

How to find an agreement on a sustainable recovery?

When Roosevelt came to power in the midst of the Great Recession, he tripled the federal budget in 4 years. He created millions of jobs. But he insisted to have a balanced budget, and that debt was only a short-term solution for recovery.

In 2020 as well, in the short run, debt is the solution for a Recovery Instrument up to the magnitude of this crisis. **But countries who would be cautious to accept raising debt in the first years may be keener to accept a more ambitious Recovery Instrument if they know how debt will be repaid, and that they will not be asked to pay for them.** Then, a fund of 500 billion € or even more is possible.

Can we count on a leverage effect?

In a crisis of this size, we cannot count on a leverage effect for recovery. The example of Japan after the crisis of 1989 shows that, if we want to avoid falling back into recession, the recovery plan must be:

1. very massive and credible: after such a crisis, **there will be no leverage effect.** “The spring has broken”;
2. lasting: in Japan, every time the recovery policies stopped, the economy fell back into recession or zero growth. The European Recovery Plan must be long enough and cannot have an abrupt end. All actors (corporations, SMEs, investors, local authorities, families) must be able to plan their investment over a number of years. This point is even more relevant for Europe to make its Green Deal succeed: we will not be able to hire and train workers if we don't have perspectives over more than a few years.

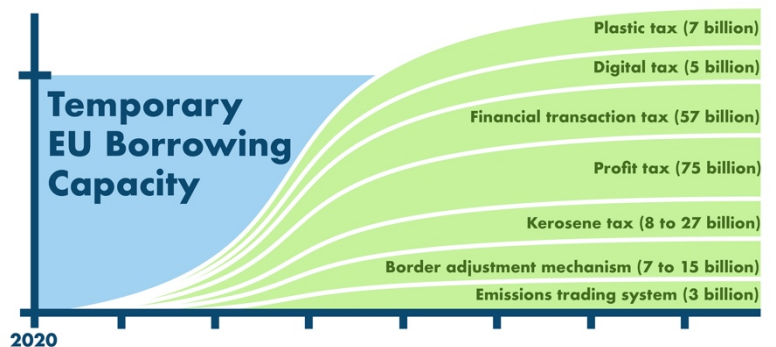
A solution which can reconcile European countries

We all know that some countries are blocking negotiations on these new own resources, for quite a number of years.

But the terms of the debate have sharply changed: today, (1) these same countries are afraid that the whole of Europe falls into recession, and (2) most of them are asking the European Union to accelerate the pace on the Green Deal.

Therefore, they will support new resources if they are dedicated to a sustainable recovery, with a strong Recovery Instrument, the effect of which will be extended by a strengthened budget focused on the Green Deal. Without asking one penny more from each government.

OWN RESOURCES FOR A SUSTAINABLE RECOVERY



Which are the best candidates for such Own Resources to strengthen Europe?

“Even after Brexit and in a crisis, Barroso’s FTT could raise 57 billion € / year”

In September 2011, the European Commission has proposed a Directive to create a small tax of 0.1% on financial transactions.

In all our countries, we pay a VAT of at least 15.5%. For basic necessities, even the most vulnerable must pay 5.5% VAT. But buying stocks on financial markets is taxed at a 0,0% rate.

How can we explain to citizens this 0.0% rate? Are stocks and bonds even more essential to life than water or food? Are these shares and bonds bought by people even more vulnerable than the families living on social benefits?

“EU Member States have committed € 4.6 trillion to bail out the financial sector during the crisis”, stated the European Commission on 28 September 2011. “The financial sector enjoys a tax advantage of approximately €18 billion per year because of VAT exemption on financial services. A new tax on the financial sector would ensure that financial institutions contribute to the cost of economic recovery and discourage risky and unproductive trading.”

Even after Brexit and in a context of crisis, a small tax based on this Directive could raise **57 billion €** per year (see annex). **10 times more than the digital tax.** The European Commission stated that this tax can be introduced **in less than 2 years.**

A solid Common Consolidated Corporate Tax Base could raise €75 billion / year

Based on figures from the European Commission, a solid CCCTB (Common Consolidated Corporate Tax Base) could yield up to 75 billion € per year (see annex).

It is clear that a corporate tax will not bring significant extra revenues in the first two years, except in the digital sector where companies like Amazon or Netflix are making record profits. But other taxes, such as the Financial Transaction Tax, can leverage revenues despite the economic crisis.

Indeed, **the CCCTB will not bring as much as they could in 2020 and 2021**, but in the medium term, it will enable the EU to balance its budget, **especially if the Recovery Plan is strong enough to truly recover the economy**.

