

## **Some political hints on the strategic challenges Europe and European federalists are facing**

*Introductory remarks by Franco Spoltore*

### **1. In view of the European elections,**

JEF and UEF have urged the European parties and candidates in the European elections to help citizens making the right choice by showing support to the following principles:

- MAKE THE EUROPEAN ELECTION TRULY EUROPEAN
- STRENGTHEN THE EURO AND RESTORE THE EUROPEAN ECONOMY
- BUILD A DEMOCRATIC UNION
- STRENGTHEN EUROPE'S ROLE IN THE WORLD

### **2. After the European elections,**

the European parties, institutions and MPs, and the national governments and MPs should be requested to say how

- To make this new European legislation a constituent one
- To implement the roadmap towards the four Unions (banking, fiscal, economic and political)
- To establish a federal constitution and lay down rules to regulate the relations between the eurozone countries and the rest of the EU.

### **3. We must be aware of the present political constraints and priorities**

According to several declarations and contributions (already circulated), and in particular the contributions from Shahin Vallée ([From mutual insurance to fiscal federalism: rebuilding EMU after the demise of the Maastricht architecture](#)) and the French Treasury ([Un budget pour la zone euro](#)) a democratic government of the Euro and an appropriate fiscal and budget capacity should be established to consolidate the monetary union into an effective union [see below some excerpts from these documents ([A](#) – [B](#))]. We must consider that:

- a) the building of a genuine additional fiscal capacity for the Eurozone requires a Treaty change;
- b) a federal union cannot be established without the involvement of the citizens, that is, without the convening, a European constituent assembly – an ad hoc Convention - with the mandate to draw up a federal constitution;

### **4. The new phase of our political action**

After the European elections a new phase of our political action has opened to ask:

- the national governments and MPs to act in order to contribute do build an effective democratic government for the eurozone;
- the MEPs, and in particular those who have already signed the federalist pledge or who will work in the new Spnelli group, to elaborate a project/ a manifesto to promote an initiative that give a reply to the problems mentioned before and open the way for a constituent European convention.

The procedure to appoint and elect the new European Commission's President in consultation between the European Council and the EP, as well as the definition of the working programme of the new EU institutions in the new legislation, should be considered in this framework and not as a mere administrative act..

These are the reasons why it is so important to go on campaigning on the issues stated in our Manifesto and pledge, by strengthening the collaboration between JEF and UEF and developing new action-days and -weeks in view of the several European deadlines we have (see the box below).



## Costraints and priorities

### A – Excerpts from Shahin Vallée's article.

"The euro crisis since 2010 has showed the limits of the "Delors consensus" and some of its obvious fragilities are being addressed under duress since the beginning of the crisis. In particular, the benign neglect for the fact that financial instability and fragmentation could become an existential threat to the currency union is slowly sinking in. However, *moving towards a banking union* is inextricably linked to major political and fiscal considerations. Indeed, transferring the sovereignty over the banking system (an essential part, if not the most important part of the economy) to the European level is an important transfer of sovereignty and sharing the fiscal responsibility for possible future bank failure is a major common implicit fiscal liability. As a result, beyond reestablishing financial integration, rebuilding the architecture of the monetary union does involve a pretty fundamental political and fiscal discussion, which so far, has been largely avoided.

Indeed, the inter-governmental insurance mechanisms that have emerged organically during the crisis are understood to have offered an alternative path to buttress the Maastricht architecture but they might well be economically insufficient and political unsustainable.

Economically, the mutualisation of economic risks that has started tacitly through various mechanisms (European Stability Mechanism, interventions by the European Central Bank) will be inadequate to address most economic shocks. These instruments were indeed designed to face very large external or idiosyncratic shocks but they seem to disregard the fact that Member States' ability to absorb shocks and run contra-cyclical policies has been tremendously impaired by high debt levels and the structural weakening of sovereign credits.

