshire, and the other of London”⁶. In short, international trade becomes in effect internal trade and, obviously, goods can be produced at an even lower cost than the cost achievable in the previous case, in which the two countries specialise in production of only one kind of goods. Therefore, we can conclude that international trade, during the stage of international liberalism, leads to a higher labour productivity level than that achievable under conditions of self-sufficiency. But during the subsequent stage, the stage of supranational integration, during which full economic Union between the two countries can be attained, an even higher degree of labour productivity can be achieved. Therefore, the international market is less efficient than economic Union⁷.

The specific example used by Ricardo might make us puzzled, because that all available capital and labour end up concentrated in a single country. But this result is not at all unavoidable. Let us suppose that Portugal, instead of producing the ‘wine’ commodity, produces the ‘Coca Cola’ commodity. If English worker productivity is not that much lower than Portuguese worker productivity, the ‘Coca Cola’ company could decide to open a branch in England, transferring its technology to the latter. In England, the ‘Coca Cola’ branch could enjoy other benefits (lower transport costs, lower wage costs, a different level of taxation on profits, etc.). This is how a significant phenomenon on the contemporary economic world scene is explained, which could not surface during the previous stage of development of the world economy: the multinational company.

A second phenomenon that can be explained by an economy attaining the third integration stage consists of economic unions being established on a regional scale. Within the global framework guaranteed by Pax americana, as far as conditions for nearly total free international circulation of production factors are achieved, a group of countries can choose to proceed from the second to the third stage of integration by creating an economic union. Thus, until the political foundations of Pax americana are not eroded, the creation of regional economic unions should be considered not as a threat to the achievement of a free world market, but as a simple anticipation of a process which could reach its peak in general abolition of all customs barriers. In fact, creation of regional free trade unions translates into an acceleration of inter-union exchanges, most probably generating greater trade creation effects than trade diversion effects.

Europe is the most significant example of the complex interaction between regional and world integration. The European Common Market was established in 1957, without European states considering the creation of a European currency. European countries were however able to enjoy the benefits of currency stability thanks to the Bretton Woods agreements, which meant that the dollar effectively performed the function of European currency. After the Bretton Woods system collapsed, however, European Union states, in order to continue enjoying the benefits of a Common Market and then achieve the benefits offered by an internal market (established by the 1986 Single Act), had to take the decisive step of creating a single European currency. Full comprehension of the supranational integration stage therefore requires not only analysis of world trade relations, but equally of the relations between economic and monetary Union.

⁶ RICARDO, 1966, p. 136

⁷ For a discussion of this statement, on the basis of the Neo-Ricardian theory on value and on the basis of the Heckscher-Ohlin model, see MONTANI, 2001 and MONTANI, 2002.
Finally, we point out that American economic leadership is no longer undisputed, as it was immediately after the Second World War. The European Union carries as much weight as the USA in the WTO. In fact the USA only accepted a mechanism for settling international trade disputes for this very reason, after having refused it in 1947 (with the International Trade Organisation). Moreover, the USA today feels the need to promote regional areas for free exchange, more specifically the areas in which they are directly involved, such as NAFTA and, more recently, the free trade area of the Americas (FTAA), so as to oppose the economic power of a European Union expanding in terms of geography, economics and politics.

3. World Currency

The only experience of a world currency – although restricted in time and space - we can historically study is the gold standard. In the 19th Century, thanks to an extraordinary situation of balance between the great European powers, a convergence of interest emerged in several fields, including currency, between various states wishing to take part in an expanding world trade system. There was a real world-economy, as Fernand Braudel calls it. European states and many outside Europe, such as the USA and Japan, had managed to equip themselves with their own national currency, established either on the gold or bimetallic monetary systems. Moreover, during the second half of the 19th Century, the need to utilise monetary and tax policies so as to manage external balance was certainly not a priority in home economic policy (it was only when this need became obvious, after the first World War, that macro-economics was created). Central banks and national governments accepted guaranteeing equilibrium to the balance of payments as a ‘natural’ target. Therefore, use of gold as a key currency of the international exchanges asserted itself as a ‘spontaneous order’, exactly as had been theorised by Hayek, i.e. an order not planned, but created by mankind8.

