

# **Economic Thinking on European Integration in Western Europe**

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## **Abstract**

Does economic thought on European and supranational integration have any common peculiar aspect in Western civilization? Is there any shared feature, or is it just the sum of country-specific reflections, traditions, interests? Trying to address this question, we go back into the history of economic thought in western European civilization since WWI, and highlight the main peculiarities of a common thread concerning the history and perspectives of supranational, especially European, integration. The aim of the paper is to illustrate them, claiming that there are common features and they are especially relevant if economics has a normative side concerning how the economic governance of the European integration project should be furthered.

## **Introduction**

As suggested by Nobel Laureate Amartya Sen in his book *Identity and Violence* (Sen 2006), each individual possesses multiple identities. These depend on the perception of belonging to a varying set of groups, based on shared needs, wants, or mere interests with other individuals, thus leading to shared collective systems of choices. Some of these collective choices are codified in legislative and administrative systems of multilayer governments (within the nation states, from local to regional and national or federal governments). Some other choices are made according to the statutes of each community, following its own rules. What is crucial in this idea of identity is that each of us, as an individual, has no *specific* identity. I am a Florentine, a Tuscan, an Italian, a European. I feel myself citizen of the world as I share with the whole humankind desires and needs that would require the provision of global public goods. And I feel member of the religious community I belong, of the tennis club where I play, of all the associations I am contributing to, etc.

Sometimes it is not easy to catch the general implication of this reasoning: for each shared need, want, interest - and collective good needed to satisfy them - it would be necessary to have a governing body (where individual choices are democratically represented and aggregated), distilling a collective choice which should be made enforceable for each and every

member of the group. Otherwise, the most likely result is the underproduction of the necessary public goods. In a little radical approach, society would be organized according to what Frey and Eichenberger (1999) call *Functional, Overlapping, and Competing Jurisdictions*: for each collective function performed, there should be an institution providing all what is necessary to fulfil the needs of the community.

The difficulty to understand the full implications of such system depends on two issues: the first is what the sociologist Ulrich Beck called *methodological nationalism*, implying that we (more or less implicitly) assume the only juridical collective framework legitimated to make collective choices is the national one, representing the national community; the second is to make sense of the need to enforce decisions (and effectively provide the collective goods we need in our everyday life) *in the absence of the authority to do it*.

This power has been lately (in the last few centuries) provided by the nation states, which exerted absolute and exclusive sovereignty over individuals, eventually delegating some powers to decentralized (local) governments. The problem with identifying the link between sovereignty and identity is that all other dimensions of the individual get lost. If the only enforceable dimension of choices is the national one, you try to make sure you can actively contribute to it, neglecting the others and eventually forgetting that you have multiple identities: in this case, a dangerous coincidence emerges between identity and sovereignty, leading to acknowledge all those who depend on other sovereign powers as intrinsically enemies. If I am German, I cannot count on the Greek government to provide some crucial goods that I may desire or need. The same if I am Greek. We are both Europeans, but unless there is a supranational governing body democratically legitimated to make collective choices enforceable for both, there is no European identity. Identity crucially depends on effectively making collective choices, and these in turn depend on collective representative institutions.

Apparently, these concepts relating to identity and sovereignty have not much to do with economics. On the contrary, the economic dimension of collective goods (and choices) at stake in these features is crucial. Especially in the most recent decades, when interdependencies among nation States have been challenging the ability of each single European State to satisfy the needs of citizens and fully exercise sovereign power, it has become manifest that only a European-wide multilayer system of shared sovereignty, providing collective goods also at the supranational level, can avoid falling back into nationalism (a perfectly rational, although dangerous, reaction to the lack effectiveness of the present economic

governance in the EU). There will be no European civilization if no European identity is built, either through a slow process of cultural training or through a top-down set of institutions democratically legitimated to make European-collective choices. The technocratic construction built in the last decades only creates greater disaffection against Europe, and is sooner or later bound to ignite its fragmentation. Paradoxically, the awareness of the necessity of this process was much more widespread among European economists some decades ago, and has been slowly fading into a dangerous pragmatism destined to adjust to the status quo.

