WAITING FOR SIDE MARKETS AND NEW JEAN MONNET

One man's idea can alter the path of history, especially if he can grasp 'l'esprit du temps'. It is he who synthesises the thoughts that confusingly swirl in the air. Then, of course, it takes determination and organisational ability to precipitate the abstract world of ideas into the concrete steps of action. So it was that a modest merchant from Cognac, Jean Monnet, realised at the dawn of the First World War that force of arms was not enough to win conflicts. 'Germany, with its formidable army,' Monnet wrote in his memoirs, 'supported by a formidable industrial power, seemed to me better prepared for the new form of war that the Allies were preparing separately to face with an inevitable dispersion of forces. [1] Certainly, for his compatriots, the alliance with England ('Entente Cordiale') was an essential condition for survival. But they interpreted it only as a juxtaposition of two sovereign powers, with a common goal (to defeat Germany), but each fighting their own war. Their respective trade fleets, for instance, were openly competing, driving up freight rates. Naturally, by the same mechanism, the prices of products such as grain or raw materials also rose, precisely at a time of shortages accentuated by the war. For Monnet, 'solidarity had to be total, each ally would no longer be able to dispose, without the other's agreement, of its men, but also of its supplies or its vessels'.[2]

On the strength of this idea, he managed to be received by Viviani, then President of the French Council, who received him with interest and immediately sent him to London to help develop common supply services. This first idea of 'supranational' solidarity is perhaps the basis for the whole career of Jean Monnet, who was often behind the most important transatlantic and European political decisions between the First World War and the 1970s. With the European Coal and Steel Community (ECSC), in the

[1] Jean Monnet, *Mémoires*, Ed. Fayard, Parigi, 1985, p.53.

[2] *Ibi*, p. 56.

1950s, he institutionalised the embryo of today's European Union (EU), where transfers of power in the economic sphere to a supranational entity were the means to achieve political union. All his work took place against the backdrop of a transition from an open economy to one matured in wars. The disorganisation he discovered in London in 1914 'could be explained by an irrational trust in the mechanisms of international trade that were theoretically capable of responding to all situations'.[3] His aim was always to act empirically, driven by necessity, 'because private interest could not be the motor and regulator of a country at war, and exclusively national interest no longer corresponded to the needs of a military alliance'. [4]

The success of the European Economic Community, supported by an Action Committee for a United States of Europe, set up in Lausanne by Jean Monnet, was determined by the vision that the economy had to be led. This approach, in some ways Keynesian, was masterfully instilled by the former Cognac merchant, in the minds of the politicians who were responsible for making decisions. The essence of war economics had survived the war itself, as the challenge between the Soviet Union and the United States lasted until the fall of the Berlin Wall in 1989.

It is useful to recall the embryo of the thought and action of the 'de facto solidarities' that, albeit with difficulty, motivated the process of economic and political construction of the Old Continent, because history does not repeat itself but resembles itself, especially if it fades freely into the same framework. The European Community suffered an initial setback in the 1970s with the two energy crises and the resulting inflation. In the 1980s, the liberalist revolution of Margareth Thatcher and Ronald Reagan began to undermine the very concept of the war economy by attempting to loosen the laces of the state. In doing so, the regulatory part of the common institutions also began to lose strength. The end of the Cold War, with the absolute victory of the United States, marked the beginning of a financial liberalism that further reduced the role of the state in the economy. The European Union appeared to some as an excessively limited place in the global

[3] *Ibi*, p.59.

[4] *Ibidem.*

financial picture. Better to rely on some 'lighter' institutions such as the World Trade Organisation (WTO). Sure, in the early 1990s the European Union was born with the central pivot of the euro. But this has only partly succeeded in being a vector of political integration. In fact, the European Central Bank (ECB) has succeeded in establishing itself as the only true supranational institution on the Old Continent, driven by the objective of fighting inflation just as it was lowering its head. Globalisation and the free circulation of financial flows reduced prices, while the absence of political planning eroded the ability of states and the European Union to be a 'strategic home' for the interests of its citizens.