The lesson we can draw from the gold standard experience is that currency’s role, which each national government had encouraged domestically so as to establish a national market - i.e. use of currency as a medium of exchange, unit of account and store of value - could equally be achieved on an international scale, so as to encourage trade relations between nation States. The creation of national currencies had performed the role of integrating the different provinces and regions into a national home market. The creation of a world currency could achieve the same target on a much wider scale. But a spontaneous order without adequate institutional support is always vulnerable, and can indeed succumb to adverse forces, like an organism attacked by a mortal virus.

When, during the Second World War, the United States set itself the problem of which international monetary order could encourage the establishment of a more integrated and peaceful world, they discarded a return to the gold standard, for reasons which Keynes had contributed towards elucidating: the possible conflict between pursuit, by each nation State, of the external targets of balance of payments equilibrium and of the preservation of a given exchange rate, and the pursuit of the internal targets of full employment and price stability. In our age, fiduciary money had definitely replaced gold in all countries. Therefore, as a return to the past was not feasible, the only possible route was to establish the international system of payments on a national fiduciary currency, used as a key currency for a fixed exchange rate system. The opportunity for each member state to exploit its own degree of autonomy in the pursuit of its own domestic targets was guaranteed by two measures: restrictions to convertible currency for trade transactions only (capital flows were prohibited) and the possibility of agreeing, when required, on a variation of exchange rate, as compared to the key currency. By implementing these clauses, the dollar was earmarked to gradually become the

8 HAYEK, 1982, Vol. I
international exchange rate currency, since the IMF, which had the task of supervising compliance with the rules of the game by countries belonging to the Bretton Woods system, was performing a ‘watch dog’ role for the United States government. There was a lender of last resort for the Bretton Woods system, even if not explicitly referred to in the instituting Treaty. When European countries faced serious difficulties in tackling the problem of post-war reconstruction and convertibility of their currency, the United States government unblocked the situation with the massive aid offered by the Marshall Plan. Therefore, the gold-exchange standard was an international order both wanted and built by mankind. From this viewpoint, it has to be considered as a progress in mankind’s long struggle, going back to the first minting of metallic currency in ancient times, to rationally control its associated life. The United States, in wanting to encourage an increasingly freer and more integrated world market, attempted to guarantee a medium of exchange, a unit of account and a store of value to the members of the Bretton Woods system.

The United States plan to establish a world market on the basis of a hegemonic national currency has failed. The Bretton Woods system of fixed exchange rate collapsed at the beginning of the 1970s, thus opening the way to the so-called flexible exchange rate system and to free capital movements. It is in fact an exchange rate pseudo-system, since, contrary to what has been asserted by some neo-liberal economists who think that the market can decide a rate of exchange on its own, currency floating is kept under control by national governments, when they are able to find an agreement, by intergovernmental co-operation arrangements, such as occurred by means of the G7 held between main world industrial powers. In this situation of limited currency disorder, but with frequent risks of dramatic crisis, third world countries suffer the worst damage. They can attract international investments only by pegging their exchange rates to stronger currencies. They therefore find themselves in a difficult position when major world currencies such as the dollar, euro and yen operating in the areas towards which they direct their exports widely fluctuate between each other. Monetary stability is the premise for world economic development and prosperity. Exchange rate fluctuation favours economic hegemony of the great industrial countries, the only countries having the power (although increasingly eroded by the opening up of their economies) to manoeuvre interest rates and rates of exchange. Finally, with fluctuating rates of exchange, a stable world currency no longer exists. The dollar continues to be used as a landmark currency, i.e. as a medium of exchange for trade and financial transactions, but can no longer work as unit of account and as a store of value. The dollar takes on the role of Latin, the lingua franca, in a Holy Roman Empire increasingly dominated by vulgar languages.

