CENTRO STUDI SUL FEDERALISMO

For the attention of
Mr. Jean-Claude JUNCKER
President of the European Commission

c.c.:

Members of the European Commission
Frans Timmermans
Kristalina Georgieva
Jyrki Katainen
Pierre Moscovici

President of the European Council
Donald Tusk

Presidency of the Council of the European Union
Matteo Renzi

President of the European Parliament
Martin Schulz

Minister of the Economy of the Italian Government
Pier Carlo Padoan

Minister of Foreign Affairs of the Italian Government
Paolo Gentiloni

Undersecretary for European Affairs of the Italian Government
Sandro Gozi

Turin, 18 November 2014

Dear Mr President,

In your keynote speech to the European Parliament we were pleased by your proposal to activate a €300 billion Investment Plan over three years, using available and additional resources and by making recourse to public-private partnerships.

Always wishing to cooperate in such undertakings, we would like to offer some thoughts on how to ensure that the Investment Plan announced by you is able to structurally re-launch the European economy and to begin a new cycle of sustainable development in the Eurozone, maintain social cohesion in our countries and avert the decline of the European economy.

1. Weak European recovery

The European Commission's autumn forecasts for income and employment trends point to a slow recovery with a very low inflation rate. For the Euro area, 2014 should end in positive territory, with slightly higher growth in 2015 but still only moderate. At these levels of growth of real GDP, employment will only begin to rise in 2016. Inflation will remain extremely low in 2014, rising gradually in 2015 and 2016. The deficit/GDP ratio will continue to fall, while the positive trade balance will improve. These figures show that the recovery is still weak, but *there are all the conditions for a policy to revive the economy*: low inflation, high availability of labour, falling government deficit, growing surplus of current accounts, interest rates close to zero and ample liquidity.

2. <u>No growth without new investment</u>

Substantial investments, both in the public and the private sectors, are needed to meet the challenge to complete an efficient infrastructural system in Europe. Preliminary estimates indicate the need for investment amounting to between €1.5 and €2 trillion over five years in the three sectors of energy, transport and ICT. But a European policy for revival depends on a strengthening of the European economic-social model, which currently means implementing a plan for sustainable development through spending projects not just to complete the European networks in the sectors of transport, energy and telecommunications, but also for:

a) expenditure on research, development and promotion of higher education, to increase the competitiveness of European production

b) public and private investment in pioneering technologies and to promote the forming of European champions in leading industries

c) financing a number of projects to improve the quality of life of EU citizens (sustainable mobility, water purification, renewable energy, urban renewal, more efficient services for people, especially vulnerable people)

d) investments to ensure conservation and to promote the use of the cultural heritage and natural resources.

3. <u>(Claimed) impossibility of Member States to make the necessary investments, considering their indebtedness and the European constraints</u>

The proposals for a re-launch policy currently being discussed refer to a number of expansionary measures coordinated in Europe, which are difficult to achieve politically in the framework of the confederate structure currently governing the Eurozone and also incompatible with the strict restraints imposed by the fiscal compact.

The only realistic solution to get out of the current impasse is to prepare a European plan for sustainable development and to allocate new fiscal resources to the European budget to finance a European Fund for development and employment to be run by the Commission with real decision-making powers about how to use the resources and where to make capital expenditures.

Earmarking effective own resources for the European Fund is compatible with current European legislation as these resources would be used for specific purposes without violating the principle of universality for the budget.

4. Necessity to devise an economic policy based on different cornerstones: the European cornerstone and those of the Member States, with different tasks and responsibilities

The European cornerstone of economic policy managed by the Commission should produce a plan for investments in the sectors of infrastructure and constructing European public goods. In a globalised world and in order to improve the quality of life of European citizens, these investments will raise the productivity, and hence the competitiveness, of European industry in sectors that have now reached a European dimension and need to be managed at a European level by means of European investments.

The national cornerstones will remain in the hands of the Member States which should mainly concentrate on delivering the structural reforms they need, rebalance their budgets and reduce their stock of debt, by eliminating waste, corruption and tax evasion.

If a significant amount of investment spending were taken from national budgets, this would free up resources to use for reducing taxes on labour and businesses (the tax wedge in the EU is much higher than the OECD average). It could also be used for a generalised unemployment subsidy, in countries where this is not in place, to include even first-time jobseekers and those training/retraining, and also to supplement the minimum pensions.

5. Management of the development plan by the Commission, in the role of a provisional government of the Eurozone, under the control of the EP

The crucial point is to define the resources that can be released for financing investments, to allocate them to a specific European Fund for development and employment, and to decide at the same time to transfer responsibility to the Commission for directly managing – and with the powers necessary under the control of the European Parliament – not just the resources but also the expenditures included in the development plan.

To finance the investment plan, the most suitable resource appears to be the financial transaction tax (FTT) because, although it was found to be impossible to reach unanimous agreement in the Council about the Commission's proposal in this respect, already 11 countries decided to participate in enhanced cooperation for introducing this tax.

The FTT should not be directed towards the national budgets of each country involved in enhanced cooperation but go to increase the European Fund for development and employment, as said earlier.

The agreement between the Member States of enhanced cooperation will require defining the tax structure by the end of 2014 and FTT coming into force in 2016.

At a later moment, the European Fund's own resources for development and employment could be increased substantially by imposing a European carbon tax, also activated by means of enhanced cooperation and to be allocated to the above specified European fund.

With this in mind, during the transition phase that starts by constituting the Fund from the proceeds of the FTT, and subsequently of the European carbon tax, the Commission's work could be supported by the participation of senior representatives of the national Treasuries, so as to ensure a constant link between European policies and national policies. When creating this extended directorate within the Commission – which, by analogy with what happened during the process that led to the Euro and monetary union, could be called the European Fiscal Institute - a deadline should be made from the outset for the end of the transitional phase by creating a European Treasury responsible for managing a Eurozone budget.

In this regard, we would remind you that the European Citizens' Initiative "New Deal 4 Europe" (www.newdeal4europe.eu) is currently working its way through the processes. It calls for activating an extraordinary European Plan for sustainable development and employment, supported by a wide array of economic and social forces, personalities and MEPs, and it indicates instruments and objectives similar to those pointed out in this letter.

We remain confident that you will take our indications into consideration, and meanwhile send you our best regards.

CENTRE FOR STUDIES ON FEDERALISM	EUROPEAN FEDERALIST MOVEMENT
President	President
(Roberto Palea)	(Lucio Levi)
Roberto Palea	Lucio Levi

Centre for Studies on Federalism
Via Real Collegio 30
10024 Moncalieri (TO) - Italy
www.csfederalismo.it

European Federalist Movement
Via Schina 26
10144 Torino - Italy
www.mfe.it