But the new context recalls the old. The pandemic has brought the importance of politics and the European Union back to centre stage. This should have, following Jean Monnet's idea of following necessity, managed the purchase of masks and vaccines immediately. But it took time to get organised. An opportunity partially missed. Now, the war with Ukraine, under the formal authority of NATO but de facto of the United States, requires action at the level of individual states and within the framework of the European Union. The sanctions decided are a common political elaboration, but they are also a prevailing expression of the Atlantic Pact Organisation. Stances such as how to purchase energy without excessive competition on international markets are very reminiscent of the needs discovered by Jean Monnet in 1914. As do attempts to help one's own national market without bothering to coordinate the impact on the balance of the whole area. Of course, at that time it was a matter of getting France and England to agree, whereas now the European Union consists of 27 states. The reality is that even today the heart of the Old Continent's major problems revolves around Germany. The euro was created to consolidate the link of the Continent's most important national entity in the European construction site, preventing the geopolitical balance from shifting too far towards the Urals. The gas pipelines connecting, or should have consolidated, Europe (i.e. Germany) with Russia were, however, an attempt at German rebalancing. As are now the partial sale of the port of Hamburg to China and the ongoing debate to allow the Chinese Silex to buy the Teutonic Elmos, which produces 90% of the semiconductors for the German automotive industry. 108 years after Jean Monnet's idea of supranational coordination, the European Union is still searching for identity, just as the geopolitics of the world is changing along with the return of new forms of war economy.

This does not detract from the fact that the EU's achievements remain enormous. As Maurizio Ferrera writes, albeit slowly 'the global financial crisis has pushed the EU towards monetary solidarity, emblematically represented by the ECB's quantitative easing. The Covid pandemic led to the extension of this solidarity to the area of public health and unemployment and, more generally, to the support of the energy and digital transition'. Out of these movements came the European Health Union, the European Temporary Employment Support Programme (SURE) and the Next Generation EU Resilience Facility. But these successes fade in the face of attempts to use residual national power to overcome difficulties common to all member states.

With the war in Ukraine, the markets have realised that the fight against inflation is the key not only to monetary stabilisation, but also and above all to the transition to a new global geopolitical balance. The ECB has so far been subjected to the pace dictated by the Federal Reserve in its rate hike policy. The

United States seems to be able to afford to raise rates from zero to 3.25% and, in the short term, to 4%, and then perhaps even beyond, without incurring a severe recession (accumulated savings are still solid). Europe is forced to raise rates to prevent the euro from depreciating too much, causing an excessive increase in the import costs of raw materials (priced in USD), even if exports benefit. Most of the world's economies are suffering from the speed of the race towards US monetary normalisation. World growth, as the influential economist Larry Summers said a few months ago, could have withstood the Fed's pressing recovery of monetary credibility if China had, in parallel, chosen (given its relatively low level of inflation) a policy of monetary easing to re-establish itself as an engine of growth. But interventions are delayed, while in Xi Jinping's country the real estate crisis escalates, the zero covid policy does not change, and some internal tension begins to manifest itself. The last Chinese

Communist Party Congress confirmed this scenario.

In October, the major markets experienced a so-called Bear Market Rally, i.e. a tactical rise of the stock markets in the context of a trend that remains bearish. The British crash, i.e. the attempt to boost demand instead of containing it in order to curb inflation, was heavily punished by the markets. But, in parallel, this episode showed the inherent risks in turbo rate hikes. The Volcker model - driving the economy quickly into recession to curb the inflationary spiral - cannot be applied at the same pace to an extremely 'financialised' world economy. Years of high indebtedness and zero or negative rates have generated levers in the bond market which, if put under excessive pressure, can cause the entire system to collapse. The central banks themselves are experiencing losses that will not be without impact on their national economies.

The Federal Reserve has regained the credibility it had lost by failing to intervene in time. It now has to convince the markets that it will be able to dose, at least in its rhetoric, upward phases with moments of wait-and-see, thus allowing it to dismantle some of the excesses of past years and to downsize its balance sheet. The stock markets will structurally resume their upward trend when there are serious signs of a change in monetary policy through a fall in rates, which is not yet in sight. But in the context of extreme indebtedness and with a war in Ukraine controlling inflation by hitting supply, modulation of rises is essential, and any sign of a selloff in inflation will be an opportunity to give markets breathing space. The same goes for corporate results, which are less worse than expected, even if one is aware that they do not yet discount the more or less soft recession that seems inevitable. Perhaps, rather than waiting for a real turnaround in the markets, we need to get used to a laterality, descending for now, then ascending, especially if some sign of peace is to be seen on the horizon.

For the European Union, the conditions of a war economy have been created that men of the calibre of Jean Monnet, in the past, were able to exploit in favour of greater integration and independence.

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