CONFERENCE IN MEMORY OF TOMMASO PADOA-SCHIOPPA

EUROPEAN INTEGRATION

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Tommaso Padoa-Schioppa’s private and professional life was animated by his profound political and civil faith in the potential of a united Europe to ensure the wellbeing of all European nations. When the opportunity came, he skilfully provided practical impetus to the European construction in the run up to EMU. He was sharply aware of the incompleteness of the project and of the limits of a currency without a state. When the financial crisis struck and the shortcomings of European governance became apparent, he saw his concerns become reality. Even then, he never doubted Europe’s ability to come through the storm and take a further step towards political union.

1. A lifetime commitment to the European ideal

Padoa-Schioppa’s vision of a unified Europe was grounded in political passion much more than in economics. He was often explicit on this point. He wholeheartedly embraced the inspiring vision of men such as Jean Monnet, Altiero Spinelli, Jacques Maritain and Luigi Einaudi, and saw the value of a power superior to that of sovereign states as a means to stop the pendulum of wars and precarious armistices that had marked European history for more than three centuries, until the tragedy of the two world wars. As a child he directly witnessed the great anguish and uncertainty of those years. A unified Europe was necessary not only for the welfare and security of European nations, but also for world peace and order.

“Central banker by profession, supporter of a united Europe by political creed” (The Euro and its Central Bank, 2001), he saw the economic union of Europe as a means to a higher end. The gradual creation of a common European area where goods, capital, services and people could move freely (even more freely than they had been allowed to within the borders of each state) required that individual sovereigns gradually relinquish part of their powers to a higher institution: it was not a European State, but it had the powers of a State. His colleagues and friends were well aware of the strength of his passion. “Europe was Tommaso’s strongest ideal, the powerful engine behind his action, his existential mark, even” (Ciampi, 2011).

A defining moment in the professional career and personal development of Tommaso Padoa-Schioppa was his appointment as head of the Directorate General for Economic and Financial Affairs at the European Commission in 1979. There, passion encountered the possibility of concrete action. The opportunity came at a difficult time for the European Community. The European economy was battling stagflation after the oil shocks of the 1970s, while the European integration process was languishing. It was

Padoa-Schioppa’s term at the European Commission centred on the reinforcement of the EMS. He called it the “priority of priorities”. The early 1980s were marred by tensions on the foreign exchange markets. Stabilization of the EMS required convergence of economic policies. Realignments were key in this process as policies became collective decisions rather than unilateral ones. In this respect the realignment of March 1983 was a turning point, with the adoption of a politique de rigueur in France marking Mitterand’s “conversion” to the EMS. Padoa-Schioppa contributed significantly to this development, working closely with Commissioner François-Xavier Ortoli, Jacques Delors, the French Finance Minister, and Beniamino Andreatta, the Italian Finance Minister.

He was also very much involved in the second institutional phase of the EMS agreement, concerning the creation of a European Monetary Fund. Negotiations on the subject did not go well and the proposals initially developed by the Commission were put on hold. He responded by setting out to strengthen the EMS, developing a plan that did not involve institutional reforms. There were technical improvements, but also a platform for the full participation of all currencies in the Exchange Rate Mechanism and the issue of an ECU coin. It was around this time that he became convinced of the impossibility for a group of countries like the EU member states to simultaneously aim at free trade, capital mobility, independent domestic monetary policies, and fixed exchange rates. He called these four goals, each apparently desirable in its own right, “the inconsistent quartet”. So it must have been with great delight that in February 1982 Padoa-Schioppa received the message from Karl Otto Poehl, then president of the Bundesbank, that “if you are proposing a European Central Bank based on a Treaty, then I agree; but I will not allow constraints to be imposed on the Bundesbank without any legal basis”.

2. Europe and the euro

By the late 1980s restrictions on trade and capital movements within Europe had been eliminated and Padoa-Schioppa explicitly advocated that the problem of the inconsistent quartet be solved by creating a single currency and a single European central bank. In this more favourable economic environment, which helped create a more positive political climate, the possibility of making plans for another step towards European integration became reality. At the European Council held in Hannover in June 1988 it was decided to set up a committee to study the feasibility of a European Economic and Monetary Union – the Delors Committee. Padoa-Schioppa was named Joint Secretary to the Committee together with Gunter Baer. As Jacques Delors himself later observed, the role of Padoa-Schioppa and Baer was decisive.

