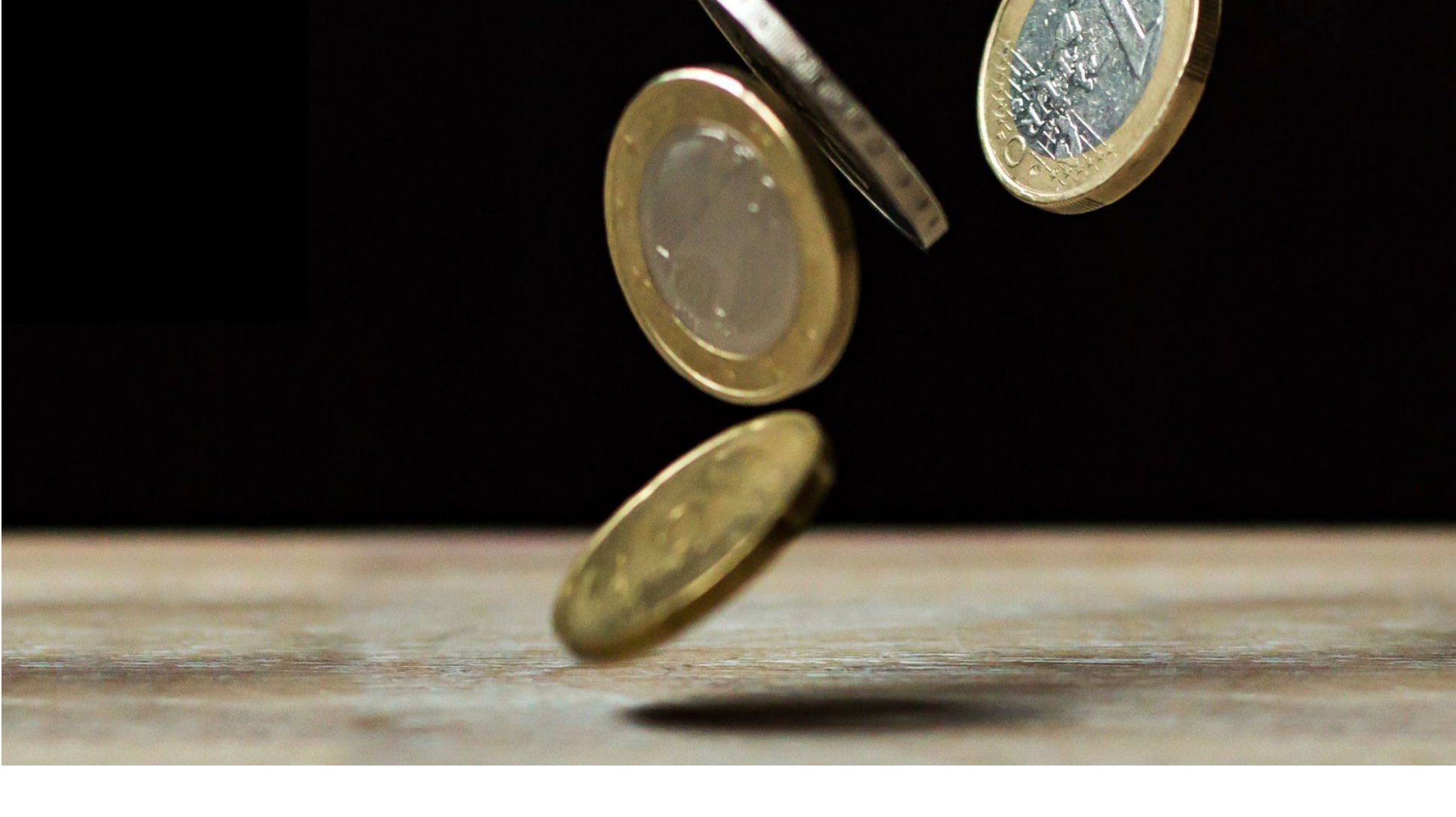




Credit: NASA/GSFC

## A federal Europe is not a transfer union

4 June 2019
 -
 1 Comment



by Leo Klinkers |

The European Union has some Member States that are unwilling – or unable – to meet their budgetary commitments. That is why there are financial transfers from rich to poor Member States. Opponents of a federal Europe base their view on the proposition that a federal form of government would strengthen those financial transfers. Well, exactly the opposite is true. It is precisely with the creation of a federal Europe that the current conflictual situation of north-south financial transfers can come to an end.