Hence the object of the paper: to understand if, when and how western-European intellectuals, in our case in particular economists, have enquired into the conditions for a European dimension of collective goods. To illustrate our point, we decided to pick up three most relevant periods since the end of WWI, i.e. since the need to reconstruct a peaceful continental system in Europe became more pressing, and increasingly contrasting with the political situation at those times, until the recent sovereign-debt crisis. It may be claimed that this aim has more to do with political economy, or with constitutional economy, than with pure economics. It is probably true. The perspective we are taking here is hardly a theoretical one, but rather a history of economic thought one, where the object of enquiry is the complex and interdependent system of variables influencing the relationship between facts, theories and policies as concerns European integration.

We shall first reflect on the way US constitutional federalism influenced the debates and struggles on European integration between the two world wars (first section), providing a constitutional response to the need of decentralized and yet coordinated governments. We will then focus on another key period for European integration, between the end of the Sixties and the Seventies, to underline a difference between “economists” and “monetarists” in the debates on European integration as a distinguishing feature of the European debate (second section). We will finally outline the relevance of three different narratives on European integration that were and still are relevant in the last few decades (third section), before we suggest some concluding remarks.

### **1. A Multilayer Structure of Economic Government: Federalism**

Notwithstanding the US origins of the federalist thought, dating back to the debates on the adoption of the second Philadelphia Convention in 1787, the very debate on the relevance of sovereignty on economics seems to be a crucial and innovative strain in western European thought on European integration. We can here pick two major examples of economists that, in

different degrees and from different personal approaches, illustrate the relevance of federalism in the history of European integration: Luigi Einaudi, and Lionel Robbins.

Since de Toqueville's *De la Democratie en Amerique* was brought to the general attention in Europe after 1835, many intellectuals discovered US federalism and appreciated the further element of check and balances (typical of the Montesquieu logic of political system) it introduced between different layers of government. At the end of the Nineteenth Century, federalism had become a debated issue both in Commonwealth matters (therefore spreading widely in Great Britain) and international relations. In 1897 the young Luigi Einaudi (1874-1961), commenting on an article by a renowned British journalist, Thomas Stead<sup>1</sup> (who had considered the joint intervention of the six major European powers to defend peace in Crete, after the outbreak of a violent anti-Turkish revolt, as "the birth of the United States of Europe"<sup>2</sup>), argued that the six powers had agreed not to decide "according to the rule of the *liberum veto*" (Einaudi 1897: 37), thus supporting Stead's conclusion: freedom, at the international level, does not depend on the possibility to act according only to national sovereign choices but on a set of rules where international decisions are taken by majority principle and, therefore, "State sovereignty has to be limited" (Morelli 1990: 21). The crucial point is that the absolute and exclusive sovereignty of each national State, embodied in the veto rule at the international diplomatic level, makes it impossible to pursue any collective action and therefore to provide a collective public good such as international peace<sup>3</sup>. Hence his conclusion: "From this imperfect phase when even only one of the six powers, with its opposition, could make any plan accepted by all the others inapplicable, we will slowly come to a point when the majority will be able to impose decisions on the minority without making recourse to the *ultima ratio* of the war" (Einaudi 1897: 37-38). Einaudi would later deepen these arguments in several writings (Einaudi 1918a; b; 1919; 1944), where he pointed at absolute and exclusive national sovereignty as the key problem in generating conflicts.

The outburst of WWI ignited a strong reaction in favour of designing the institutions for international peace in Kantian terms, not a *sa mere truce*

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<sup>1</sup> William Thomas Stead was a liberal intellectual who became Editor of the *Darlington Northern Echo*, of the *Pall Mall Gazette*, founding member of the *Review of Reviews* and of the weekly magazine *War against War*; he would die on the sunk Titanic, on 15 April 1912. On Stead, see Whyte F. (1925). *The Life of W.T. Stead*. London: Jonathan Cape.

<sup>2</sup> Quoted in Cressati (1992: 35). Stead considered the foundation of the United States of Europe as "the specific commitment of British politics" (Masini 1994: 77).