An FTT and a solid CCCTB are the 2 new own resources with the highest potential. Together they could almost double the EU budget. And with a FATCA-Climate law and a real Climate bank, we could mobilise at least 500 billion € per year (see Annex 2 “3 solutions for Climate & Jobs”).

Of course, they can be completed with other new own resources, which include:

- a contribution on non-recycled plastic packaging – around **7 billion € / year**¹
- resources generated by the auction revenues of the Emission Trading Scheme – **3 billion €**²
- the future Carbon Border Adjustment Mechanism (estimated at **7 to 15 billion €**)
- a tax on digital companies – **5 billion €**³

All those other own resources candidates are interesting but have smaller potential annual revenues. Those based on taxing pollution can play a key role, but their revenues will decrease over time.

Keep calm and negotiate: an exceptional recovery trilogue

An exceptional crisis calls for exceptional methods. When Roosevelt arrived in the White House in 1933, he passed 15 major reforms in 3 months. Several texts are voted by the 2 chambers and signed by the President on the same day.

In 1950, it took only 2 weeks for Schuman and Adenauer to decide on the Coal and Steel Community.

In 2020, in order to adopt the budget on time (agreement of Council and Parliament), we suggest organising an **exceptional recovery trilogue**: every week for 2 or 3 months (every Monday and every Tuesday), 8 to 10 Members of the Parliament, representatives of the Commission and of Council (maybe with a small group of Member States whose positions were until now the most distant from each other), and the presidents of the EESC and CoR, should work together.

They don't have to do a press conference after every meeting. They would be working together with a longer perspective, for 2 or 3 months, and with experts when necessary to reach a consensus on 4 or 5 own resources for a sustainable recovery.

We tested this idea with a number of high-level stakeholders. Most of them think that there is a **unique window of opportunity** to make such an exceptional negotiation succeed, and that **no other method would allow for a timely agreement**.

"Europe will be made in crises and it will be the sum of the solutions to these crises"
Jean Monnet, 1954

*"This crisis is so profound that lines are moving in many countries, and **it could very well be an historical window of opportunity to adopt ideas which were frozen for decades**. Just like the Single Currency, which was an old dusty idea in March '89 and became a political priority in December 1989, when Helmut Kohl and François Mitterrand decided to make it so."* said a Brussels diplomat recently.

*"Sooner or later we will find a vaccine for the coronavirus. **But there is no vaccine for climate change. Therefore, Europe needs a Recovery Plan designed for the future.**"*
Ursula von der Leyen, 13 May 2020

In 1950, Europe was born with the Coal and Steel Union.

In 2020, it can be reborn with a Recovery Plan for Climate and Jobs.

¹ European Commission, 2018, "Modernising Budget, Revenue Side" https://ec.europa.eu/commission/sites/beta-political/files/budget-proposals-modernising-budget-revenue-side-may2018_en.pdf

² Idem

³ European Commission, 2018, "Fair Taxation of the Digital Economy" https://ec.europa.eu/taxation_customs/business/company-tax/fair-taxation-digital-economy_en

Annex 1 :

How high are the needs?

On 12 May 2020, Dieter Kempf (BDI), Geoffroy Roux de Bézieux (MEDEF) and Vincenzo Boccia (Confindustria) called for a budgetary response going up to 5% of GDP of the EU, which would be around 750 billion € per year.

Already before this crisis, on 14 January 2020, the European Commission had stated that the Green Deal would require to bridge an investment gap assessed to at least €260 to 500 billion per year over the next 10 years. With such resources, the Green Deal could create more than 5 million jobs in all our countries, which will be much needed to overcome this crisis.

How high are the potential own resources?

A small Financial Transactions Tax could raise €57 bn / year

In September 2011, the European Commission estimated that a small tax of 0.1% on financial transactions could mobilise up to €57 billion a year.

In 2012, the European Commission presented projections from DG Budget which estimated that the FTT could bring in €81 billion in 2020.

Brexit has caused the loss of 30% of the base. It can then be roughly estimated that a post-Brexit FTT would bring in 70% x 81bn = €57 billion per year.