Alongside this dethroning of the dollar as a world currency, we must take note of the long-term political trend towards assertion of a political multi-polar system. The United States firmly preserves world leadership in production of armaments and advanced technology. However, the growing autonomy of the European Union, China, India, Russia and Brazil, etc., in economic terms is matched by developments in the political and military fields: while slow, the process appears to be irreversible. But, assertion of a political multi-polar system is hard to reconcile with the stability of the international economic order. Free global circulation of capital in a system based on a variety of sovereign national currencies may be expected to lead to local problems that have the potential to mushroom into global disasters, as recent experience has taught us. The 1997 financial crisis struck not only the tigers in South East Asia and South Korea, but quickly extended to Russia and Brazil, thanks to more or less grounded opinions of international investors on the stability of these economies. It has become increasingly difficult for the United States, whether directly or through the

\(^9\) TRIFFIN, 1968, p. 179
IMF, to perform the role of lender of last resort to restrict the devastating effects of financial crisis. Hence the fear of some that the trend towards multi-polar system may lead to grey areas in which, in the event of an international emergency, lack of accountability of action will create a situation in which nobody will assume responsibility, so that downfall of international economic order become a possibility. The 1929 crisis, according to hegemonic stability theoreticians, occurred precisely because Great Britain was no longer in a position to guarantee the stability of international order and the United States was not ready yet to take up the baton\(^{10}\).

While these pessimistic remarks on the probable effects of a multi-polar system on the globalisation process concern the long-term period, there is a more immediate and critical problem. The euro exists and it cannot be considered as one of the many national currencies that live with the dollar. It has the strength to aspire for world supremacy. We must, therefore, set ourselves the task of clarifying which rules of the game must be followed by the euro and the dollar, so that the world economy can enjoy the monetary and financial stability indispensable for the running of a global market. But before taking this step, we need to clarify what should be the theoretical framework for reformers of the world order.

4. Alternative Models of International Monetary Order

When international economy textbooks consider feasible exchange rate systems, two alternatives are offered: a fixed exchange rate and a flexible exchange rate. In this way, the political and ideological hypothesis that every possible monetary system must be based on national sovereignty over monetary policy is assumed. This hypothesis does not allow to understand the attempts of monetary unification between various nation States. In Europe, however, with the creation of the euro as the European Union’s single currency, this attempt was successful. We should, therefore, come to the conclusion that, in the case of future reforms, we should take into consideration three, and not two, alternatives: the monetary union between nation States is an alternative both to flexible exchange rate system and to fixed exchange rate system.

To illustrate how this third possibility was underestimated in the debate on the prospects for reform of the international monetary system, we need to consider the theory of optimum currency areas, often used to justify the choice between a fixed currency rate, a floating exchange rate and a monetary union. The debate was opened by Mundell\(^{11}\), who considered all three alternatives. However, Mundell gave priority to one aspect of money and monetary policy: the Keynesian view in favour of full employment. Mundell’s conclusion was, therefore, that “the optimum currency area is the region” and that the flexible exchange rate system is more suitable than the fixed exchange rate system, to enable each region to achieve the internal target of full employment. In fact, in this way, debate on optimum currency areas concentrated around choice between fixed and flexible exchange rates. Monetary union slipped to the back of the scene.

In the wake of Mundell’s pioneering analysis, other economists have pointed out other criteria for the assessment of an optimum currency area. From time to time, the choice was for use of the ratio between tradable and non-tradable commodities, product diversification, price and wage flexibility, geographical or sector mobility of labour, investment mobility, more or less higher financial market integration, differences between inflation rates, differences in tax systems and, finally, whether or not there exists a common budget for the entire currency area\(^ {12}\). These analyses have helped to clear

\(^{10}\) KINDLEBERGER, 1973

\(^{11}\) MUNDELL, 1961

\(^{12}\) For a review, see GANDOLFO, 2001, Ch. 20.
up some of the problems regarding European monetary integration and also stimulated a series of useful empirical studies on the degree of integration. However, there has been a common defect: namely that the extent of the currency area depends on an economic criterion. Therefore, as no market ever has features of total integration homogeneity (industry is geographically concentrated, labour is more mobile in some regions than in others, etc.), by definition the conclusion is always that “the optimum currency area is the region”. Moreover, as on the basis of each criterion used a different geographical area is established, economists recommend, so to get out of the trouble, drawing up the balance, for each country, of costs and benefits of monetary union. But who should evaluate these calculations, performed country by country, in the last resort? If country A chooses monetary union, but country B refuses it, monetary union is impossible, even if the benefits for A are much higher than the disadvantages for B. A and B will be able to enjoy currency as a “a common good” only if they decide to establish a supranational government. In the end, every decision to establish a monetary union is political and not economic.