The Delors Report of April 1989 recommended a European Monetary Union (EMU) with a single currency. It assumed a crucial role as a reference and anchor point in further discussions and negotiations on EMU, succeeding where the Werner Report...

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2 T. Padoa-Schioppa (1982), Capital mobility: why is the treaty not implemented?, address to the Second Symposium of European Banks, Milan, June.
3 Corriere della Sera, 28 March 1998.
nearly two decades earlier had failed, and becoming the basis for the chapters on EMU in the Maastricht Treaty.

Although the expression EMU dates back to the late 1960s, when it became part of the language of the meetings of EC Heads of State and Government, exactly what was meant by economic and monetary union was not defined even at the Hannover meeting. One of the first steps taken by the Delors Committee was to define the concept. It did so by concluding that it essentially meant three things: the single market; the unification of monetary matters; and some fiscal or budgetary discipline. The first component, the single market, had already been defined and there was no change in the provisions of the Treaty of Rome as amended by the Single European Act. Discussions focused on the other two elements.

According to Padoa-Schioppa, the key to the success of the Delors Report was its assertion that monetary union must be accompanied by a single monetary policy. In his view the essence of a monetary union was institutional, even more than economic: the fact that the responsibility for monetary decisions was shifted to a single institution instead of being entrusted to a plurality of central banks.5

The inclusion of fiscal discipline in EMU was also decided very early on by the Delors Committee. Padoa-Schioppa thought that on economic grounds there was no compelling argument for claiming that a monetary union cannot function without a fiscal union or, more generally, without a form of federal discipline in budgetary matters. However, he felt that on political grounds it was indispensable to present monetary union as being based on sound budgetary policies, since consensus on monetary union depended on reassuring public opinion that it would be built on solid fiscal foundations. At the same time, he felt that the excessive deficit procedure was “half-way between expressing a wish and establishing a binding rule […] and that […] only time will tell whether it will work or not”.6

In Padoa-Schioppa’s view, the road to EMU was facilitated in the late 1980s and early 1990s by a number of factors. To some he contributed significantly,7 while he saw others as “a benevolent historical conspiracy”.

To the first category belongs the increasingly widespread recognition of the need to fix the “inconsistent quartet” (which was at the root of the continuous tensions affecting the EMS) and to rebalance the so-called efficiency-equity-stability triangle (the three main objectives of economic policy) at the European level. Of his contribution to monetary union in particular, as a means to reconcile the “quartet”, we have already spoken. Concerning the “triangle”, Padoa-Schioppa argued that with the efficiency side being dealt with mainly through the completion of the single market, the European Community left the other two sides (equity and stability) somewhat behind. In his opinion many of the developments of the late 1980s, after the single market process had been launched, can be seen as attempts to rebalance the three sides of the triangle, with

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monetary union as the ultimate solution for stability and the European social cohesion policy and growth strategy addressing equity concerns.\textsuperscript{8}

Economic factors in the “benevolent historical conspiracy” included: (a) the relatively favourable economic conditions and political stability prevailing from the mid-1980s up to the early 1990s; (b) the increasing popularity of the idea that public intervention in the economy should be reduced and greater scope allowed to the play of market forces; and (c) the growing support for the paradigm according to which monetary policy should be primarily concerned with price stability and central banks made independent. Both the second and the third factor tended to minimize the perceived shift of sovereignty implied by monetary union.

Political factors facilitating the road to the euro were at least as important. First of all, the vision of political leaders: “Like Adenauer, De Gasperi and Schuman in the 1950’s, Kohl, Mitterand, Andreotti and Gonzalez in the 1980’s knew little about the economic and technical arguments for or against monetary union. In line with the original motivations of the 1950’s they saw the single currency as a further step – and a prerequisite to yet other steps – in the political unification of Europe. In the 1970’s they had directly experienced how urgent the need for a tighter union was for their own countries and for Europe as a whole to play a role in the international world. To move forward decisively, they chose the monetary world, sometimes against their own experts”.\textsuperscript{9}

Finally, unusual historical contingencies also played a crucial role: “during the phase in which the blueprint prepared by the Delors Committee was at the junction of being either shelved or becoming a concrete political commitment, the Berlin wall fell (November 1989) and the course of post-World War II European history suddenly changed. The reunification of Germany became possible. Both the hope of closing the last wound of World War II and the fear of a resurrection of German hegemony revived at once. From this situation came a decisive impulse to the implementation of the single currency. By supporting the single currency, the German government gave the clear sign that reunification of the nation and further European integration were two inseparable aspects of one and the same policy”.\textsuperscript{10}