To understand this, we need to go back to 1787, the creation of the United States of America. After the Declaration of Independence of 1776, the thirteen former colonies concluded a confederation on the basis of a Treaty, and each built its own state. That proved unsuccessful. They had no money, no good governance, no strong external relations and no common defence against external threats. After eleven years, it turned out that the confederal Treaty was unable to prevent or resolve the growing mutual tensions.

In 1787, a group of fifty-five persons in the Philadelphia Convention began executing a legal mandate from the confederal Congress to correct the errors in that Treaty. After two weeks they came to the conclusion that this was not possible because the Treaty itself was the cause of their internal conflicts and their weak geopolitical position. As is the case today in the EU with the Treaty of Lisbon.

The Convention decided on its own authority to throw the Treaty into the dustbin and made the world's first federal Constitution. Instead of falling apart, they eventually became fifty sovereign states, united by a federal Constitution, with an unmistakably strong geopolitical position.

In order to gain the support of the Citizens of the thirteen conflicting states for accession to the federal union, the Philadelphia Convention first submitted the federal Constitution to the Citizens themselves for ratification. By allowing the Citizens themselves to ratify the Constitution, they came as close as possible to the concept of 'popular sovereignty' of Rousseau. Within two years, the Citizens of the thirteen states had ratified the federal Constitution.

Money played an important role in this. Article VI of the submitted Constitution stipulated that the states that would join the federation would be released from their debts. From that moment on, these would be the debts of the federation: a one-off settlement of the debts. But after joining the federation, they would henceforth be responsible for their own finances. It was also a signal to the creditors that the debts would be paid off.

Aside: Herbert Tombeur and I have included this one-off debt settlement in our draft of a federal constitution for Europe. I refer you to our European Federalist Papers and to my book <http://www.fae.eu/trailer/>.

This, of course, raises the question: where will the federation get the money to take over the debts of the participating states? In America, this was achieved through the work of Alexander Hamilton, one of the three authors of the American Federalist Papers, and soon after the Constitution's ratification becoming the federation's finance minister. Hamilton was able to see the huge mountain of debt not as a problem but as an advantage. With, among other things, handy tax measures including taxes on luxury goods such as alcohol, the sale of land and import taxes, despite the initial resistance, he received enough money to clear his debts. He also managed to create a national bank to stabilize the national credit position and to play an active role in stimulating the economy. Today's federal America owns about 24% of the combined national income of all Member States. The EU only 1%. This gives an idea of the financial strength of the federal part of America.

Aside: in section 1.5 of the 2012 Annual Report, the National Bank of the Netherlands clearly explained why and how the federal system in America was able to get the banking and economic crisis under control soon after 2008. The EU's intergovernmental tampering with its ineffective financial system means a) that we are still far from a solution, b) the financial transfers from north to south are creating increasing conflicts and c) the EU is not able to withstand a possible new global financial crisis.

A one-off settlement of Member States' debts – in line with the US example – makes it attractive to join a European federation. It corrects the mistake made by the Maastricht Treaty in 1992 of creating the euro without a federal foundation, and it also puts an end to the quarrel between rich EU Member States who are increasingly reluctant to put money into the financial sinkholes of poor Member States who do not wish (or are not able) to comply with the budgetary obligations under the Lisbon Treaty and further agreements. (Incidentally, it is not only the poor countries that are failing to meet their budgetary obligations.) With such a one-off settlement, a federal Europe is not a transfer union.

It can be argued that this settlement will give poor countries a bonus for their bad budgetary behavior. But that is the price that Europe is paying for its failure to introduce this measure as early as the Treaty of Maastricht. If they had done that back then, we wouldn't be in this financial mess by now.