<sup>3</sup> In this respect, it is interesting to observe that Einaudi anticipates Sen (1970).

between two wars. Some decades later, through his master Edwin Cannan<sup>4</sup>, Lionel Robbins also debated the nature of a European federation. Again, the crucial point is that a European layer of government must be created to satisfy the collective wants of European individuals. Robbins lived in the very active and vivid cultural and intellectual London of Philipp Kerr (later known as Marquis of Lothian), Lionel Curtis, Arnold Toynbee. All of them in the Twenties and Thirties pamphleted in favour of a European federation to promote an international political architecture founded on liberal principles and actively participated in the federalist struggle launched in 1938 with the foundation of the association *Federal Union* (which would later create the *Federal Trust*)<sup>5</sup>. It is interesting here to recall that *Federal Union* was a very peculiar intellectual and political experience. Although it lasted a very few years, it gathered such culturally different economists such as Friedrich von Hayek, James Meade, Markus Fleming, William Beveridge, Barbara Wootton and of course Robbins. The composition of the *Economists' Committee* of the association shows how the federalist approach was indeed considered a struggle at a constitutional level, which all of them shared as a prerequisite for a peaceful political debate, where each could then bring his ideological heritage. The point of agreement was that peace is not a mere and temporary absence of conflicts but a permanent condition which requires a specific economic, political and institutional structure.

For Robbins, the causes of war are to be found both in inefficient institutions and in market failures depending on a dangerous concept of *sovereignty*, which is exclusively attributed to nation-States: “The ultimate condition giving rise to those clashes of national economic interest which lead to international war is the existence of independent national sovereignties” (Robbins 1939b: 99). In this respect, Robbins maintains that classical liberalism is “anarchic”, as international relations are only tackled through national diplomatic efforts, without any superior coercive institution. But the existence of systems of power with an exclusive and absolute sovereignty is not coherent with the necessity to safeguard peaceful international relations nor with economic efficiency. The economy is in fact founded on the production and consumption of private and public goods. As concerns the former, they need to be produced and exchanged in a plurality

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<sup>4</sup> The main references are the speech he gave at the LSE on *International Anarchy from the Economic Point of View* and the article *A Plea for Large Political Units*, both written in 1916 but published only in 1927, within the book *An Economist's Protest*, London: P.S. King & Son.

<sup>5</sup> On the relationships among these figures, we suggest to read Bosco (1988), where also an interesting correspondence between Curtis and Robbins is provided, and Ransome (1991).

of territorially concentric markets because each good and service is provided to satisfy the needs of more or less wide groups of individuals. Each market for each good needs to be backed and guaranteed by specific rules and juridical systems<sup>6</sup>. Similarly, there are collective and shared needs that require the production of public goods which are not to be provided necessarily at the national level. In both cases, the economy needs an institutional, political and juridical system which has to be structured from the local to the global dimension, following a principle which we would now call “subsidiarity”. According to Robbins (1937a,b; 1939a,b; 1940) the most adequate constitutional framework coherent with these urges is the federal one. Federalism provides an optimal constitutional equilibrium between decentralization and centralization, between local and global: “independent Sovereignty must be limited” (Robbins 1939b: 104) and “the national States must learn to regard themselves as the functions of international local government” (Robbins 1939a: 105).

A mere confederative agreement among nation States, as those who had characterized the several international conferences in the Thirties, would be unable to provide the collective public goods which are necessary for the constructive operation of global market forces. What is required is a constitutional architecture based on a multilevel federal system allowing decentralized choices and, at the same time, central strategic unity. In Robbins’s own words: “There must be neither alliance nor complete unification, but Federation; neither *Staatenbund*, nor *Einheitsstaat*, but *Bundesstaat*” (Robbins 1937a: 245). For Robbins, the federal structure does not necessarily imply less government, in a negative-sum game as for Hayek. Federal authorities may decide whether or not to intervene in economics and to what extent (Robbins 1940: 240-1)<sup>7</sup>. A federal structure is therefore a constitutional architecture where different ideological approaches can politically confront each other, not necessarily a means to reduce public intervention in the economy. Robbins’s *constitutional federalism*, is therefore the opposite of Hayek’s *instrumental federalism*.