In relation to these facilitating elements, Padoa-Schioppa liked to quote Guicciardini, the Italian political thinker and historian of the sixteenth century, who said that “faith breeds obstinacy” and that “since the things of this world are subject to a thousand random chances and accidents, unexpected help may appear in many forms in the course of time for those who have obstinately persevered”.\textsuperscript{11}

In 1992, following the Intergovernmental Conference, the Maastricht Treaty adopted the recommendations of the Delors Report, including the gradual phasing-in of EMU in three stages. In Padoa-Schioppa’s view, the Treaty contained two formulas that represented a major change: the ‘opt-out clause’ for the United Kingdom and Denmark, and the ‘convergence criteria’ to qualify for the final stage of monetary union. Both these formulas allowed Europe to move to the final stage of monetary union without all the Member States having to participate from the start. Convergence criteria also meant accepting the principle that Member States could be excluded from participation in

\textsuperscript{8} T. Padoa-Schioppa [et al.] (1987), \textit{Efficiency, stability and equity}, Oxford University Press.
\textsuperscript{9} T. Padoa-Schioppa (2004), \textit{The Euro and its Central Bank}, The MIT Press.
\textsuperscript{10} T. Padoa-Schioppa (2004), op. cit.
\textsuperscript{11} T. Padoa-Schioppa (1995), op. cit.
projects on performance grounds. Moreover, the Treaty provided for the decision-making body of the ECB, the Council, to be made up of the members of the Board and the Governors of the national central banks, and the voting rule within the ECB Council to be one head, one vote.

The EMS crisis in 1992-93 appeared to pose a major threat to the goal of the single currency, but it occurred too late to stop the process. Padoa-Schioppa noted how “to some extent independently, the macroeconomic requirements set for joining the single currency acquired a life of their own. They were adopted by markets and observers as a benchmark of good economic policy behaviour, to the point that complying with them became a central issue in the domestic policy debate of each country”.12 As a result the convergence process and the technical preparation for the introduction of the euro proceeded rather smoothly and on 1 January 1999, the euro became the single currency.13

3. An incomplete project

Padoa-Schioppa considered the introduction of the euro as a fundamental step in European history, certainly the most important event he had the fortune to contribute to. However, the sense of incompleteness of the project prevailed in him from the start. According to him the euro was not the product of a technocratic vision or of a bureaucratic process; it was the certification of the deep integration already achieved by European economies and, at the same time, a crucial element of further progress: “the advent of the euro is a quintessentially political event in its genesis, and a profound social and cultural change in its nature”.14

He never joined in what he considered the excessively triumphal attitude that had pervaded many after the adoption of the single currency. He was instead among the first to acknowledge the incompleteness of the European project and the inherent risks generated by politics lagging behind economics in the process of integration.

On 3 May 1998, when Europe was completing the last steps before the adoption of the single currency, he wrote in a column for Corriere della Sera: “The Union has full competence for microeconomic policy (the opening up of borders, the rules on products and services, the safeguarding of competition), but its capability for macroeconomic policy is, with the exception of the monetary field, embryonic and unbalanced: it can impede harm (excessive deficits) but it cannot do good (a proper fiscal policy). It is for this reason, in addition to its strong legal status, that the European Central Bank and monetary policy will benefit from unprecedented autonomy. A Union that fails to satisfy, even for the functions that have been attributed to it, the cardinal principles of western constitutionalism (balance of powers; the democratic vote; the majority principle), and does not have real competence for foreign policy and internal and external security, is incomplete and weak. It is thus right not only to applaud yesterday’s step but also to underline its unfinished nature, the risks and the rashness”.

12 T. Padoa-Schioppa (2004), op. cit.
13 As a member of the ECB’s Executive Board Padoa-Schioppa had the opportunity to contribute to the setting up of the new Institution and to guide the first steps of the euro. On Padoa-Schioppa’s experience at the ECB see F. Saccomanni, Ricordo di Tommaso Padoa-Schioppa, remarks at the Festival dell’Economia, Trento, 2 June 2011.
14 T. Padoa-Schioppa (2004), op. cit.
Padoa-Schioppa lamented the lost opportunities for proceeding further with political union: “One week after those elections [of eastern Länder representatives to the Bundestag] that marked a great victory for Kohl, in a letter to the Irish President of the Community, Kohl and Mitterand requested that the Council scheduled a few days later decide to proceed towards Monetary Union and Political Union and call two intergovernmental Conferences to stipulate two consequent Treaties. There is a strict temporal sequence between German reunification and this political indication that the European Council adopted. […] However, we could say that 1989 was a lost opportunity because the Monetary Union was made, but the political Union was not.”  

