A Growth Compact for the European Union

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THE CONTRACTING PARTIES.............

CONSCIOUS of the need to tackle the unprecedented social, political, economic, employment and institutional challenges confronting the Union, and

RECOGNIZING that promoting growth is the best possible way of rising up to these challenges, thus

DESIRING to kick-start growth in short-term and construct structures and implement policies that put the Union on a path of higher growth in the long-term, especially as only growth will create the economic and political space to enact the serious structural reforms the Union needs, and

CONSCIOUS that public investments are the central pillar of this strategy particularly at a time that excessive private indebtedness and a collapse of confidence mean that both consumers and private enterprises will not step into any breach left by collapsing public spending, and

CONSCIOUS also that while increasing exports remains a desirable goal and that some Member States have been successful at doing so, substantially increasing exports from the Union, which accounts for half of global trade and a third of world GDP, to the rest of the world is highly unlikely, particularly in the short-term, but

TAKING NOTE that no matter how desirable public investments may be, fiscal consolidation remains necessary in some Member States, however

BEARING IN MIND that it is building sustainable public finances over the medium-term that is important, not simply meeting short-term fiscal targets particularly if they undermine the longer term objectives of a sustainable and dynamic Union, and

RECALLING that the focus on austerity measures alone, particularly in the short-term can be self-defeating even for the narrow goals of deficit reduction through the channels by reducing aggregate demand, puncturing confidence, lowering tax revenues and depressing asset prices as is already happening in some member states, hence

STRESSING that the Union must adopt a multi-pronged strategy to focus on rebuilding confidence, enacting growth-enhancing structural reforms, deepening the single market particularly in services
and embarking on a program of productive public investments to trigger growth and employment generation in the short term and secure a higher growth rate in the longer term

TAKING NOTE that it is only growth that will deliver us from the unprecedented unemployment levels and depressed economic conditions and allow the Union economy to flourish again

HAVE AGREED UPON the following provisions:

GROWTH COMPACT

Title I

Maintaining & Increasing Public Investments

The Contracting parties shall apply the following rules as part of a compact for promoting growth in the European Union

The Union and Member States shall be exempt from the provisions of the Fiscal Compact and other relevant Union legislation in as far as it comes to public investments as discussed in this Growth Compact for the period 2012-2015

Member States shall commit to protecting and where possible, increasing, the levels of public investment and the Union shall see to it that the levels of growth-enhancing public investment do not fall particularly in program countries

The Union shall see to it that funding for these public investments comes from a combination of 1) aggressively tackling tax avoidance and tax evasion 2) new growth-friendly sources of tax revenues 3) increasing the resources of the European Investment Bank 4) a better and more efficient use of the more than Euro 80 billion of funds still left in the EU budget up to 2013 5) appropriate structural reforms and promotion of the single market

Member States enacting austerity measures across the union in the form of deficit cutting will shift their focus away from expenditure cuts towards increasing revenues

Title II

Tackling Tax Avoidance & Tax Evasion

Member States shall enact a comprehensive set of anti-tax avoidance and anti-tax evasion measures and shall seek to recover tax revenues lost to cross-border tax avoidance and tax evasion particularly to tax havens

The Union shall immediately set up a capacity building centre that shall collect, suggest and help other Member States implement anti-tax avoidance and anti-tax evasion strategies that have worked in other Member States and elsewhere in the world

All Member States shall make binding commitments to facilitate the implementation of such measures in other member states through all possible channels including through the sharing of all relevant information, exchanging transaction data and co-operation between the tax and criminal authorities with the full force of EU law behind them
The Union shall undertake to immediately negotiate new tax exchange information agreements and tax treaties collectively on behalf of all Member States particularly with near neighbourhood havens such as Switzerland in order to get much better terms in terms of exchange of information and repatriation of previously untaxed fled capital than any individual Member State would get on its own. The actual agreements between any Member State and Tax Haven would still be signed bilaterally but the negotiation would be conducted multilaterally.

