

## Treaty for Democratization ([www.tdem.eu](http://www.tdem.eu))

### Questions and Answers

#### **What is the aim of the Treaty for Democratization, and why do we need to create a European Assembly?**

The aim of the **Treaty for Democratization (TDEM)** is to give citizens the opportunity to reduce inequalities and to set up genuine **social, fiscal and environmental justice** in Europe. To date, European integration has primarily benefited the most powerful and most mobile economic and financial agents: major multinationals, households with high incomes and high assets.

By creating a European Assembly, the States who so wish put themselves in a position to tax fairly the most prosperous actors and thus to finance a common budget enabling the establishment of a European model based on equitable, social and environmental development. This is impossible in the framework of the present institutions, in particular because of the right of veto of each country preventing any common fiscal policy.

#### **Will this project not be vetoed by some countries?**

**No:** the project has been designed so that it can be adopted by the countries who wish to do so, without any country being able to veto it.

Generally speaking, in recent years European public opinion in all countries and of all political tendencies has become much more aware of the question of the lack of fiscal and social justice in Europe. In particular it is a known fact that the biggest companies pay much lower tax rates on their profits than small and medium businesses and households with high incomes and assets are taxed at lower rates than the middle and working classes. This reality is now common knowledge and undermines the social contract and the consent to taxation in Europe. However, no government has proposed any practical measures to break the deadlock. This is why we consider that a specific plan enabling us to resolve this

problem and to provide more fiscal and social justice in European countries would correspond to the requirements of Europe today and would be likely to obtain the consent of the majority in all countries.

Furthermore this project has been designed so that it can be adopted by any subset of member countries of the European Union. On the legal level, the rationale of the Treaty for Democratization is that it in no way conflicts with any of the current European Union Treaties: it accompanies them them, by creating for the countries who so wish, a new, shared fiscal sovereignty. It therefore in no way requires the agreement of all the EU members to enter into force. This point is central: the aim is precisely to be able to circumvent the possible veto of countries which refuse the possibility of a common taxation system (like Luxembourg or Ireland).

**How many countries have to adopt the TDEM for it to enter into force?**

It would be preferable if the TDEM were to be adopted at the outset by a considerable number of countries, in particular the four main countries in the Euro Zone: Germany, France, Italy and Spain who together represent over 70% of the population and the gross domestic product of the Zone. This is why we have taken this threshold of 70% for the entry into force of the Treaty (Article 20 of the TDEM). This moreover would enable the signatory States to enjoy sufficient legitimacy to intervene in the regulation of the monetary union.

But the Treaty can also be amended to enable it to be adopted by a smaller number of countries who can thus express their actual willingness to advance; above all, they can demonstrate to others the interest in having common taxes and a budget for democratisation. For example, nothing prevents France and Belgium or France and Germany from creating a Common Assembly with the power to adopt common taxes to finance a common budget.

**Can this project be adopted quickly?**

**Yes, in a few months.**

En 2011-2012, new treaties were concluded in a few months to completely reform the budgetary rules in Europe. These include the new budgetary treaty (**Treaty on Stability, Coordination and Governance in the Economic and Monetary Union**) also referred to as the **TSCG** and the treaty creating the **European Stability Mechanism (ESM)**. The problem is that these treaties have only strengthened opacity and austerity in Europe. But their rapid adoption proves that it is perfectly possible technically to adopt the Treaty for Democratisation, provided the political will exists and that the citizens and political movements undertake to do so. It is not by repeating that nothing is possible that we shall succeed in transforming Europe.

This said, the experience of other Treaty changes does suggest that it can be difficult to adopt such reforms dispassionately and that it is frequently under the pressure of unexpected events and crises (like the rise in interest rates in Autumn 2011) that changes of this sort, previously considered impossible are suddenly agreed upon.

Whatever the case may be, whether proposals such as the TDEM be adopted calmly (the option which obviously we would prefer) or in the wake of future financial or political crises (a possibility difficult to dismiss in the present state of things) this does not prevent us from debating the content of the next changes in the Treaty – quite the contrary: we have to prepare for future crises with an action plan for the reconstruction of Europe on better bases. This will avoid having to cobble together a poor re-vamp of the treaties, once again at the last minute for lack of adequate discussion beforehand.

**Does the fear of transfers between countries not risk leading to rejection of the project?**

**No**, because the project explicitly provides that the gap between income and expenditure or repayments paid and received by the different Signatory states cannot exceed 0.1% of their GDP (Article 9 of the TDEM). In case there is a consensus to do this, this limit can be raised or lowered, without changing the substance of the project.

This is a fundamental point because the spectre of the ‘transfer Union’ has become a major obstacle in any consideration of Europe. Now the core challenge facing the European Union is not the organisation of huge

transfers between countries; instead it is the reduction of inequality within these countries. In material terms, the inequalities within countries are much greater than the inequalities between countries and this is why we propose to focus on the former. There are rich tax-payers in Greece and poor tax-payers in Germany: this is why the TDEM is designed to harness the former (and more generally all the richer taxpayers in Europe) and benefit the latter (and more generally, all the poorer taxpayers in Europe wherever their place of residence).

