



CENTRO STUDI SUL FEDERALISMO

MARIO DRAGHI AND THE EU'S FISCAL CAPACITY

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There is now a broad consensus that if Europe is to move along the path to sustainable development, carbon pricing is needed which could both promote the global choice to limit fossil fuel consumption and create the conditions for reforms needed to endow the EU with an autonomous fiscal capacity.

While this project may seem important it is only intended to manage the problem of limiting carbon dioxide emissions; however, it may actually produce even more significant effects if it becomes the first step in a process aimed at realising the historic plan of regaining the continent's autonomy by founding a European federation. In this context, the 3 May 1950 Memorandum which Jean Monnet submitted to the French government in view of the construction of the ECSC is particularly relevant. Monnet defined his strategy as follows: "There is only one way out of this impasse [in the Franco-German relations on the coal and steel problem]: with concrete, resolute action on a limited but decisive point which will trigger fundamental change on this point and progressively change the actual terms of the problem as a whole." He added: "Profound, real, immediate and dramatic action is needed which will change things and make a reality of the hopes people are on the point of giving up on."

This guiding principle is important in defining a strategic approach that can lead Europe towards the institutional leap needed to achieve a federal structure. In Monnet's time, the problem was the management of coal and steel resources; however, today the key issue for the European Union is the availability of adequate resources to finance the policies needed to ensure a future of growth for Europe. In terms of priorities, it is a question of: guaranteeing internal and external security in a world where the US has failed to guarantee European security; managing migration flows by financing a *Growth Plan with Africa* in agreement with the African Union; ensuring adequate resources to stabilise the European economy in the face of general or asymmetric shocks that may affect it in the future; promoting research and technological development, and creating European champions in cutting-edge sectors; and financing a *Social Green New Deal* which will set Europe on a path to environmentally, economically and socially sustainable development.

The strategy outlined above gives the optimum pathways to contribute to the effective governance of Europe and the world. Today, conditions seem to be favourable. The *Green Deal* is at the core of Ursula von der Leyen's programme. Defence and security policy is at the heart of governments' concerns in the face of devastating improvisations in American foreign policy. It is more urgent than ever that new relations with Africa be forged to manage the migration problem differently and with solidarity, sustainably developing African resources in the face of the dramatic trend in migration flows and the conditions of poverty in many countries, aggravated by climate change. The mobilisation of public opinion on the subject of climate change is a favourable condition for making incisive decisions; it is thus a question of identifying the right instrument to tackle these problems. The idea that European carbon pricing would lead to the creation of new own resources needed to strengthen the EU budget is increasingly convincing. In addition, profound institutional reform would set the EU on a path: first to European federation and, in the

long run, to multilateral world governance that guarantees peace and economically, socially and environmentally sustainable development.

These considerations were strongly developed by [Mario Draghi in his remarks at the farewell event](#) in his honour in Frankfurt at the end of his term as president of the ECB. Draghi noted that “the road towards a fiscal capacity will most likely be a long one. History shows that budgets have rarely been created for the general purpose of stabilisation, but rather to deliver specific goals in the public interest. In the US, it was the need to overcome the Great Depression that led to the expansion of the federal budget in the 1930s. Perhaps, for Europe, it will require an urgent cause such as mitigating climate change to bring about such collective focus.” From this observation he drew important political conclusions: “Whichever path is taken, it is plain to see that now is the time for more Europe, not less. I mean this not in an axiomatic way, but in the truest traditions of federalism. Where results can best be delivered by national policies, let it stay that way. But where we can only deliver on the legitimate concerns of the public by working together, we need Europe to be stronger.”

Draghi’s reflections are perfectly in line with Jean Monnet’s thinking and clearly identify the way forward. The creation of the EU’s fiscal capacity requires that problems be addressed that can only be solved by allocating public goods at the European level. The good in question is combating climate change, and considerable resources are required to ensure an ecological transition that is both efficient and socially just.

Carbon pricing, as recently argued by the IMF in the [October 2019 Fiscal Monitor](#), is the “most powerful and effective” instrument to reduce CO₂ emissions. On the one hand, the carbon dividend could be used to launch a tax reform that shifts the weight away from taxing natural resource consumption, which would also significantly reduce tax charges on lower income classes and facilitate measures in favour of classes and territories disadvantaged by lower fossil energy production. On the other hand, the new resources allocated to the European budget would make it possible to finance investment in infrastructure and the search for new renewable energy sources. In this way, the “second arm” of the EU, i.e. the fiscal arm, could finally be set up alongside the monetary union, until the process that must lead to a federal Union is completed by allocating powers in the field of defence and security policy.

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(The opinions expressed here do not necessarily represent the CSF)

