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## The Future of the Eurozone and the European Union

*Towards a Fiscal, Economic and Political Union*

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### SPEAKERS



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## Introduction by Elmar BROK

Italy is the example that the European project is the most viable solution to the challenges of today's world. It is the proof that culture cannot be used to divide people but to unite them. Italy found the way to build a political identity based on common heritage between different cultures in order to face challenges coming from outside. Currently Europe is in a similar situation. The speeches that boast the merits of the national way are misleading. The financial crisis was not due to the Euro. It came from the outside. But Europe was not prepared to face it, because the Member States had not provided the EU with the necessary instruments to address it.

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**Elmar Brok**

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Fiscal capacities for the Economic and Monetary Union (EMU) are among the instruments that should be given to the EU. Sound budgets are important, but sound budgets without structural reforms to achieve more competitiveness will have no positive effects on the real economy. Europe and the Member States must be able to adjust to new situations, and to find together the solutions to adapt their social policies to foster prosperity anew.

But these reforms have a great cost. An EMU budget would allow the EU to incentivise such reforms and exploit the full potential of the Euro.

The EU must use all the instruments available in the current Treaties. The way the current migration crisis has been managed so far is a perfect illustration. The use of Qualified Majority Voting in the Council, the proposal made by the Commission to have a common list of safe countries of origin or a system of quotas to redistribute refugees across Europe were opposed by some Member States. They claimed that the EU was using the crisis to take hold of new competences and weaken the Member States. However, the steps taken were provided for by the Treaties, and not using them would have constituted a breach of the EU's primary law.

Member States need to be more cooperative and restate their commitment to use all the policy instruments they agreed to when the EU Treaties were signed. Only through European solutions can they protect their humanitarian and social heritage and preserve Europe's peace and prosperity.

## Intervention by Sandro GOZI

The Paris attacks targeted all Europeans. They were perpetrated by home-grown terrorists who wanted to destroy what Europe represents. They chose a symbolic target: the Erasmus generation, a cosmopolitan generation aware of its freedom and enjoying what Europe has to offer them. The reaction to these attacks should not be guided by fear. When policy-makers and societies are moved by fear the first thing they sacrifice is their freedom. Europeans need to ensure the citizens' right to security without endangering the security of their rights.

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**Sandro Gozi**

It is urgent to use the Europe that exists fully, rather than building the missing Europe. Schengen does not only mean freedom, but also shared responsibility of ensuring a higher degree of security at the external borders and increased cooperation between national security services. Not using Schengen fully means putting its own existence in danger.

Few remembered the existence of article 42.7 of the Treaty of the European Union about mutual defence. Regarding migratory flows, for weeks the negotiations in the Council have been parasitised by the debate on the use of Qualified Majority Voting. National governments have lost precious time, while QMV had been clearly agreed upon in the Treaties.

Priorities are cumulating. But Europe seems to be unable to get out of the dictatorship of the emergency. The EU needs to go back to the track of its final political objective. In the case of the euro area, the final objective has been clearly stated since the beginning. The arrival point is a true political union. And this is why the demands of the British government, consisting of a multicurrency union,

puts the promises which were made to the European citizens in jeopardy. Euro-countries need to be united around the project of building a fiscal union if they want to succeed in the negotiations with London.

The EMU needs to keep moving towards the political union, according to the roadmap defined by the Five Presidents Report and by using all the available means. It needs to respect the rules which

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**Sandro Gozi**

constitute it, but these rules need to be put at the service of the new priorities. This must be the result of political action. The Juncker Plan, the quantitative easing programme launched by Mr. Draghi and a smarter implementation of flexibility clauses in the framework of the European Semester are truly political actions. Only the return to real politics in Europe will take Europe out of the poisonous divisions between technocracy and populism. The completion of the Banking Union is the next step to be made. And it needs to be prepared from now. 2017 will be a crossroads. But 2017 will be too late to start the reflection on the political answers to be given. Europeans must start preparing the reforms from now, so that 2017 can witness the political relaunch of the Union.

The convergence process has not succeeded in the last years. Structural reforms will not suffice to heal Europe anymore. They are necessary to overcome the trust crisis hitting Europe at the moment, but it is also urgent to build more Europe. Incentives are important to ensure the success of the structural reforms. And just as it is fair to be incentivised, it is also fair to improve the effectiveness in the way European funds are managed by the national governments. It is therefore essential to start thinking in terms of a European economic policy, and not only in terms of national economic policies.

### **Intervention by Mercedes BRESSO**

Europe is an instrument for facing the current challenges, not the solution in itself. The solutions must be found through the political dialogue, but today this dialogue in Europe is broken because of the scape-goat strategy used by many national governments. Governments are neglecting their duty to tell their citizens the truth about Europe. They must explain that concessions are necessary in a system composed of so many partners, but that these concessions will bring benefits to the entire EU. What would have happened in Italy if it had not been a member of the euro area? Possibly, interest rates would be close to 20%, while today they hit historic lows.

*“The United Kingdom cannot be an obstacle to further integration for willing Member States”*

**Mercedes Bresso**

The constitutive convention remains the objective of the Parliament. However, Europe cannot afford to wait for too long. It needs to exploit the possibilities existing within the current legal framework. And the Treaties already contain most of the instruments required to make the necessary reforms. In particular, they allow a group of Member States to move forward together on the path of integration. Willing Member States should have the courage to use these tools and to tell the UK that they want them to remain in the EU, but that the United Kingdom cannot be an obstacle to further integration for willing Member States. The euro area cannot allow these negotiations to result in the progressive dismantling of the Union.

