THE EUROPEAN UNION NEEDS A FEDERAL BUDGET AND A FEDERAL GOVERNMENT TO FACE THE FINANCIAL CRISIS

Adopted in UEF Federal Committee of 18-19th April in Brussels

The Federal Committee of the UEF,

aware

- that, unlike what happened at the time of the Great Depression, world powers are today searching for world-wide cooperation, as witnessed by the decision to build a "new world economic order" announced in London, by the G20; nevertheless, the package of measures approved by the G20 should be considered only as a first step towards that goal, but insufficient to effectively rule the global economy which needs a radical ecological reform to avoid that our planet is transformed into a "waste land": the world recovery plan is mainly a summation of national fiscal stimulus plans; a world prudential supervision of the banking and financial system is advocated, but a world regulatory power is not envisaged; the IMF is strengthened and authorized to issue Special Drawing Rights (SDRs), but for the moment the SDRs are utilized mainly to finance rich countries; the re-launching of the Doha Round, essential to stop protectionism, is postponed;

- that the present financial and economic crisis exposes Europe to unexpected challenges and in particular to a serious weakening of its economic and social model, to the risk of a collapse of the Monetary Union and to a rapid decline and marginalization in a fast evolving multi-polar world;

- that, since at Maastricht it was created a Monetary Union without a federal budget and a federal government, the response of the European Union to the present financial crisis is weak, ineffective, dangerous and protectionist: *weak* because the European Economic Recovery Plan proposes that only 0.3% of the total amount of the Plan (1.5% of the European GDP) is financed by European resources; *ineffective* because the main effort of the recovery is supported by national governments with uncoordinated plans – of different amounts and different aims – therefore causing a waste of public finances which could be more effectively employed by a real European Plan; *dangerous* because, if a member State defaults, in a situation in which a federal budget does not exist the break-up of the Monetary Union will become a concrete possibility; *protectionist* because, if the recovery plans are financed by national budgets, it is inevitable that governments employ taxpayers' money to boost national business and national jobs, in some cases violating the rules of the single European market, in Europe, and the rules of the WTO, in the international economy;

- that a federal budget is necessary because some *European* public goods – such as monetary and financial stability – must be provided, in the last resort, by European resources; other public goods, of *national* importance, must be financed by national budgets and other *local* public goods will be financed by a regional financial system; if the European Union cannot count on its own resources, in the case of a crisis, the stronger States of the Union are obliged to carry out the role of "lenders of last resort" via their national budgets, notwithstanding the no-bail clause of the Maastricht Treaty;

calls upon

the European Parliament, the Commission and the European Council to support the following reforms , to be implemented as soon as possible:

- the European Commission should become an effective federal government in order to manage a budget of" at least 2% of the community GDP (as proposed by the McDougall Report) and the European Commission should be authorized to issue Union-Bonds, in order to finance a serious plan for the re-launching of the European industrial production and for the ecological reform of the economy; such an increased European fiscal responsibility should be matched with an increased political responsibility: a Finance Minister should be appointed within the European Commission and a periodical report should be presented to the European Parliament deliberated and voted upon.

- the European Parliament, the Council and the Commission should approve at the beginning of each Parliament term of office a five year financial plan. The Plan must contain expenditure limits, such as the maximum level of indebtedness and of public deficit, the total amount of the European budgetary resources and flexibility rules for an unexpected crisis; the European budget must be financed with real European resources, therefore euro-taxes, as proposed by the European Parliament. This does not mean an increase in the citizens' tax pressure, but a better sharing of financial resources between the national level and the European one in order to achieve cost-efficiencies and better added value";

the European Union should present to the G20 a plan for reforming, in the long run, the international monetary system – after the Chinese and the Russian proposals, the EU will be marginalized without a clear European project – in order to gradually substitute the dollar, as a reserve money, with Special Drawing Rights (SDRs) issued by the International Monetary Fund, and to favor the transition from a mono-polar monetary system, founded on a national currency (US dollars), to a symmetric monetary system founded on a world reserve currency, managed by all the countries belonging to the United Nations, reformed according to the principles of democracy and regional federations.