All research on optimum currency areas either neglects or underestimates the decisive issue: the power aspect of money. In today’s world, in which only fiduciary currency circulates, the ‘legal’ circulation area for a currency corresponds to the area on which national sovereignty is enforced. The existence of international monetary areas based on a national currency, like the dollar area, should be explained in political terms: it is the outcome of balance of power, as is correctly upheld by the doctrine of hegemonic stability. There are no currencies without State and there are no States without currency. The case of the European Union, after the creation of the euro, does not contradict this statement at all, if we admit that the euro is only a stage in the process of the political construction of Europe. In any case, to go back to the issue of optimum currency area, Kenen had already stressed that if the optimum currency area is the region, the United States of America should have different ‘regional’ currencies, but that, in this way, an untenable situation would be created for the federal government, which would no longer be able to establish taxes into a single accounting unit and, even if the federal government was able to do so, it would have to accept that the value of these taxes be altered by the varying monetary policies of different regional governments. Monetary and fiscal sovereignty must, therefore, be discussed jointly. The case of European currency unification can, again, be used as an example. The decision to create a single currency, taken at Maastricht in 1991, was accompanied by the establishment of a Fund for economic and social cohesion, alongside the European Regional Fund, the purpose of which was to reduce differences in income between different European regions. At Maastricht parameters regarding tolerable ceilings for public deficit and national indebtedness were also established. Subsequently a Stability and Growth Pact was arranged, enforcing European co-ordination of national budget policies. Therefore, alongside European currency as a federal institution, a federal tax system also exists. We can legitimately and reasonably assert that up today European fiscal measures implemented are not sufficient to guarantee adequate management of the monetary union. Most probably, greater budgetary powers are required at European government level. But in any case, we can observe that the decision to create a currency area between different nation States was accompanied by the decision to tackle the remaining economic problems through a joint fiscal policy.

It is now time of drawing some lessons from the European experience for economic theory. Once established that a common currency can be created when a political will to “live together” is declared, the question we must ask ourselves is not, “given certain economic criteria, what is the optimum currency area?” but rather, “given a certain political area, defined by the will to live

13 KENEN, 1969
together, what is the function of the money which should be privileged?” Europeans have chosen, after many hesitations, to guarantee to money the function of “a medium of exchange, unit of account and store of value”. They have done that, by entrusting the European Central Bank the priority task of guarantee price stability. No other choice was possible. Were the European Central Bank to use currency policy for other purposes, e.g. to pursue full employment in the Union, eventually at the cost of encouraging high rates of inflation, this would undoubtedly jeopardise monetary Union, because each country had in the past, and still has, a different propension to inflation. Actually, the rules of the game, as regards inflation and budget established by Union member states are similar to the rules of the gold standard. Union member states can no longer use monetary policy to implement economic policies of the ‘beggar-thy-neighbour’ type (i.e. competitive devaluation). The only significant difference is that now the quantity of currency put into circulation in the Union is no longer entrusted to an accidental event (discovery of new gold mines, etc.), but is decided on the basis of a monetary policy shared by all Union states. We are dealing with further progress, even when compared to the Bretton Woods system, along the way mankind is running to submit to a common will the power to manage a fundamental institution of civil society. Therefore, the European monetary union model should also represent a guideline for the international monetary system’s reform, during a stage in world history in which a globalisation process is underway, i.e. gradual transformation of the international market into a cosmopolitan internal market. Today, the alternative is no longer between a monetary system with a fixed exchange rate founded on a national key currency or a monetary system with a flexible exchange rate. The real problem is how to escape the monetary and financial chaos caused by the crisis of American hegemony. Granted, and this is the most difficult question to answer, that there exists a political will to live together, at global level too, a world monetary union should be created by entrusting the priority role to currency of acting as a “medium of exchange, unit of account and store of value”. Mundell agrees on the fact that, if this is the chosen criterion, “the optimum currency area is the world, regardless of the number of regions of which it is composed”\(^\text{14}\). Once the model from which we should draw inspiration for reform of the international monetary system becomes clear, we need to turn our attention to the problem of its feasibility. Even granting that a world monetary union represents the solution to the problem of global market stability and integration, we can still nurture some reasonable doubts as to whether the building of a world federation is on the agenda of world politics. Then, what should be done? Are intermediate steps feasible?