Robbins’s idea became a political project through Altiero Spinelli, who read Robbins (1937a) in prison, while he was at Ventotene, thanks to Ernesto

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<sup>6</sup> Robbins (1937a) several times recalls Edwin Cannan’s *Wealth*, London, Staple Press, 1928 (cap. IV) and Adam Smith’s *Wealth of Nations* (the beginning of Book Four, Part Three) as his main sources for the extension of the externalities and spillover effects of human choices to the international planning as a whole and to a pyramidal institutional architecture.

<sup>7</sup> Of course, we are not suggesting that Robbins would have argued in favour of socialist policies, but simply that this kind of political struggle was to be framed within an appropriate constitutional set of rules and institutions where also supra-national decisions are taken in a democratic way and not left to the law of the strongest which usually governs diplomatic conferences.

Rossi who had received it from Einaudi. The end of WWII changed the perception of priorities: peace was still an issue in Europe, but not so urgent, compared to economic recovery. The efforts were therefore mainly at the national level, coordinated within a framework of institutions at the supranational level designed as a compromise between the awareness of urgent supranational power to guarantee peaceful international relations, and political realism. Hence the foundation of the Coal and Steel Community (1951), the failure of the European Defence Community (1954) after Stalin's death, and the subsequent efforts for an Economic Community (1957). Economics and markets unifications seemed to be the only way to force greater political integration. The federalist thought still was an underlying asset of policymaking intellectuals and founders of Europe, but functionalism took the lead, being more coherent with the above mentioned compromise. Jean Monnet, Robert Triffin, Robert Marjolin, later Tommaso Padoa-Schioppa, Mario Draghi and other eminent economists shared most of Einaudi's and Robbins's ideas on the need to have a multilayer government with vertically fragmented sovereignty as a fundamental prerequisite for conflicts resolution. Padoa-Schioppa, in particular, contributed to the theoretical and policy debates on European integration, in some cases even to the advancement of the process itself (Maes 2012, Masini 2016), as we shall later underline. The key point of their thought is the concept of shared sovereignty. If economics is to provide the conceptual framework for making choices in cases when resources are scarce, sovereignty, as the capacity to satisfy collective wants, is a key aspect of collective choice. And it is in this meaning that sovereignty plays a crucial role in his thought. Padoa-Schioppa changed his attitude towards the way to push for European integration in time. He had a crucial role in drafting the Delors Report on Economic and Monetary Union, which would eventually lead to the adoption of the euro and he played important roles in both monetary and financial institutions to foster his vision of Europe. He had a different idea of federalism from the standard one, relying more on subsidiarity for the European model. He was aware that the federal model of the US constitution could only be an inspiring one, but that an innovative multilayer government system was to be designed for Europe.

After having illustrated this approach to supranational collective decision-making, we should wonder whether this is only peculiar to western European thought or also to the Eastern European one. One crucial feature differentiating European thought on supranational integration, compared to the American one, is that in Europe there is ample recognition of an incontrovertible feature: heterogeneity. Despite the fact that European

countries have grown up in the context of nation states, and that this deeply influenced the perception of individual identity, European citizens usually tend to feel a multilayer belonging, from local to regional, national and supranational dimensions, presumably rooted both in the Greek and Roman times and political structure, and in feudalism during the middle age. The belonging to several, concentric dimensions, from local to global, was a common feature to all western civilization, and was also reflected in economics, especially since the 18<sup>th</sup> century. Paradoxically, compared to Europe, labour mobility in the USA has determined a much less local identity-dimension. The easy possibility and tradition to settle in places different from the one of birth in context of strong US identity, compared to the national ones, gave Americans a much more unilateral dimension of identity. In Western Europe, well before European citizenship was empowered with a juridical dimension with the Maastricht Treaty, with the attribution of rights and duties, there was the idea that some needs are shared by European citizens and require some sort of supranational provision of collective-European goods. Federalism is not an Eastern European feature, probably because the market-State dichotomy has been perceived as overwhelmingly important, more than any other, and any supranational project, although aiming at a redistribution of the monopolistic power of the public sphere beyond the nation-State, would be perceived as an attempt to found a super State, although different in nature from a classical nation State.