### **Why should we create common taxes?**

Fiscal competition between European countries has led to constantly lowering further taxation on the richest and most mobile tax-payers (large firms, taxpayers with high incomes and assets), to the detriment of the less well-to-do taxpayers, who have witnessed a rise in their deductions (in particular in the form of VAT and other indirect taxes and taxation and deductions on salaries). The only way to end this fiscal competition is to give a European Assembly the power to vote a common taxation system.

### **Why re-allocate a considerable share of the income from these new taxes to States?**

In the proposed Budget project, the intention is to re-allocate half the new income, or 2% of GDP out of a total of 4% of GDP derived from the four taxes on profits, high incomes, high assets and carbon emissions.

In particular, this will enable member States to lower the taxes weighing on the lowest incomes (VAT, indirect taxes, taxes and deductions on salaries, etc.), in keeping with the priorities which they decide.

The European Assembly could also choose to re-allocate the totality of the income in this way. This is not our preferred choice, because it seems to us important that these new revenues also be used to finance shared investments in the future. But this type of choice would already be a considerable improvement in comparison with the present situation: the European Assembly would be an instrument enabling each Member State to set up greater fiscal justice.

## **Why should we create joint investments and a common European budget?**

The European Community States whether they like it or not, do share a number of common public assets. Common or shared assets are goods which are not exclusive, certain aspects of which extend beyond administrative borders, as for example, the climate. The fact that these goods are of benefit, or are a cost to populations with no distinction of borders justifies common governance. The European countries also de facto share a certain number of challenges which cannot be regulated by purely national management. How can we imagine the implementation of the ecological transition of national economies without a common policy? How can we regulate the large digital companies in Europe if we do not have a concerted policy? The budget proposal therefore has axes for various challenges and shared assets in Europe namely: knowledge, the environment, reception of migrants and taxation.

The aim is to construct European commons to enable the European Union to project itself into the future by means of a transition in its mode of growth and by regulating globalisation thus promoting a genuine European model for lasting and equitable development.

## **Why is the European Assembly so reliant on national Parliaments and not on the European Parliament alone? Is this not a challenge to the supra-national aim?**

In the proposal set out in the TDEM we suggest that the European Assembly be constituted by elected members of national parliaments (80% of the members) (at the *prorata* of the groups which constitute the national parliament) and that a fifth, or 20% be elected members of the European Parliament (also at the *prorata* of the groups which it comprises).

The first reason for which we wish to see a majority of members from national parliaments is in the first instance a question of the legitimacy concerning fiscal measures: one of the main obstacles to fiscal unification is the refusal of national Parliaments to lose the monopoly of this prerogative.

Moreover, and above all, it seems to us essential that national, parliamentary elections become de facto European elections: the national political project must be part of a European project if we wish to restore meaning to the European narrative. National campaigns cannot use Europe as a scapegoat; this may well sustain populism. The representation of national elected members in the European Assembly would imply that the candidates in national, parliamentary elections would no longer be able to avoid responsibility by blaming Brussels. They will have to explain to voters the projects and budgets which they intend to defend within the European Assembly. By uniting national elected members in the same European Assembly, habits of co-governance will be created which today only exist between Heads of States and Ministers for Finance.

**Will the project be able to work with a European Assembly constituted in the same way as the present European Assembly?**

Technically, yes. Politically and democratically, it would not be the best solution.

In the proposal set out on this site, we suggest that 80% of the European Assembly be constituted by elected members from national Parliaments and 20% by members of the European Parliament. This choice deserves further consideration. The percentage of national elected members could be lowered, for example to 50%.

Technically, it could equally well be lowered to 0%, in which case the composition of the European Assembly would be the same as the present European Parliament but with much wider fiscal and budgetary powers. Since, at the moment, each Member State has the right of veto, the European Parliament cannot adopt a single European tax. If a sufficient number of member States were to agree on a proposal of this sort, it would be a considerable advance for Europe, and one which we would support.

However, we warn of the political and democratic risks that a solution of this type would involve and, more generally, of an excessive lowering of the percentage of national, elected members (below 50%). This could lead to conflicts of legitimacy in the future between the European Assembly and the National Parliaments which, in the absence of

evidence to the contrary, would retain the power of voting taxes in the various Member States and also that of ratifying and withdrawing from international treaties (like the European treaties and, in particular, the TDEM). It does seem distinctly preferable to 'Europeanise' national Parliaments by placing them at the centre of the democratisation of Europe.

**What difference is there between your proposal and the “euro zone budget” proposed by the French and German governments?**

In June 2018, in the Meseberg Declaration, the France-Germany Partnership agreed on a roadmap to set up a budget for the Euro Zone by 2021. The stated aim of this budget is convergence within the Euro Zone and its stabilisation. There are many differences between our project and this one.

Generally speaking, the Macron-Merkel project is extremely vague, whereas ours is precise: the vagueness of the Macron-Merkel project is all the more problematic particularly as it sustains all the anti-European delusions. For example, Euro-sceptics can allude to the risk of enormous transfers between countries which nobody can deny. Our project avoids this by placing a ceiling on transfers between countries drastically and explicitly.