5. A New Bretton Woods for a New World Order
In September 1941, when Hitler’s armies were invading Western Europe and pushing towards the East, to the very heart of the USSR, Keynes had started work on a project of International Currency Union, in view of proposals the English government would be submitting to the United States government on post-war reconstruction\(^\text{15}\). The Allies not only trusted in final victory against Nazi-fascism, but also intended to plan a world in which forces favourable to peace and prosperity would be in a position to prevail over nationalism and disorder. At the dawn of the 21\(^{\text{st}}\) Century, we must face a task that is no less difficult, even if less dramatic, because a Third World War has not broke out. However, if the situation should slip out of the control of domestic governments and degenerate, uncontrollable disaster could be caused. Globalisation creates and spreads wealth, but also produces

\(^\text{14}\) MUNDELL, 1961, page 662
\(^\text{15}\) KEYNES, 1980, pp. 33-41
increasingly unbearable pollution for the planet, international criminality, social unease, monetary and financial instability. Globalisation is a perpetual challenge to the sovereignty of nation-states. When confined to national borders, democracy is not able to produce efficient governing instruments against a dominating force, that mortify it, day after day.

Faced with these challenges, the hegemonic order of the United States has started to splinter. We need to encourage transition from a *Pax americana* to a *Cosmopolitan Peace* based on the principle of equal partnership between all countries showing the “will to live together”. The European Union, if it becomes a Federation, with its own government, could give a decisive contribution to this plan. In any case, the history of European integration has shown that even before arriving at a Federation, intermediate stages in building supranational institutions, with limited but real powers, are feasible.

The first step, to start living together on a global scale, could consist of convening a new Bretton Woods conference, in which not only the great industrial powers, but also all Third World countries would take part, to discuss a renewed Keynesian *International Currency Union*. The institutional pillars for this plan could consist of: a) acceptance of fixed exchange rates between major world currency areas (e.g. 1 dollar = 1 euro = 100 yen), on the basis of a stability Pact concerning not only inflation rates and budget deficit, but also external deficit; b) issue of a world currency by a reformed IMF, both so as to avoid countries (such as Ecuador), which, having found the weight of national monetary sovereignty unbearable are forced into the humiliating decision of using another “strong” national currency, and so as to encourage countries willing to move forward greater integration (such as countries belonging to Mercosur); c) establishing own budgetary resources for the UN, so as to tackle emergencies for sustainable development, for the struggle against mass poverty and for facing crisis situations in which action by a lender of last resort is required.

These technical proposals have the purpose of guaranteeing the world economy’s stability and development. However, new supranational powers require new institutions for democratic control. Up to date, the UN has been run on the principle of ‘one State, one vote’. At global level, the voice of citizens is only heard as a far away echo, following tortuous routes. The principle of ‘one person, one vote’ must be introduced into the UN system, by means of creating institutions to represent the people’s will.

Clearly, as everybody can see, we are dealing with very unpretentious proposals, as compared to the prospect of a cosmopolitan political Union. However, they represent a radical break with the old world order created after the Second World War in decline. In 1951, establishment of the ECSC (European Coal and Steel Community) might have been thought somewhat inadequate in the face of a European reality dominated by the anxieties of the Cold War. However, it has grown impressively over time. Today, the European Union is one of the poles of world politics. A new Bretton Woods could outline a way to follow to the forces that intend working so as not to leave mankind’s destiny in the fate’s hands or up to blind power games. In any case, up to now, it is essential to affirm that the globalisation process will not be governed so long as the States fails to deliver part of their sovereignty to supranational institutions, with limited but real powers.

References