## **2. *Monetarists vs economists***

There is a peculiar wording in European integration economics, which is typical of the European debate, something absolutely not understandable from outsiders: the terms “economists” and “monetarists”. In economics, monetarism is a well-known and recognized school of thought, based on the analysis and policy recommendations of Milton Friedman and his fellow mates (Phelps, etc). Its main tenet is that the Phillips Curve, being straight in the long run, does not allow any trade off between inflation and unemployment; only unexpected economic policies are effective, and only in the short run; therefore a fixed amount of money growth is the best policy advice that policymakers may receive from economic advisors. Although this has something to do with European monetary integration (if the PC is straight, given the converging inflation rates due to the purchasing power parity theorem, there is no real cost of integration, in terms of unemployment), in the debates on European integration *monetarists* are all those who claim that monetary union should come *before* political union,

relying on the endogeneity of optimum currency area criteria. The fact that monetarism allows for a more robust argument for *monetarists*, is merely incidental.

On the contrary *economists*, in these debates, are neither professors of economics nor economic professionals, but all those how argue that reducing divergences in the performances of each and every country is a *prerequisite* for a sound and sustainable currency union. Pointing at several and diverse exogenous criteria for the optimality of currency areas, they used to be (and are) usually sceptical towards the viability and sustainability of the European monetary integration process. This debate stems from two very different approaches to both the role of monetary authority, and the debate on endogenous *vs* exogenous criteria for optimum currency areas. This specific wording, typical of the debates on European integration especially in the Seventies, reflects the dichotomy between French and German European civil servants in European institutions and their different underlying cultures (Maes 2009). We shall see in the next section how this attitude was given even more strength after the recent crisis of Eurozone sovereign debts.

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### **3. Rhetorics on European integration and the *inconsistent quartet***

When talking about supranational integration, there is no monopoly from western European intellectuals and economists. Europe is the most advanced project of supranational integration nowadays, and the debate in (and on) the Old Continent is probably more ample than everywhere else. But, with different timing, supranational integration has been (and is probably going to be) a crucial question all over the world. Even concentrating on the European dimension of supranational integration, different perspectives have been put forward, concerning other areas of the world: from the US, China, Latin America, recently even from Australia. We suggest that a peculiar tract characterizing western European approach to European integration is the way European integration is told. There are three leading rhetorics.

The first is the institutional one. According to this, European integration should be described as a sequel of success stories, from the early Treaties establishing the European Carbon and Steel Community to the euro and the Lisbon Treaty. Each step allegedly provided new features to European integration which, although slowly, always added in some degree to the previous situation. According to this view, sooner or later Europe will make a step further, towards another success, in a sort of teleological view.

A second rhetoric highlights its intrinsic faults, pointing at the inability of European institutions to match citizens' preferences as a support to the need to come back to a loose confederation. It is based mainly on exogenous OCA criteria, claiming the ex-ante non-compliance of Europe with most of the criteria for currency union optimality. This approach has a robust tradition, especially among economists, and it is allegedly matching the preferences of European citizens (increasingly sceptical towards the European monetary union). Authoritative authors have recently claimed, according to this view, that the euro is in itself an obstacle, rather than a prerequisite, for further integration in Europe (Rossi 2016, Halevi 2016). Following some, the euro was not meant to provide stability; and national governments never had "intentions of strengthening Europe" (Boffa et al. 2016), but to maintain power, which is mainly still at home!