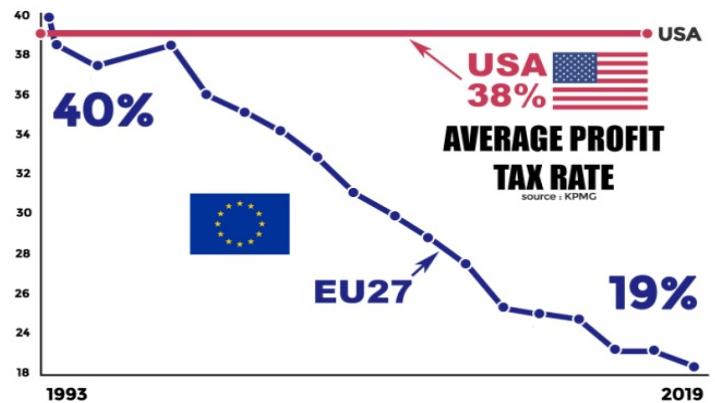
Could such a Financial Transaction Tax really raise revenues in the context of this current crisis? Yes. During this Spring of 2020 the European Economy is in a deadlock, but **it is not the case of financial markets** which have increased by 20% between 18 March and 18 April after an abrupt fall. In a time of crisis, **volatility is high but traded volumes are high as well.**

A solid Common Consolidated Corporate Tax Base could raise €75 bn / year

The average profit tax rate in Europe was divided by 2 over 30 years. **It fell from 40 to 19%.**

Meanwhile, Roosevelt's tax policy ensured a stable profit tax in the US over most of the 20st century at 38 %.

And even with the Trump tax reform, the profit tax rate remains at **24% in the US** (21% at federal level and 3% on average at state level). Due to the the socio-economic crisis, many political leaders propose to reestablish a higher tax rate.



24% in the US versus 19% in Europe. There is room for an EU tax on profits.

In 2018, the corporate profit tax in the EU27 amounted to €380 billion (figures from the European Commission, see table on the side).

Starting from the statutory rates in each country, a rough calculation shows that, in a few years (if the Recovery Plan was sufficiently strong and lasting to lift us off the recession), **a 5% EU profit tax will be able to yield around €75 billion per year.**

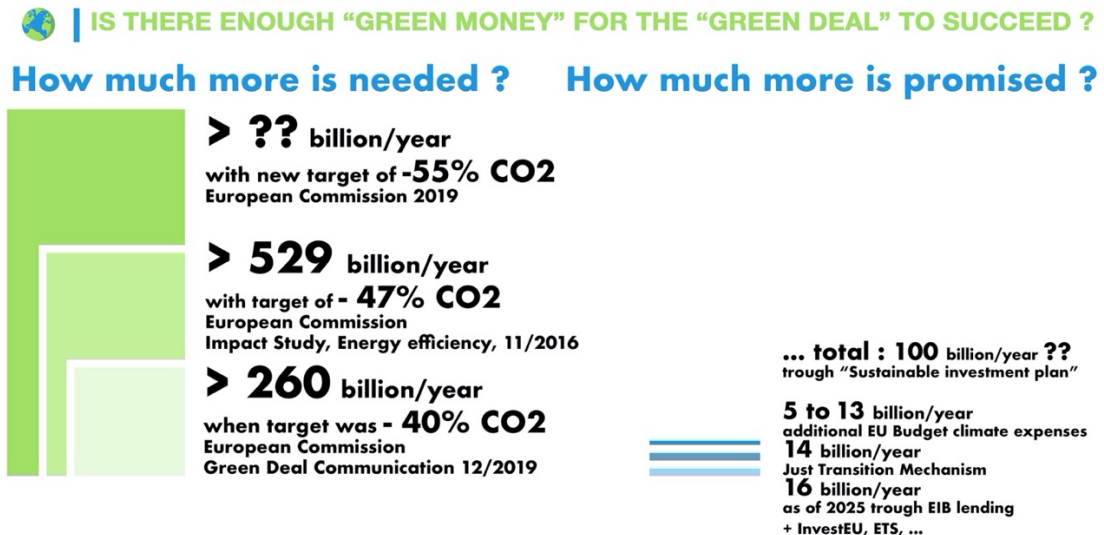
	Recettes 2018 (million EUR)	Taux statutaire	Recettes pour 1 point de taux statutaire	Recettes pour 5 points de taux statutaire
EU-27	380 140	21,5	15 000	75 001
Belgique	19 766	25	791	2 372
Bulgarie	1 306	10	131	392
République Tchèque	7 266	19	382	1 147
Danemark	8 671	22	394	1 182
Allemagne	96 342	30	3 222	9 666
Estonie	518	20	26	78
Irlande	10 500	13	840	2 520
Grèce	3 998	24	167	500
Espagne	29 711	25	1 188	3 565
France	67 630	32	2 112	6 336
Croatie	1 177	18	65	196
Italie	41 356	28	1 488	4 463
Chypre	1 155	13	92	277
Lettonie	308	20	15	46
Lithuanie	691	15	46	138
Luxembourg	3 494	25	140	420
Hongrie	1 793	11	166	498
Malte	684	35	20	59
Pays-Bas	27 009	25	1 080	3 241
Autriche	10 686	25	427	1 282
Pologne	10 401	19	547	1 642
Portugal	6 802	32	216	648
Roumanie	4 227	16	264	792
Slovénie	886	19	47	140
Slovaquie	3 116	21	148	445
Finlande	5 936	20	297	890
Suède	14 711	21	687	2 062

