TO COMPLETE THE EMU AND ENSURE PROSPERITY WE MUST START FROM THE EURO AREA BUDGET

Pier Virgilio Dastoli, President
Paolo Ponzano, General Secretary

The completion of the EMU is certainly a preliminary and necessary condition for stabilizing the cycle but also for promoting sustainable development and ensuring prosperity. At a supranational level, there is the need for actual economic governance that can coordinate all the monetary and fiscal instruments of economic and financial policies. Achieving the goals set by the treaties and the EU reform will inevitably require choosing the path of strengthening the political, economic, social and ultimately democratic dimension of a unified monetary area within which the euro will become the currency of all Member States.

The opportunities offered by the policies of social and territorial cohesion have not been fully taken advantage of. The responsibility lies within the EU but also within the Member States; these policies have certainly fostered development but without reducing the asymmetries and inequalities among States, among regions and among social classes.

Among the unfinished policies, we should mention the open construction sites concerning: the digital single market, the banking union, the single capital market, the energy union and a real market of services that respects unity in diversity, and a European fiscal policy.

It is clear that in some cases (digital single market, single capital market, and services market) it will be possible to act through treaties, but in other cases decision-making rules (European fiscal policy) or inadequate division of competences (energy union) will require a reform of the EU system in order to achieve full implementation.

The system of overall *governance* of the monetary union conceived to primarily manage the *shocks* contained in the quantitative plan has shown all its limitations in the face of major crises.

The unbalanced reaction of the euro area Member States to the economic crisis of the last ten years; the implementation of rules designed to favor the adjustments of individual economies with respect to external *shocks* without any consideration of the social consequences; the constraints on public finances that have dealt indiscriminately with both current and capital expenditures; the procedures and content of the reform brought by the EU to its economic *governance* in the face of financial crises that valued foremost financial stability; the absence of adequate social compensations, able to drastically reduce the impact of the latter on the real economy and above all on the weakest sections of society, are all examples of how much still needs to be done for true political, economic, and social integration, able to deliver the results promised by the European Monetary Union.

These problems, together with the anachronistic separation (probably instrumental in reducing social spending) between the monetary policy (of exclusive competence of the European Union), the intergovernmental economic policy, and the social policies largely of competence of the States, have determined the failure to achieve the objective of a single European area without borders, and "socially just".

Symbolically, the four freedoms of movement (goods, services, capital, people) within a single space without borders remained fragmented and, in the implementation of the Treaty, the free movement of goods took precedence over the free movement of people.

Thus, the absence of adequate compensation systems on the social front and the rigid constraints introduced first by the Stability and Growth Pact of 1997, then by the reformed one of 2011, and finally by the *Fiscal Compact*, has contributed to drastically reduce citizens' approval for the European project, especially in those countries that have suffered most from the crisis.

In light of these observations, the strength of the EU is at great risk if we do not act efficiently, and in a manner and scope that can be easily recognized by the European citizens. Moreover, the mutual distrust between "virtuous countries" and "unbalanced countries" (defined as such exclusively on the basis of financial variables) has made it extremely difficult, in recent years, to find political agreement on profoundly innovative practices and policies.

Furthermore, the decisions of the Council and the proposals put forward by the European Commission - such as the White Paper and subsequent documents on globalization, social dimensions, and the objectives for sustainable development - do not call into question the current economic *governance*, putting at risk the foundations of the European social model; these decisions, together with the high unemployment rate, are the root of the financial crisis and of the lack of confidence in the European process of integration.

Movimento Europeo Italia

A series of decisions must be made, as soon as possible, to restart the European development process, making the reasons for staying together clear, overcoming the mistrust towards the European institutions, and improving the living conditions of the people at risk of poverty and social exclusion, with particular attention to those without work, children and young people, and taking into consideration the generation gap.

To allow the EU to reach the fundamental goal of *sustainable development*, it is necessary to reflect on a radical revision of the instruments of European economic *governance* in light of a rigorous and comprehensive analysis of the social costs, and the necessary consequences in terms of European rules and policies.

