The Greens | European Free Alliance
in the European Parliament

A Pact for Sustainable Prosperity
The Green alternative for European economic governance

The European Union is at a crossroads. We are faced with the consequences of a development model fuelled by debt and deregulation; the crisis we are undergoing has the potential to accelerate the destruction of social cohesion and the political disintegration of the continent, driving us to irrelevance in the 21st century. Conversely, it is an opportunity for us all to achieve a quantum leap forward, enabling Europe to build a socially just and environmentally sustainable society based on a participative multi-national, multi-level democracy.

It's the economy, stupid! Indeed, an essential component of our response to the crisis must be a robust economic governance for the Union. Seventeen Member States already share the Euro, with more to come. The common currency has improved Europe's internal market and the resilience of its Member-States in the face of the financial and economic crisis, initiated in 2007. If it is to stand, this monetary union requires convergent social and economic policies. These must be geared towards enabling Europe to respond to the two key challenges of the 21st Century : prosperity and well-being for everyone on the planet, both for current and future generations while fitting our development model within the physical limits of our planet.

This requires a Pact that concurrently addresses all aspects of the current economic crisis. Clearly, we need sustainable public finances, but public spending in itself is not the root cause of the current crisis : in 2008, all Member States of the Eurozone stepped in to save our banks. Doing so, private debt was transformed into public debt. A Pact that does not consider this cause of the crisis is bound to fail and will lead to another round of bank bail-outs.

Therefore, our vision of economic governance rests on four pillars, that cannot be separated from each other:

1. **A macro-economic pillar**, whereby key economic, social and environmental indicators are monitored in order to provide guidance for macro-economic policies. These should include for instance private debt and asset price developments, current account deficits and surpluses, labour market dynamics but also income inequalities, evolution and distribution of net wealth or imports of non-renewable resources;

2. **Sustainable public finances :** continuously increasing public debt, especially as it is funding current expenditures, means borrowing from the future generations and is therefore not sustainable. Reining in deficits means however both responsible government expenditures AND fair tax resources, the latter increasingly requiring coordination at EU level if to be effective and efficient. Sustainable public finances also require a strong European Monetary Fund, combining the role of financial stabilisation and that of issuer of Euro-bonds in order to provide common funding to part of the Member States' public debt.

3. **Common financial instruments** : There are no historical examples of a successful monetary union without a robust federal budget. EU's current budget is doubly flawed, as it only represents 1% of the Union's GDP and is totally dependent from Member State contributions. It needs to become funded by direct, own resources and enlarged in order to enable its growing role in policies such as regional cohesion and research and innovation. Besides, using project bonds, the European Investment Bank must be able to finance projects of general interest such as a pan-European smart

super grid, a key enabler of the conversion of our energy supply to renewable sources.

4. **A healthy financial industry**: this industry is an indispensable instrument of transformation but remains a major source of systemic risk, due to its over-leveraging and its continued reliance on speculative financial products of little or negative economic value. While work has been started at EU and global levels in this field, very much remains to be done and we are witnessing increased lobbying by the industry to return to business as usual as if there had not been a crisis.

At present, the European Union has taken steps in each of those pillars; however, the Greens remain very concerned by the current blend of actions by the EU institutions and especially by the Council as

- They focus on public expenditures per se, rather than on the deficits, targeting the social protection systems and the services of general interest, while tacitly leaving the taxation issue untouched.
- On the macro-economic front, they focus quasi-exclusively on deficit countries and increasing labour market flexibility, leaving aside key issues such as private debt, an over-leveraged and hypertrophied financial sector as well as strong reliance on external demand.
- They keep protecting the interests of the private bond-holders, at the expense of the taxpayers.
- The Member-States favour an inter-governmental basis rather than the more transparent and accountable community method.

These choices reflect an ideological bias of the EU Commission and Council, which we cannot accept. In order to redress the balance and make the current proposals of the Commission and Council a viable economic governance package, we Greens propose:

1. A comprehensive tax convergence pact comprised of
    a. an EU financial transaction tax (FTT);
    b. an EU climate/energy contribution;
    c. a common consolidated corporate tax base associated with a minimal effective taxation rate so as to ensure a fair contribution by the corporate sector;
    d. an EU "tax disarmament treaty" whereby Member States would dismantle the tax heavens built into their own legislations.

2. An more ambitious EU budget, funded by own resources flowing from the FTT and climate/energy contribution, enabling partial relief of Member State contributions, the budget being then complemented by project bonds to finance projects of general interest.

3. The introduction of economically-relevant social and environmental indicators in the macro-economic surveillance pillar like income inequalities, education expenditures, the ecological footprint or the resource productivity.

4. The establishment of a European Monetary Fund, including a permanent crisis response mechanism (ESM) and the ability to issue Eurobonds.

5. The adoption of a comprehensive, far reaching and coordinated action plan aiming at achieving two main objectives: restructuring the public debt of EU member-states whose debt position is unsustainable, regardless of any actual or possible corrective measure and simultaneously restructuring and deleveraging the European banking sector.

Finally, the establishment of a conference, on the model of the EU Convention, composed of representatives of regional, national and EU parliaments as well as of social partners and civil society would provide advice to the EU institutions on the further build-up and implementation of the EU economic governance, thereby strengthening its democratic basis. It could pave the way for medium-term substantial treaty changes to provide the legal basis for a truly Common Economic Policy, subject to the ordinary legislative procedure, including in the field of taxation.