3 solutions for Climate & Jobs

Proposals to scale up EU ambitions and obtain financial guarantees to win the climate battle

Even a stronger EU budget will not be enough, alone, to ensure a strong, sustainable, recovery and to finance a successful Green Deal. **This is why it is crucial to explore other solutions outside the budget.**

A “European Climate & Jobs Pact” based on these 3 solutions could raise at least 500 billion € each year for climate investment and create more than 5 million jobs, without taxing most citizens.



So far, the resources allocated are far from enough to make the Green Deal a success.

When it was working on a scenario of - 40 % emissions for 2030, the European Commission “has estimated that achieving the current 2030 climate and energy targets **will require €260 billion of additional annual investment**” (Green Deal Communication, 12/2019, referring to a Communication from 06/2019). The Commission adds that “These estimates are conservative, as they do not consider, for instance, the investment needs for climate adaptation or for other environmental challenges, such as biodiversity. They also exclude the public investment needed to address the social costs of the transition and the costs of inaction.”

Furthermore, now that the ambition is levelled up to 55%, **the needs are certainly higher**. According to the European Commission, the investment gap would be as high as **529 billion Euros per year** starting in 2021 (public and private), based on a scenario implying -47% of CO2 for 2030, hence below the new targets (Impact Study, Energy Efficiency Directive, 2016). But so far, the Commission **only committed 100 additional billion €** per year (Sustainable Investment Fund, including the ‘Climate Bank’, the Just Transition Mechanism etc.), with substantial lack of clarity and certainty on the sources of this funding.

On 16 October, we invited in the European Parliament young climate strikers, leading experts in climate science, economics and law, to explore concrete solutions and specify what additional guarantees are needed for enough budgetary resources to make the Green Deal win the climate battle.

The conference showed broad consensus around 3 solutions to finance the Green Deal:

1. A ‘FATCA-Climate’ law **phasing out fossil subsidies and investments**, liberating at least 100 billion € per year
2. A **real Climate Bank** lending 300 billion € in zero interest loans per year backed by the ECB
3. A **real Climate Budget** providing 120 billion € per year from new resources

This memo is based on an event organised with the support of **Jacques Delors Institute**

We are convinced that these concrete solutions can contribute to building consensus between EU Member States, the Parliament and the Commission.

We therefore suggest that the recovery plan should include these 3 solutions, or solutions capable of mobilising similar levels of financial resources with the same level of social justice in the sources of financing.

This event benefited from contributions by a very diverse panel of speakers : **Josep Borrel**, Minister of Foreign Affairs, Spain and High Representative/Vice President-designate of the Commission; **Nicolas Schmit**, MEP and Commissioner-designate ; **Michał Kurtyka**, Polish Minister for Climate and President COP 24 ; **Cristina Narbona**, President, PSOE, Spain ; **Monseigneur Bruno-Marie Duffé**, Advisor of Pope Francis for climate ; **George Papandreou**, President Socialist International, former Prime Minister Greece ; **Alain Juppé**, Former Prime Minister (EPP), France ; **Laurent Fabius**, Former Prime Minister (S&D) and President, COP 21, France ; **Jean-Pascal van Ypersele**, Climatologist, former VP of IPCC ; **Olivier de Schutter**, Professor of Law, former UN Special Rapporteur ; **László Andor**, former Commissioner for Employment and inclusion ; **Karl Falkenberg**, former DG for environment, European Commission ; **Klára Dobrev**, Vice-President of the European Parliament ; leaders from **Youth for Climate** and **Fridays for Future** from 5 EU Member States.

The 3 solutions to finance the Green Deal are outlined in more details below:

1. The phasing out of fossil fuel and other environmentally harmful subsidies and investments

The climate law must prohibit all Member States from continuing to subsidise fossil fuels. It must also oblige all banks (private and public) and insurance companies operating in Europe to be transparent about all their activities and to stop brown investments.

In 2010, to fight tax evasion, Barack Obama passed the FATCA law that closed the US market to banks that did not provide the US tax authorities with full transparency. Similarly, to fight climate change, we need a "**FATCA-Climate law**" that closes the European market to banks and insurance companies that refuse to redirect their investments.



The '**Finance-Climate Pact**' was launched in France after the Paris Agreement, it is supported by 5 Former Prime Ministers, from left and right, by CEOs and trade union leaders...