The necessary federal budget can come from three sources: 1) from import levies by adapting the existing system to a federal system, 2) from federal taxes with simultaneous reduction of national tax rates and 3) from the introduction of the Spahn tax at federal level. The Spahn tax is an improved, but not yet introduced, version of the rejected Tobin tax, a form of taxation on money transactions in order to control the volatility of exchange rates.

As an aside, in 2004 the ECB rejected a proposal from Belgium to introduce the Spahn tax in Belgium on the grounds that it would be contrary to the Lisbon Treaty. In my proposal – to introduce the Spahn tax as one of the sources of a federal budget – there is no longer any question of a Treaty of Lisbon and this form of taxation could help to put an end to the uneven distribution of the financial burden between the Member States.

It would be interesting and useful to open a debate around the creation and improvement of the resources for a federal budget of the United States of Europe. I will welcome and answer any further reasoning on this topic as well as on the federal financial system, in order to stimulate this fundamental debate.

In this respect, we should be guided by the words of Romano Prodi, President of the European Commission from 1999 to 2004 and Prime Minister of Italy from 2006 to 2008: "Great reforms will make a great Europe".

Leo Klinkers
 – Editor

Leo Klinkers graduated in 1968 from the Faculty of Law at the University of Utrecht in the Netherlands. After a few years working in local government, he became responsible for research and education in public administration at the Law Faculty of Utrecht from 1971 until 1983. He wrote his Ph.D. thesis in 1974 on open access to Government documents. Between 1971 and 1983 Leo Klinkers developed a method for interactive bottom-up policymaking. This methodology has been published in a number of books and articles and applied in many projects in the Netherlands and abroad. Since 1983 he has worked as an independent consultant in public administration in several countries, as well as for the EU and the UN. In 2013 he was co-author of the 'European Federalist Papers' with Herbert Tombeur. He recently finished his last book 'Sovereignty, Security and Solidarity, arguing why and how the present intergovernmental administrating system of the EU should be replaced by a federal system and thus creating The United States of Europe, making America Europe's little brother. He is actually a co-founder and member of the Promoting Committee of FAEF (Federal Alliance of European Federalists)

### THIS POST HAS ONE COMMENT

Olga Raquel Teixeira
 28 AUGUST 2019
 REPLY

Dear sirs,

Given what I see in these publications and the opinions of their speakers, I would like to know more about European federalism in order to have a fairer view of it.

There is not much information on the Internet, and in many cases there is a very "bad" opinion about Federalism.

I have some "reticence". However, I would like to know more and better your point of view and whether it fits in with the European (political) geography.

Awaiting

I say goodbye fraternally,

Olga:

Ps: I tried to send a private message but I couldn't. Ask for mail setup. I leave my mail so they can send more information.

### Leave a Reply

Your comment here...

Name (required)

Email (required)

Website

POST COMMENT

Europe Today  
31.759 volgers

Pagina volgen

Delet

Europe Today  
ongeveer een maand geleden

This sums it up.

European Art  
14.466 volgers · 18 januari

INTERVIEWS BY OUR DIRECTOR

The Union, the Euro and the Single Market are the only possible answer to..

The Union, the Euro and the Single Market are the only possible answer to [...]

MORE INTERVIEWS >>

VIDEO

Leo Klinkers Fede...

00:00 02:24

RECENT ARTICLES

The Decline of Democracy in Spain: can it be reversed?  
22 DECEMBER 2023 / 1 COMMENT

Occupation, oppression and exploitation. When will the UN take responsibility?  
7 DECEMBER 2023 / 0 COMMENTS

Federating the world to tackle global existential threats  
9 OCTOBER 2023 / 1 COMMENT

Weather In Europe

Weather by: Sat24

Previous Post

European election unpack and post election national proposal

Next Post

The power game of Merkel, Macron and Rutte

## CONTACT US

Name

First Name

Last Name

Email

Comment or Message

SUBMIT