Brussels, April 18-19th 2009

Annex A

APPEAL TO MR SARKOZY AND MRS MERKEL
FOR A THIRD FRANCO-GERMAN INITIATIVE
TO PROVIDE THE EUROPEAN UNION
WITH A FEDERAL BUDGET AND A FEDERAL GOVERNMENT

The financial crisis is putting the cohesion of the Monetary Union to the test. Without adequate powers at the European level, national governments, first of all Germany and France, could be faced with the dilemma of having to finance the default of countries which are suffering from the crisis, such as Ireland, Greece, or Austria, or accepting the disintegration of the Monetary Union.

Europe has experienced a dramatic situation in the past, when frequent devaluation and revaluation of national currencies endangered the Common Market. The creation of the Monetary Union was the answer to that problem albeit an incomplete one. Today, a similar European solution is necessary. In the 70s, President Giscard d'Estaing and Chancellor Schmidt paved the way for the European currency, with the creation of the European Monetary System. In 1991, in Maastricht, President Mitterrand and Chancellor Kohl gave life to the Economic and Monetary Union, but without reforming the European fiscal system.

In 1997, Germany requested and obtained the Stability and Growth Pact in order to regulate national budgets. However, as the President of the European Central Bank Mr Trichet pointed out, "the Stability and Growth Pact is the legal framework that we have as a *quid pro quo* for the fact that we do not have a federal budget and a federal government". Now, it is time for a third Franco-German initiative.
A federal government and a federal budget are necessary because some *European* public goods – such as monetary and financial stability – must be backed by European resources; other public goods, of *national* importance, must be backed by national budgets; other *local* public goods will be backed by a regional financial system. If the European Union cannot count on its own resources, in the case of a crisis the stronger States of the Union are obliged to carry out the role of "lenders of last resort" via their national budgets, a dangerous situation for the Union as a whole as this could severely erode solidarity among Europe's people.

The world economic crisis is getting worse, by the day. The European federalists ask the French President, Mr Sarkozy, and the German Chancellor, Mrs Merkel, to promote a new Franco-German initiative in order to strengthen the European Union and to build a European federation, with the other countries willing to do the same.
Brussels, April 18-19th, 2009

Annex B

APPEAL TO THE WORLD FEDERALIST MOVEMENT FOR A COMMON ACTION WITH THE UNION OF EUROPEAN FEDERALISTS TO REFORM THE WORLD ECONOMIC ORDER

The sudden financial crisis and the increasing threat of an ecological catastrophe push the governments of the world to put at the head of their agenda the search of cooperation with the other countries of the planet. Everyone in fact understands that global problems need global solutions. What is at stake at the G20 meetings and at the UN Conferences, like next Copenhagen Conference devoted to climate change, is a new world economic order. The financial crisis showed that the old international institutions created at Bretton Woods need a radical reform; moreover, the world economy is founded on a production system which, if not dramatically reformed, will transform our planet in a "waste land".

UEF supports the WFM's Campaign for a United Nations Parliamentary Assembly, because, as stated in its recent appeal to world leaders, "the UNPA should be an important part of the renewed system of international financial and economic governance". However, UEF thinks that the federalists should present more concrete proposals for a new world economic order: today, it is possible to take a step forward towards world supranational institutions, like Europe has done in the 50s, when the process of European integration started on the basis of the Franco-German pact for a peaceful continent.

Therefore, UEF proposes to the WFM to nominate a joint working group in order to discuss concrete proposals for reforming the international economic institutions currently in place, for strengthening the Campaign for a United Nations Parliamentary Assembly and for pushing the leaders and the peoples of the world to build effective supranational institutions.

Brussels, April 18-19th, 2009