It is necessary to quickly reflect upon a *fiscal capacity* of the euro area for the promotion of European public goods and economic / social policies, fed by the initial transfer to an *ad hoc* budget of a limited percentage of the GDP of each country in the euro area. The European Monetary Fund that we hope will be born from the transformation of the European Stability Mechanism must guarantee, according to the classical tripartite division of Musgrave, stability in the EMU. On the other hand, the capital allocation and redistribution necessary to develop the economy of the EMU and face inequalities between member countries in the framework of a territorial, economic and social cohesion policy, must be guaranteed by a budget of a politically and economically integrated euro area.

The hypothesis of creating an autonomous (and additional) budget for the euro area countries has been discussed for many years within the European Union. This budget would be destined to stabilize the euro area by counteracting any asymmetric economic shocks in some countries and allowing euro area member countries to finance national reforms and productive investments. In particular, the European Commission distinguishes, since November 2012, regarding the concept of "fiscal capacity" between: a) a financial instrument of convergence and competitiveness for (uniquely) the countries of the euro area that could be introduced as a specific item within the general budget of the European Union on the basis of art. 136 TFEU or art. 352 TFEU with enhanced cooperation; b) a macroeconomic stability tool aimed at contrasting the specific economic shocks to each country, allowing a partial absorption of the very same at central level. At the time, the Commission had considered that in its second meaning the realization of this fiscal capacity would have required a revision of the Treaties in order to create an explicit legal basis that would authorize the Commission to establish a new fiscal power at European level. As part of the negotiations for the new multiannual financial framework 2021-2027, the Commission has, however, proposed the creation of a new stabilization function for the euro area, with 30 billion euros to be distributed over seven years in the form of loans to countries hit by strong economic shocks as support for public investment. (COM (2018) 321 final).

The debate on the creation of a budget for the euro area has often been linked to the parallel debate on the insufficiency of a European budget equal to 1% of GDP to finance the public assets identified as necessary for the development and strengthening of the Economic Union and monetary policy. To this end, the report of the Monti group on the Union's own resources had already identified a series of new resources that the European Union would have to exploit to finance new European public goods. Studies have been published to support the need for an additional European budget provided with around 1% of the European GDP to finance these public goods. These studies have also identified the new resources to be attributed to the European Union (tax on financial transactions, carbon tax, tax on tobacco consumption and gambling). The legal and institutional problem lies in knowing through which existing legal basis it would be possible to create a new fiscal capacity within the European Union (excluding for the moment the revision of the existing Treaties).

The European Parliament considered, in its reports on deepening the Economic and Monetary Union, that a fiscal capacity of the euro area should be integrated into the EU budget but outside the limits of the multiannual financial framework (decided by the European Council unanimously). The agreement reached last June 13 within the Eurogroup provides the basis for the creation of a specific budget item, within the general EU budget, to facilitate economic convergence and competitiveness (but not stabilization) in the euro area. This budget item, for which the European Council would have to unanimously decide the amount, would be fueled by national contributions and redistributed according to "just return" criteria and would not therefore constitute an "autonomous fiscal capacity" of the Euro zone. The amount of this "balance sheet" should be around € 22 billion for seven years; as such, it would greatly limit its ability to affect individual Member States' investments.

The European tax system - with a global tax burden on citizens and businesses that must be globally unchanged but more evenly distributed according to the principle of progressivity - must reach a high social value in parallel with the harmonization of withdrawal policies and national taxes and tax quotas of European competence, with coordinated management of the total fiscal pressure in anticyclical sense.

Examples of taxation on the gross margin of games can be cited; the *carbon tax*; the European additional tax on tobacco products and short-term trading profits made by companies and commercial companies; the withholding tax on capital value increases and / or on *capital gains* realized through the sale of real assets, registered furniture and financial instruments from commercial companies resident in tax havens.

In this context, the EU must take strong initiatives against money laundering, tax evasion, especially against evasion by multinational companies, and against "tax tourism", by overcoming downward tax competition through real European tax harmonization.

Only a euro area budget item - within the EU budget of 27-28 and a fiscal capacity managed by a European finance minister within the European Commission and under the control of the European Parliament can generate common resources to produce the European goods and public services necessary to ensure shared prosperity.