In his view this lack of political union represented a vulnus for the single currency itself. When at the ECB, he often warned policy makers not to confuse the independence of the central bank (something he had fiercely fought for during his career) with its isolation, the lack of a strong political counterpart. To succeed, the central bank cannot operate in a political vacuum: “Ultimately, the security on which a sound currency assesses its role cannot be provided exclusively by the central bank. […] History shows that when that order appears to weaken, the currency weakens, regardless of the actions of the central bank. A strong currency requires a strong economy and a strong polity, not only a strong and credible central bank”.

The lack of a political union meant above all the impossibility of taking effective decisions in many crucial fields of Europe’s economic life. Padoa-Schioppa’s job as a central banker led him to contribute most in the area of financial stability and supervision, where he lamented the lack of homogeneous rules and pushed for a single rulebook and a centralised supervisory framework for cross border groups in Europe. At times he did not hesitate to criticize his fellow central bankers openly, accusing them of “thinking in national, non-European terms” when they resisted proposals to extend the mandate of the ECB to banking supervision. He argued that “immediate action [was] necessary and while changing the Treaty could take years, if the will [was] there it would be possible to act under the current Treaty”.

But the consequences of an incomplete Union were particularly severe in the field of economic policies, where he saw basic flaws in the European construction. The essential problem was that an economic governance based “on the mere coordination of national policies was at the same time too weak and too ambitious. Too weak because it is fatally flawed by the fact that the power of coordinating is at the hands of the same ones that are supposed to be submitted to this power. Too ambitious because it grants the EU a power of intrusion in its member States policies that – even in mature federations – the central government normally lacks vis-à-vis local governments (be they States, Länder, Provinces or Regions)”.

The reform of the economic governance undertaken in the aftermath of the recent crisis was considered by Padoa-Schioppa as a positive but also as a largely insufficient step because it continued to be based on the very same concept. In his view, the way forward was instead to empower the Union with the means for conducting common

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16 T. Padoa-Schioppa (2004), op. cit.
17 La Repubblica, 6 October 2008. See also the note for the conference “Financial system regulation and supervision” by A. De Vincenzo and A. Generale.
policies as opposed to *coordinated* policies. This required some very fundamental changes.

First of all, the EU had to be endowed with its own budget in order to develop the policies for which the Treaty assigns ‘shared responsibility’ to the member states and to the EU (in particular in the fields of transportation, research and the environment). He thought that the EU needed a more flexible budget with resources coming directly from the taxpayers (possibly through one or two specific European taxes), and with the ability to use its borrowing capability. With today arrangements the filter of national budgets has the effect “that member states perceive the resources allocated to the Community as being funds of which national budgets have been deprived”.\(^\text{19}\)

The second profound change he was adamant about was the abandonment of unanimity in deliberations and the expansion of the majority rule. He saw problems lying in particular in the European Council, an institution whose characteristics of intergovernmental composition and unanimity he considered as a major impediment to its capacity to take decisions and to act: “Taken together these two characteristics transform the Council into a negotiating table among governments, in the classic way of international relations, not a collegial body of traditional governmental institutions of States. None of the members of the Council that have the power to decide is attributed a European mandate, none of them represents the Union…”\(^\text{20}\)

He saw the lack of majority rule as a key obstacle for the Union to tackle effectively the economic problems that had emerged with the crisis that started in 2007: “In order to manage the crisis we need measures in the monetary, supervisory and economic policy fields. The Union exists in the first field where decisions are taken according to the majority rule. It does not exist in the other two where, to decide, it is necessary to have unanimity, and if a decision is taken, common and operative means are lacking”.\(^\text{21}\)

Considering the weaknesses in the European construction, he saw the crisis as an opportunity but also as a formidable threat: “Europe as it is now does not have the means to confront the challenges of history, including the current one, which has taken by surprise not only its policies, as has happened in all countries, but also its institutions, something that does not happen in consolidated political unions ... Proceeding ‘everyone for himself’ is not only ineffective, it is also dangerous. The crisis will possibly generate the means that are now lacking and get us closer to an accomplished Union; but it could also have disruptive effects”.\(^\text{22}\)

In an interview, he noted: “There is more bitterness than satisfaction in witnessing a prophecy come true. At the beginning of the euro I spoke of the dangers of a ‘currency without a State’. It is clear that we needed more of a European State, not less of a European currency: without the euro, Europe would now be living a catastrophe. One reason for the lack of credibility of national politics is that it keeps on giving people the illusion that national powers are capable of tackling issues (energy, climate, finance, security, migration, primary goods) which are not national, but continental and global.”\(^\text{23}\)


\(^{21}\) T. Padoa-Schioppa (2009), *La veduta corta*, il Mulino.