Politically, these instruments can only be activated alongside far more intrusive economic policy monitoring that are essentially equivalent to a take-over of national economic policy by a hardly identified and hardly accountable process. This form of "*federalism by exception*", essentially confiscates economic policy in bad times and provides for insufficient economic policy coordination in good times. As the recent experience demonstrates, it is likely to fuel democratic deficit and political tensions between the core and the periphery of the euro area. This highlights the inherent economic and political limitations of the current mutual insurance system.

An alternative to the mutual insurance mechanisms is a real move towards a form of fiscal federalism that allows in effect restoring the ability to lead contra-cyclical policy while respecting basic democratic and political principles. The international history[6] of fiscal federalism can prove a useful guide in this respect[7]. In their lesson of US history for the architects' of Europe's fiscal union, ...

The creation of an embryonic euro area budget could therefore address the weaknesses of the mutual insurance system. Economically, it would not need to replace it altogether and could potentially evolve as its natural extension by delivering the mutualisation of economic risks and deliver what Musgrave[9] (1959) referred to as the stabilisation function usually best delivered at the central level. Politically, such a process would force to clarify the economic prerogatives that are truly European from those that should remain national in a system that would be respectful of subsidiarity and clearly delineates economic responsibilities"...

**B – Excerpts from the document** élaboré sous la responsabilité de la direction générale du Trésor français

..." En dépit d'une stabilisation de la situation en zone euro depuis la mi-2012 grâce à l'action des États membres et de la BCE (réforme de la gouvernance et engagements des États en matière de finances publiques, renforcement du rôle de la BCE, mécanismes de solidarité financière, approfondissement de l'Union bancaire, réorientation du policy mix en faveur de la croissance), cette crise a montré la nécessité pour une zone monétaire de disposer d'un instrument pérenne de stabilisation économique, en cas notamment de choc asymétrique. Cet instrument pourrait prendre la forme d'un budget - commun et de taille significative - pour la zone euro.

Composé de dépenses contracycliques - comme des dépenses liées au chômage - et de recettes cycliques - comme l'impôt sur les sociétés -, ce budget commun participerait à la stabilisation macroéconomique de la zone euro via des stabilisateurs automatiques au niveau central et une capacité d'intervention discrétionnaire. En outre, une telle évolution conforterait la position de la BCE, qui pourrait être plus encline à agir sur une dette centrale adossée à ce budget et ainsi contribuer à la stabilité financière de la zone.

La mise en place d'un budget commun pour la zone euro constitue un processus de moyen terme, qui nécessite en parallèle un pas en avant dans l'intégration politique, afin d'assurer la légitimité démocratique des nouvelles prérogatives confiées au niveau européen. La solidarité accrue qui en découle pourrait également justifier un renforcement supplémentaire de la gouvernance économique en zone euro. De plus, une telle évolution aurait dans de nombreux domaines (social et fiscal notamment) des effets structurants. Au total, la mise en place d'un budget central améliorerait significativement le fonctionnement économique et institutionnel de la zone euro, ce qui contribuerait à renforcer son potentiel de croissance"...

## Some 2014 European Deadlines

26-27 June	European Council meeting (on its agenda the procedure to appoint of the new President of the European Commission)
<b>2 July</b>	<b>Europea Parliament meeting in Strasbourg (presentation of the programme of the Italian Presidency)</b>
First decade of July	Meetings in Bruxelles of the political groups of the EP
8-9 July	Digital Venice, European summit
11 July	Youth Guarantee, Torino, European summit
15 July	Strasbourg, meeting of the new Spinelli group
<b>14-17 July</b>	<b>Strasbourg, EP plenary</b>
September	Auditions of the candidate-commissioners by the European Parliaments
<b>October</b>	<b>The EP must vote on the new European Commission</b>
<b>23-24 October</b>	<b>European Council on the Partnership for reforms, growth and competitiveness</b>
<b>19-20 December</b>	<b>European Council</b>