The pact relies on 2 facts and includes 2 instruments, which are solutions 2 and 3 :

2. A Real European Climate Bank

The European Central Bank decided in late 2014 to create 1000 bn € to "save European growth". In total between 2015 and 2019 the ECB created 2600 bn €, but only 11% went to the real economy. Most of the rest went to speculation.

Again, since 1 November 2019, the ECB announced it will create 240 bn in the coming 12 months. Let's channel these colossal amounts to climate investments and jobs.

Therefore, we need a commitment that the European Climate Bank will provide zero interest loans in each Member State worth 2% of GDP (figure from Nicholas Stern's landmark report), around 300 billion € per year.



And now that the EIB has mobilised in a very short time 200 billion € of additional investment capacity to face the COVID emergency, it seems more than ever reasonable to expect similar methods and amounts to be mobilised in order to save lives against climate chaos.

3. A Real European Climate Budget

If every family, every small company and every territory is to invest in a deep zero carbon transformation, zero interest loans will not suffice, as the payback is limited or uncertain. For a catalytic effect, loans must be complemented with public subsidies. This necessitates an EU climate budget financed through EU own resources.

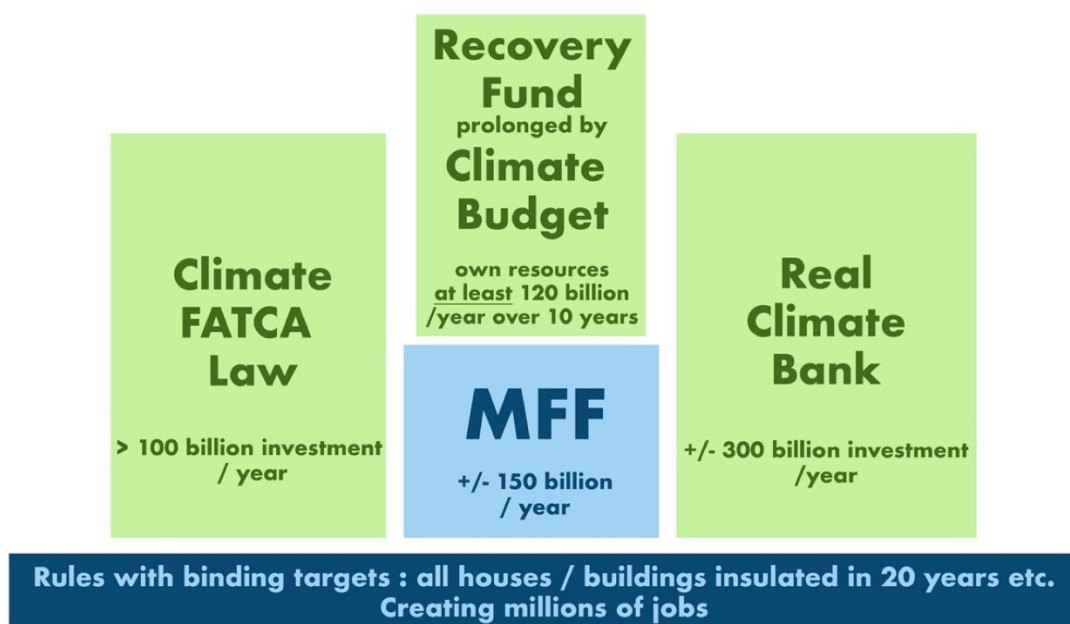
There has never been as much dividends going to shareholders as today

> but in 40 years, corporate tax rates in Europe dropped from 40% to 19%. To mobilise new resources, as explained above, the idea expressed by Jacques Delors of a European tax on profits must be revived. A 5% European profit tax on large transnational companies, combined with other new own resources (a Financial transaction tax, a plastic tax, ETS, a Carbon border adjustment, ...) would mobilise at least 120 bn € per year.

This could feed a real, sustainable, Climate recovery and reconstruction Budget of at least 120 billion euros per year, funded by these new own resources, which would prolong and strengthen the effects of the Recovery Fund, without asking one more penny from each Member State.

The Finance-Climate Pact creating these 2 last instruments is already drafted tinyurl.com/ClimatePact

🌍 | THE FULL EU CLIMATE & JOBS PACT



These 3 solutions are credible. They are supported by 100s of elected representatives at European, national and local level from 6 political families, as well as leaders of businesses, trade unions, NGOs, Fridays for Future / Youth for Climate, Economists and Climate scientists.

A European Climate & Jobs Pact based on these 3 solutions could be at the core of a Sustainable Recovery Plan and create millions of jobs.