In our view, the euro area budget must be seen as an evolution of the euro area *governance* in the direction of its re-establishment in a truly federal sense because the management of a common budget and, even more, of fiscal power require a political responsibility and a supranational democratic legitimacy that do not appear in the intergovernmental model imagined by the Eurogroup in its decision of 13 June 2019.

The strategy we propose[1] must be based on a European sovereignty within the euro area in the following areas:

- Common control of economic crises with the promotion of European stabilizers in the face of economic *shocks*, and defense of the single currency. In a monetary union, no state can control crises alone; structural reforms and convergence between countries are necessary but not sufficient. We need common stabilizers (for example a European unemployment benefit) to deal with the *shocks*, above all the asymmetric ones, which affect some countries;

[1] "Una *prosperity and security Union* europea: capacità fiscale e beni pubblici" by Olimpia Fontana and Luca Gasbarro. CSF and ME.IT - April 2019

- Effective joint control of external borders, especially the Mediterranean, common reception of refugees; integration of legal immigrants, regularization or repatriation of illegal immigrants;
- Promotion of public and private partnerships with Africa, and development of the "ring of friends" initiative with the Mediterranean;
- Sustainable development, ecological transition in transportation, *housing*, industry and agriculture, internal and external European *carbon tax*;
- Innovation and digital economy with new consumer protection regulation and taxation against corporate tax avoidance in particular in the *IT sector;*
- Support for long-term investments, including the social ones proposed by the report coordinated by Romano Prodi[2];
- Convergence of taxation and social models (*social compact*) towards European standards;
- Enhancement of European culture and universities.

We are convinced that it is possible to finance a euro area budget with its own resources without transferring resources between creditor and debtor countries, and without mutualisation of national debts.

As we indicated in the appeal, released in June 2018 and as is now confirmed by the study coordinated by the "Real Economics Study Center", initial internal resources can be generated up to 1% of the GDP of the euro area and that is over 120 billion euros per year, that could be used to finance European public goods for shared prosperity and common security. These resources can be generated, in an innovative and virtuous way, mainly by influencing socially harmful consumption and recovering tax avoidance with clear positive effects for sustainable growth.

In a first five-year phase (2020-2024) the establishment of an annual planning cycle could be foreseen. Within this five years guidelines would be drawn up by the finance ministers of the Eurogroup in agreement with an EP subcommittee on budgets made up of parliamentarians of the euro area; States would draw up annual plans based on jointly identified priorities on the basis of the Juncker Plan model and the Commission would approve the individual projects and provide the funding.

---

[2] *"Boosting investments in social infrastructures in Europe"*

In this case, the possibilities to create a financial instrument that has a minimum of effectiveness on the real economy would fall into one of the three following hypotheses: a) allow the annual budget procedure to determine the amount of said financial budgets by qualified majority, excluding at the same time that this amount falls within the multi-year cap of expenditure authorized by the multiannual financial framework to be decided unanimously; b) change the decision on internal resources and foresee the allocation of new resources to finance the real budget of the euro area (this decision should, however, be taken unanimously, unless the European Council decides to activate the "passerelle" clause to allow a decision by qualified majority, which is a highly unlikely hypothesis); c) decide on the creation of a euro area budget through an intergovernmental agreement of the euro area countries that could be ratified by the majority of the countries in question, according to the procedure used for the Fiscal Compact.

We should, however, aspire to a model that would preserve the role of the EP and of the Commission and avoid making the euro area budget a merely intergovernmental exercise, ensuring the unity of the institutional framework and, as far as possible, the use of EU-28 procedures in the decision-making processes of the European budget. Accordingly, the Franco-German proposal suggests making use of the art. 175 par. 3 TFEU which allows the adoption by ordinary legislative procedure of "the specific actions that may prove necessary outside the Funds (cohesion Funds, Ed)" but also articles 182 (research), 173 (industry) and 136 (specific provisions relating to countries that have adopted the single currency).[3]

Finally, a budget financed by European resources would allow the principle of "just return" through which countries now evaluate their participation in the budget, that is, on the basis of the difference between what was paid through their public budget and what was received in the form of European policies.

24 June 2019

[3] V. "Osservazioni preliminari sulla proposta franco-tedesca di bilancio dell'Eurozona" di Nicola Verola, Astrid Rassegna n. 18/2018.