\(^{22}\) T. Padoa-Schioppa (2009) op. cit.

\(^{23}\) *La Repubblica*, 6 October 2008.
4. The future

Padoa-Schioppa thought that “the process of European unification was the strongest positive legacy that the [last] century leaves to humanity in the sphere of political orders. It is the demonstration that human society can, with peaceful means, move from the state of nature to civilization also in an area – relations between sovereign states – where this transition had not yet succeeded.”\textsuperscript{24} As such it was not only a great accomplishment, it was also a promise.

But Europe is still in a transitional and unstable phase. Padoa-Schioppa describes the European Union as a mixed model, “an economic and monetary Union that preserves the name of Community, accompanied, in the political sphere, by forms of voluntary and non-binding cooperation”.\textsuperscript{25} More than a mere confederation of States but not yet a true federal Union. To complete this transition it was necessary to extend the federal method to properly political fields (foreign policy, security, defense), adopt the majority rule and endow the Union with his own, more flexible budget. The federal method was in his view the way to assign the power at the right level of competence, simultaneously limiting and reinforcing it.

He had little patience with the political inertia that followed the completion of EMU, to the extent of calling for an act of rebellion by the European Parliament.\textsuperscript{26} To make concrete steps, groups of countries could decide to advance faster than others, they could decide to reinforce cooperation in some specific fields. He often remarked that the European Union wouldn’t have existed unless the countries that wanted to move ahead had decided to proceed, even if alone. On the contrary, he saw one of the signs of the current standstill precisely in the fading of such determination.

In his view, only by completing the road to unification would Europe be able to ensure lasting peace and welfare and to promote them beyond its borders: “A Europe of sovereign States with unlimited power initially dominated other continents and then destroyed itself, drawing the entire world into war. The evils to which Europe fell victim then now threatens world order: the drive for supremacy of the great powers, the fragility of a peace founded on the balance of powers, the pagan illusion of the absolute power of the State. Precisely because it suffered from its own mistakes, Europe took the route of limiting the power of sovereign States. And this is the path that the world will also have to take if it wants to avoid ruin. Europe can help support the global system of

\textsuperscript{24} T. Padoa-Schioppa (2001), \textit{Europa, forza gentile}, il Mulino.
\textsuperscript{25} T. Padoa-Schioppa (2006), \textit{Europa, una pazienza attiva}, Rizzoli.
\textsuperscript{26} “Consider a dream scenario. Let us imagine that the new European Parliament were to decide that the economic crisis, the disintegration of the single market, the impotence of individual countries and the fragmentation of public spending in fields of common interest, meant a change in direction was required. First, it would claim the right to choose the new president of the Commission (and the Commissioners). [...] Second, the new parliament would call for immediate and radical reform of the European Union’s budget and policies. Expenditures would be made flexible and discretionary, not rigidly partitioned by countries. There would be a truly European levy with new resources to implement common policies required by the ruling treaties. The two moves would completely subvert the Union and block its functioning. [...] Eventually, after months of paralysis, national governments and their Council – the coalition of the unwilling, the huge table at which heads of state and prime ministers recite notes drafted by their officials – would understand that the game has changed. A new power would have risen in Europe. Why go to such extremes? Because complete paralysis for a few months is better than the semi-paralysis in which Europe has been languishing for decades”. T. Padoa-Schioppa, interview with the \textit{Financial Times}, 5 June 2009.
States only if it itself proves capable of completing that same journey, until the very end”. 27

His hope was that the younger generations would continue down this road. On the fiftieth anniversary of the Treaties of Rome, when asked what his dreams and hopes for Europe were, he answered: “My dream is that this journey will be completed before the tragedies that opened our eyes to the necessity of completing it are forgotten. People my age still remember the war and the destroyed cities; people my children’s age do not. At times they even seem to think that Europe is something that has already been accomplished and does not require their participation in order to be completely realized. My dream is that this participation will come to pass and that today’s twenty, thirty or forty years old realize that they must complete the journey.”

27 T. Padoa-Schioppa (2001), op. cit.