

## Only a European federal union can solve the crisis

### Federal Union or disintegration

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The situation is critical. We can no longer wait. Since European leaders keep carefully avoiding the real decision, the European Commission has to take her full responsibility. It is the sole institution that can put forward draft legislation. The Commission must produce a clear legislative pack and timetable for and beyond the European Council of 28/29 June which must be endorsed with cast-iron commitments by the Heads of State and Government.

**The leaders of the EU have it all wrong; it's not about transferring sovereignty but recovering sovereignty – in the face of challenges and threats that are of global essence, no European country can claim to be sovereign.**

Thirty years after the "Single Act", we now urgently need a "Federal Act" to deliver a banking Union, an economic and fiscal Union and a political Union. The 'Federal Act' must contain 12 elements following the outline of the 4 blocks identified by the "Towards a genuine economic and monetary union" produced by the 4 Presidents.

#### Banking Union:

**1.** Set up of an EU wide deposit guarantee scheme and resolution fund and provide for the direct recapitalisation of the European banks through the establishment of a European fund which could be in the meantime provided by the EFSF and/or ESM.

**2.** Stabilize and clean up the whole banking sector, through establishing an adequate single supervisor in the Eurozone for banks carrying a systemic risk - including medium and large cross-border institutions - and achieve the internal market in the banking sector. Specific measures include:

- imposing stronger conditionalities to the institutions that benefited from crisis-related State aid and the support of ECB liquidity lines;
- stimulate loans to SMEs by making prudential and capital requirements more favourable (notably through ring-fencing mechanism and adequate risk weighting);
- ensuring bank balance sheets are down-sized by divesting the most risky activities first, thus ensuring that lending to the real economy is not negatively impacted;
- ending the executives' self-serving behaviour as regards pensions, bonuses and salaries; preventing any breach of law by rescued banks, for example tax evasion.

**Economic and fiscal Union:**

Beyond the implementation of the Six Pack, the rapid finalisation of the 'Two Pack', the entry into force of the Fiscal Compact, the ratification of the ESM Treaty and the modification of Article 136, the following reforms are necessary. These reforms have to go in parallel with further structural reforms in order to improve competitiveness.

3. Set-up a "new strategy for economic and social convergence and sustainable growth"
  - with binding targets and sanctions for the Member States of the eurozone;
4. Increase as key element of this "Growth compact" the EIB capital as well as increase the funding of its loan portfolio through bond issuance open to retail investors and launch on a large scale of "project bonds" to support large-scale investment in sectors such as energy, transport and telecommunications of at least 1% of GDP over ten years;
5. Decide on a roadmap to a Eurobond market to enable the mutualisation of debt for the Eurozone Member States;
6. Launch a European collective redemption fund for debt over the 60% of GDP mark for a period of 20-25 years together with eurobills and the coordination of remaining debt issuance or similar proposals.
7. Make the multiannual financial framework (MFF) a real tool to assist paralysed member states to break out of the crisis. Fiscal Union also means a fiscally independent Union: the EU budget must be financed by own resources without increasing the existing tax burden on citizens and leading to a reduction in contributions from national treasuries. There is no recovery without sustainable resources; there are no sustainable resources without own resources.
8. Close loopholes in national tax systems, introduce a mandatory common consolidated corporate tax base (CCCTB), coupled with minimum range of corporate tax rates, to increase the effective real of taxations in the members states and to seriously tackle Value Added Tax (VAT) fraud and other forms of tax evasion.

**Political Union:**

A quantum leap towards a truly European democracy is indispensable. At the heart of the financial and sovereign debt crisis lies the absence of European government and the question of democracy. Ever closer intergovernmental coordination fails to deal with the crisis and lacks any form of democratic accountability. Extending the powers of the Commission on national budgets and economic policies cannot happen without corresponding reinforced democratic control both by the European Parliament and national/regional parliaments at their respective levels and a radical application of the community method.

The overly technocratic processes that too often characterise the decision-making, such as in the case of Greece, are no longer appropriate and need to be made more political in order to reflect the increase level of scrutiny that is now being placed over them.

In the mid-term a Convention should be organised to attend the democratic shortcoming of the current institutions.

**9.** A Eurozone government must develop, lead and supervise the economic and fiscal policy. It must be fully democratically accountable. In effect it can only be organized within the European Commission. The Commission represents the euro area in the International Financial Institutions and chair the Eurogroup and the Ecofin Council.

**10.** Introduce pan-European lists to elect a portion of the MEPs on this basis in order to further develop the legitimacy of the European Parliament and of the European democratic process. A European public space should be further develop through the trans-nationalization of the media space, training and exchanges between citizens, stakeholders and groups of citizens on a large scale (as with Erasmus), the European Citizens' Initiative and all forms of transnational citizen participation including through new social media.

**11.** Strengthen the democratic legitimacy of the Commission President, with an agreement, prior to the 2014 campaign, between all major EU political families to declare that their candidates to the Presidency of the Commission will only be accepted by the new Parliament if they have preferably been elected to the European Parliament and above all have campaigned throughout all 27 Member States. Furthermore, at least half the College of Commissioners must be drawn from people elected to the European Parliament in the 2014 elections.

**Last but not least: Help Greece save itself**

**12.** Help Greece by reviewing the terms of the Memorandum to:

- extend the deadline for Greece to achieve the fiscal targets
- redefine better targets, with more in depth and structural reforms instead of the moderation of minimum wages in the private sector and the raise of the tax burden on small and medium companies;
- shift financial resources to the Greek real economy by diversifying for a certain period the exclusive conditions for debt repayment, so that the needs for an efficient public administration and decent welfare state gain at least an equal priority;
- get detailed data from the Swiss and other banks for Greek deposits, in order to control gray properties and illegal deposits;
- establish an independent European Audit Commission to provide detailed information on how public debt was accumulated over time and to determine the amount of any "odious debt".

The crisis has clearly demonstrated that a shared European project cannot exist unless national debates are Europeanized. The construction of a European political union represents an unprecedented historical opportunity to bring democracy out of its national historical context and become a true transnational democracy of a federal type.