To the Governments of the Eurozone Member States
To the European Parliament
To the European Commission
To the European Council

Memorandum for the European Council
Meeting on June 27th-28th, 2013

ALLOCATING THE FINANCIAL TRANSACTION TAX TO A EUROPEAN FUND FOR GROWTH AND EMPLOYMENT

PREMISE

Many steps forward have been taken towards an effective governance of the Eurozone in order to guarantee financial stability through the Fiscal Compact, the Six-Pack and the Two-Pack. There is now general consensus about every country's obligation to pay off its own debt accumulated in the past. The way is open for ensuring that each Member State within the Eurozone pursue financial stability, under strict European control.

However, fiscal consolidation will be difficult to achieve if a strong recovery of the European economy is not initiated. On the other hand, there is no national way out of the crisis. Expansionary measures are now impossible at the level of Member States, and in any case would be ineffective since most of their effects would be lost through increased imports from other European markets.

Structural reforms are urgently needed in highly indebted countries to improve productivity and increase competitiveness, but they will produce results only in the medium- to long-term. To launch a new phase of development and promote an increase in employment, the fiscal consolidation of every Member State needs to be linked to the creation of a *European Fund for Growth and Employment.*

Two major issues should be primarily addressed: the financial means available for the Fund and the expenditures it should promote.

PROPOSAL

The revenue of the *Financial Transaction Tax* (FTT) – based on the European Commission's proposal of February 14th, 2013 and to be soon introduced by the European Council – needn't all be used for national budgets, but rather for financing the *European Fund for Growth and Employment*, at the benefit of cooperating Members States.

The FTT estimated revenue, only for the 11 countries that have adopted it through enhanced cooperation (but to be subsequently extended to all Eurozone Member States) could amount to 31-33 billion euros per year.

If these resources were allocated to the new Fund, it would be possible to launch a *euro-project bond* issuance, involving the EIB in the investigation and management of investment interventions, finding financial resources in the private sector and/or funding from the EIB itself. In this way, at least 200-300 billion euros could be allocated to the Fund, to be paid out over a period of three/five years, for the economies of the cooperating Member States.

The main aim of the financed investments should be to complete the existing infrastructure network (energy, transport, broadband) and promote technological innovation within a European economy that needs new impetus to compete in the world market.

The Fund could also prepare a plan that should be implemented to improve the competitiveness of the European economy through investments in higher education and research.

A smaller amount of the FTT revenue could be used to support structural reforms in Member States which are willing to conclude contractual agreements with EU institutions through limited, temporary, flexible and targeted financial incentives - the Convergence and Competitiveness Instrument suggested by the Commission in *A Blueprint for a Deep and Genuine EMU* published on November 30th, 2012.

POLITICAL VALUE

If the above-mentioned proposal were implemented the prospect of providing this European Fund with its additional own resources would be strengthened, such as a European *carbon tax* to intensify the fight against climate change and reduce CO_2 emissions.

Since this carbon tax could yield a revenue of at least 50 billion euros per year (as estimated by the Commission itself), the financial and investment capacity of the European Fund would be significantly increased.

However, if an "adequate fiscal capacity" is created within the Eurozone through the implementation of the FTT and, in perspective, through the introduction of a carbon tax, the democratic control of the use of these resources should be guaranteed, as has been acknowledged in the Commission's *Blueprint* and approved in the Report presented by President Van Rompuy to the European Council of December 13th-14th, 2012.

The Commission has stressed that "over the medium term progress towards a deep and genuine EMU would require the creation of a structure similar to an EMU Treasury within the Commission to organise the shared policies adopted through the common fiscal capacity to the extent that it implies common resources and/or common borrowing". However, this new budgetary authority responsible for governing the European economy should be controlled by the European Parliament and the Council, in a configuration limited to Eurozone Member States: "no taxation without representation". The way will then be open for the evolution of the EMU towards a full federation, initially limited only to the economic and monetary field but that must gradually include competences in matters of foreign and defence policy as well.

CONCLUSION

The decision to allocate the TTF to a European Fund for Growth and Employment is of strategic importance for the recovery of economic growth and for the strengthening and completion of the federal unification process of the European Union.

The impact on the economy of individual States would be much greater due to the increased efficiency of EU spending as opposed to national spending and the "leverage" that could be achieved at the European level (given the great availability of private financial capital that could be used) rather than the inclusion of their respective revenues (at risk of avoidance and evasion) in national budgets.

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