A third approach is what we might call the *contradiction engine*. Under this perspective, the European integration process should be read as a construction of bigger and more costly contradictions, together with designing the means to overcome them. As suggested by Padoa-Schioppa's (1982) "inconsistent quartet", a unified market for inputs (capital, since 1987-1993 and labour, with Schengen), and a single market for final goods and services (since 1992) cannot survive with different currencies. The increasing contradictions in the system had a crucial role in forging the path towards the euro. Now, a single currency with different economic policies creates systemic contradictions that cannot be tackled only with *coordination*. Hence the recent common-sense quest for banking, fiscal, economic and political union by the Four/Five Presidents Roadmaps of 2012/2015.

Padoa-Schioppa's inconsistent quartet was no theoretical innovation, being rooted in the trilemma of economic policy (Smith 1965: 210) implied in the Fleming (1962) – Mundell (1963) model of open economies. But it was a spectacular policy agenda: since 1985 the negotiations for Schengen began, until in 1995 the unification of the labour market was completed. In 1986 started the process that would lead in 1993 to the (almost) full unification of the capital market. The first point of the *quartet* (free movement of production inputs) was secured. In 1992 the Single Market secured the second point, the free movement of final goods. The euro provided a - presumably - irreversible framework for the accomplishment of the the third point (fixed exchanges), and a solution to the fourth point of the quartet, making national monetary policies simply not possible. Nevertheless, economic policy may vary the relative position of countries in many ways (for example via budgetary policies and legislative norms), and we have

recently seen that a single monetary policy alone cannot solve problems of collective action impacting on the freedom of circulation of inputs and outputs.

European economic constructors (Delors, Lamfalussy, Padoa-Schioppa himself, etc) and their political counterparts (Mitterand, Kohl, Andreotti, etc), acted within the framework of this narrative. Increasing the number and extent of constraints on domestic policy was a strategy common to both national policymakers (think for example of the instrumental use made in Italy of the *external constraint*) and European ones. This top-down approach, used irrespective of the preferences of citizens (which nobody ever daered to make explicit, until recently), was crucial to push the integration project and to build a sort of common feeling of European belonging in the Nineties. But the euro, in turn, required new steps to be made to solve the contradiction created by its foundation: a federal monetary authority and different (and intrinsically diverging, although under a soft coordination structure of economic governance) budgetary authorities. Hence the need for a banking, fiscal, economic and political unions envisaged in the Roadmaps of the Four/Five Presidents' Reports of 2012 and 2015. Nevertheless, the process for the next steps took too much time, being required exactly in times of crisis, when the social and political context became more unfriendly.

Summing up, while the first approach is common to individuals in institutional positions, and the second is widely used (especially in each single States) to criticize the euro project, the latter one is very specific from economists with responsibilities in policymaking and was a fundamental engine in shaping European integration, at least in the last three decades.

### **Concluding remarks**

Is there any peculiar feature economists in western European countries have conceived supranational integration? Has the European integration process forged the way economics was studied in Europe? We have tried to tackle these questions going through the way economists debated European integration, finding that there are at least three characteristic features.

The first concerns federalism as a constitutional solution to collective action problems in supranational contexts. From that point of view, nevertheless, while political theorists often pointed at federalism as a way to build a European demos, economists - more than aiming at creating it - meant to create a place where European demos might make effective collective choice in a context of democratic legitimacy, i.e. in a multilayer system of government. Einaudi and Robbins, between the two world wars, were the

leading intellectuals to suggest this. After WWII, reconstruction suggested a more intergovernmental and functional integration process was more fit for Europe. And when the Bretton Woods system collapsed, economists focused upon monetary integration, eventually leading to the victory of “monetarists” upon “economists” with the foundation of the euro. This gave rise to three very different narratives on European integration, typical of western European debates.

This picture suggests western European thought on European integration has its own peculiarities, and further shows that some sort of multilayer constitutional federalism is a peculiar tract of some advancement in the integration process. It is widely recognized that a further step in European integration is necessary to overcome the crisis asymmetrically hitting the Eurozone and the EU in general since the last few years. In particular, European collective goods are necessary to create a European demos, which in turn is crucial to hinder fragmentation. Western European thought demonstrated to have in its dna the features to tackle this, but the debates on this issue are becoming increasingly polarized, allowing no final conclusion as to whether the European integration project will eventually succeed.

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