As regards economic governance, the Treaties provide for all the necessary instruments. The Banking Union and a set of measures aimed at limiting fiscal competition between EU countries could constitute the basis for a European social pact, ensuring relative equality between European citizens. Social welfare can be homogenised (not in absolute terms, but relatively to each Member State's per capita GDP). Discussions must start now so that the reforms are ready to be swiftly adopted and implemented from 2017.

Current events are undeniable evidence that security and defence are inseparable. The creation of a truly European security and defence policy is possible without modifying the Treaties. And it is a real

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necessity, since the defence of the European values and the security of the EU citizens rely on each other. But it requires the will to do it. In this sense, the integration of the Western Balkans is a matter of urgency, as is the integration of police and intelligence services.

The institutional basis has been established to allow the political union to develop. The European Commission now draws its democratic legitimacy from the European Parliament, to which it is accountable. But the scape-goat strategy used by national governments compromises these advancements and the unity of the EU.

Europe needs a qualitative leap forward in terms of citizens’ awareness and will to build Europe, and some countries, including Italy, need to take the lead and show the road to the others.

### **Intervention by Enzo MOAVERO MILANESI**

Europe’s future must be built on the present. Idealist Europeanism will not bring the solution. Pro-Europeans must face the reality and build upon it. In order to understand the reforms that the Union needs, it is essential to understand what the three unions, namely the fiscal union, the economic union and the political union, entail.

The need for a fiscal union comes from the sovereign-debt crisis which emerged as a by-product of the financial crisis of 2008. The sovereign-debt crisis put the euro area in a situation of existential danger, since it made impossible for some Member States to respect the parameters that sustain the construction of the euro. These rules (maximum government deficit of 3% of GDP and maximum public debt of 60%) have a profound federal meaning in terms of the shared responsibility as regards sound public finances. They are the condition for trust between Member States, which is required in order to build a common economic policy.

However rigour and the necessity of rules must not be taken for excessive severity. All the rules are flexible. The consolidated practice of the last years are evidence that EMU rules are not an exception. The investment clause and the invitation that the European Council launched to the ECB to do as much as it would take to save the euro are examples of flexibility. Therefore the credibility of the fiscal union relies on clear rules, peer-to-peer review and shared criteria for the interpretation of these rules.

But a fiscal union cannot work without an economic policy. Traditional economic tools should be integrated at the European level. The last EU budget was slightly reduced compared to previous ones. Although most Member States agreed to this decision, it was a considerable mistake. While national finances needed to send signals of stability and moderation in order to build trust, the European budget should have been able to support stimulus policies. Economic policy is tightly linked to the question of own resources. The European budget could be financed by taxes that could only be effective if applied at the European level, such as the Financial Transaction Tax or the Carbon Tax, which are of a primarily federal nature. This budget could also be financed partially through public debt. The creation of bonds for the euro area is a wise idea. It would allow the most exposed Member States to pay less for the service of their debts and it could finance a wide range of policies. The EU could support national social systems by compensating the decrease in national public spending. In addition, a first truly European social scheme could consist of a pension system for citizens working in a cross-border manner on a steady basis.

This fiscal and economic integration would constitute the foundations for the European federal political union. But the establishment of the political union would require treaty change. This new

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**Enzo Moavero Milanese**

Treaty should be the product of a pan-European debate on the features of the political union (do Europeans want a European Intelligence Service, a European jurisdiction or a federal police?) and be submitted to a referendum to be held simultaneously in all the Member States. It should also provide for solutions for a two-tier governance of the Union. Because even if the objective of the European project is not a two-speed Union, that is the reality.

### **Intervention by Antonio TAJANI**

Europe has managed to secure peace and to avoid suffering in recent times. Today the economic crisis, the migratory flows and ISIS are putting Europe's worth at test. From the point of view of the economy, the instability generated by these three phenomena are preventing investments from reaching the real economy. Europe needs to switch the focus from macroeconomic indicators to the real economy, to industry and enterprises. Economic governance based on macroeconomic factors tends to put the money in the pockets of the richest, while European countries need to reactivate their industries and services. And in order to do so, Europe needs to tackle the migratory flows and to fight ISIS in order to recover appropriate conditions for trust.

ISIS is a very different threat compared to Al-Qaida. It consists of a political project of reconstruction of the Arab Empire, terrorism is only a means to achieve this goal. It is a proto-State which wants to impose its model and its rules on the world, and which sees in Europe and the Western World's pluralistic societies its greatest enemy. They attack in a violent way, but they are not only hitting

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**Antonio Tajani**

Europe. The Muslim world is also a victim of their barbarism. The war in Syria should be the top priority of our action. The region constitutes a reserve of 12 million potential refugees, and Europe cannot receive them all. But the war against ISIS in Syria cannot be limited to a military offensive against their army. If this was the case, Europe would be committing the same mistakes as in Iraq. The situation requires a comprehensive political answer. And it cannot be the initiative of a single Member State. It needs to be based on the political union of Europe. If Europe does not manage to gear up police and intelligence coordination and to have a unified defence system, nobody will be able to solve this crisis.

The Union needs to make grow Europe, by providing it with the authority to prevent the biggest transnational actors from avoiding taxes, and to sanction them when they do so. But Europe is lacking leadership. It does not have the great characters that, in the past, had a vision that used to guide the continent and made the people dream. If Europe is to overcome this difficult moment, EU citizens need to believe in the European project. They need to believe in the Banking Union and in the Single Market, but also in the European identity, in the founding values of the Union: the centrality and the dignity of the person, solidarity, subsidiarity and shared prosperity.