The Union shall negotiate collectively on behalf of Member States with the United States to get reciprocal privileges under the Foreign Account Tax Compliance Act which obliges financial institutions including those in the EU to collect data on accounts of US citizens and share this information with US tax authorities by requiring US financial institutions to collect data on EU citizens holding accounts with them and share the information with respective Member State governments.

Member States shall undertake to accelerate the long-overdue reform of the EU Savings Tax Directive that seek to significantly increase its scope and effectiveness.

Member States shall undertake to use any one-off revenue gains that accrue from the payment of past-due taxes on fled capital towards public investments and towards increasing the paid-in capital of the European Investment Bank.

**Title III**

**Maximising the revenue potential from less growth unfriendly taxes**

Member states, particularly those facing unsustainable fiscal deficits, shall undertake to increase tax revenues from taxes that have the least negative impact on growth and preferably deliver a double dividend by penalizing activities that are harmful which would include:

- An EU-wide increase in carbon taxes the revenue from which should be split between financing public investments, closing deficits and decreasing employment taxes at low levels of income particularly in countries that are facing very high levels of unemployment.

- A Union co-ordinated but Member State implemented approach to implementing levies on bank balance sheets that are structured to discourage excessive dependence on short-term wholesale funding that was one of the major causes of the financial crisis.

- A Union co-ordinated but Member State implemented approach to implementing Financial Transaction Taxes along the lines of the UK based Stamp Duty with a goal to broaden the tax base to include bond and derivative markets. Such a tax, it is noted, can be implemented at the level of individual Member States so unanimity is not required. The tax should be structured in a manner that particularly penalizes high-frequency trading and trading in financial instruments that are excessively opaque or complex.

- A Union co-ordinated but differentiated approach to implementing / increasing taxes on passive wealth such as land value taxes, property taxes, estate taxes and wealth taxes.

**Title IV**
Putting leftover EU budgetary resources to most efficient use

Member States and the Union shall undertake to put the close to Euro 80 billion of unused resources to as efficient a use as possible in order to help program countries and help engender growth.

The Union shall suspend the normal co-financing requirements for the disbursal of EU Structural funds in particular for investment projects that are proven to be able to contribute most to increasing potential future growth.

The Union shall accelerate and expand plans for floating project bonds to support infrastructure investments in transport, telecommunications and green energy.

Title V

Expanding Investments by the European Investment Bank

Member States shall increase the effective usable resources of the European Investment Bank by 50% immediately and this would enable the EIB to undertake an ambitious pan-EU cross-border and crisis country investment program focusing on green energy infrastructure, transport infrastructure, telecommunication infrastructure and other growth-enhancing investments.

Member State shall increase the paid-in capital by 20 billion to take total shareholder equity from the current level of 40 billion up to 60 billion the funds for which would come from a combination of Member State existing resources and additional resources, particularly one-off gains that result from policy action against tax evasion and tax avoidance.

Member States shall also increase their individual share of callable capital by 50% each to take the total level of callable capital up from the current level of 220 billion to 330 billion.

The EIB shall more than triple the capital paid into the European Investment Fund from the current level of 484 million to 1,500 million in order to treble its capacity and increase the support it can provide to Small and Medium Enterprises in particular.

Title VI

Increasing domestic investments in countries enjoying negative real interest rates

Member States that enjoy negative real costs of borrowing at present will use this fiscal space to accelerate and undertake Net Present Value positive growth-enhancing public investment projects domestically in order to maximise the growth potential of their economies over the longer term.

Title VII

Accelerating Structural Reforms and Deepening the Single Market

Member States shall accelerate the implementation of Structural Reforms, other competitiveness enhancing policies and that have been agreed elsewhere.
Member States shall accelerate the implementation of policies to deepen and expand the Single Market in goods and services with firm time-bound commitments for enacting the Single Market Act, the Services Directive and other relevant pieces of existing and forthcoming legislation.

The Council and Commission shall regularly assess progress on the provisions of this Growth Compact particularly as the complement to the Fiscal Compact.