Furthermore, the budget in the Macron-Merkel project only exceeds GNP by a few tenths of a point, whereas ours rises to 4% of GNP (or more, if the European Assembly so decides).

Next, the Macron-Merkel project in no way changes the opacity of the present European governance (the governance referred to is based on the Eurogroup, the Commission and the ESM (European Stability Mechanism) whereas our project is based on an in-depth democratisation of Europe, with the creation of a democratic European Assembly constituted by national and European elected members, who will have the final word over other instances on voting of the budget.

Finally, the budget proposed here is more ambitious than a mere income stabilisation or convergence tool. This is a budget which aims at creating public goods and implementing collective projects for the European Union as a whole.

**What is the difference from the Franco-German project for a Parliamentary Assembly discussed in October 2018?**

In October 2018, the French and German governments discussed the possibility of the creation of a Franco-German Parliamentary Assembly to debate a certain number of subjects, in particular questions of defence.

The main difference is that this Parliamentary Assembly is purely a consultative body (as moreover is the conference of national parliaments which already exists in the context of the present treaties), whereas we are proposing the creation of a European Assembly which would have real fiscal and budgetary powers enabling it in the last resort to adopt common taxes which serve a common budget.

**Is the Manifesto for Democratization left-wing or right-wing?**

The Manifesto is addressed to all European citizens and political movements who identify with it and would like to contribute to improving it with no exceptions. Our aim is to support a fundamental discussion which has nothing to do with the labels of the past.

In so far as it focuses on social and fiscal justice and on the possibility of adopting European taxes for the richest and most powerful economic actors, it is natural to associate this Manifesto with the left. The issue here is one of a Manifesto of a truly European Left and one that is genuinely left-wing. Most of those who drafted it and the first signatories of the Manifesto will recognise themselves in this description.

But above all, it seems to us that the issues of social and fiscal justice in Europe are issues which transcend the usual differences and are likely to bring people together: numerous European citizens of all tendencies, and in particular many disenchanted citizens who do not recognise themselves in the existing political offer would like the most powerful economic actors to be forced to contribute at least as much as the lowest income groups. Many reforms supported by the 'left' in the past, like universal suffrage or income tax, have long since become consensual.

Finally, the central question of the construction of a legitimate and sovereign European Assembly, supported by national and by the



European Parliaments, go beyond the traditional differences quite simply because the issue has never previously arisen. At no time in the past have old Nation States ever chosen to share their fiscal sovereignty in such an ambitious way as the path we propose here. Our aim is to contribute to this fundamental debate and not to confine both sides in their convictions of 'left' and 'right'.

### **Why call this budget a “Budget for democratization”?**

The financial year is central to the democratic process. Within a country, the financial year materialises the government's political project and brings the democratic forces into play via the proposal and adoption of the government's annual budget. The budget is therefore the founding act of a political community in so far as it creates the political space and acts as a lever for local democratic life. The creation of a European budget is therefore the basis for the creation of a European political community and a democratic public sphere.

Furthermore, this budget will serve to finance the very conditions for the viability of democracy in Europe. By ensuring respect for social justice and by ensuring lasting and more balanced growth, this budget will respond to the risks facing Europe. To maintain its legitimacy, the social State must be capable of redistributing the wealth created in an equitable manner. To justify the legitimacy of the common market, Europe must be capable of regulating globalisation and of directing economies towards sustainable growth.

### **Why is it urgent to adopt the TDEM?**

Confronted with the financial crisis, the States set up a genuine European economic government to manage the challenge of the debt crisis. The problem is that this emergency government has become institutionalised without becoming democratic and it remains extremely opaque for citizens.

Following the financial crisis, Europe was confronted with a genuine social, democratic and ecological emergency. Society became more inward-looking, the European project lost meaning, a feeling of

abandonment developed amongst some sections of the population and there was a rise in inequality. As a result the European Union became the scapegoat and was designated as the instance responsible for social tensions.

This crisis justifies the setting up of a new European government, the European Assembly, which will enable the democratisation of the economic and social governance of the European Union. The TDEM project aims to revive democracy in the EU by providing tangible and achievable tools to regain control of the European project and respond to the social and ecological challenges. The creation of a shared political space will enable citizens to re-write a shared narrative focusing on Europe. This project aims to break the deadlock in Europe by creating a sense of European commonality.

**How does this project differ from yet another appeal for a social Europe?**

Over and above being an appeal for a new European dynamic, this project finally provides specific and concrete proposals enabling Europe to be transformed and implementing more fiscal and social justice. We are formulating budgetary and legal proposals which are fully thought out and are applicable as such but which are also a basis for negotiation, a basis for specific discussion which demonstrates that it is possible to do things in Europe and that not everything is blocked. Our proposal is one for a material utopia which we intend to be performance oriented.

**What would become of the European Parliament? How would the new European Assembly work with the other institutions?**

There is today an economic government in Europe which has become autonomous in comparison with the governance of Europe at the outset and the European Parliament around the Eurogroup. This justifies the creation of a new Assembly to ensure democratic control of this economic government. Furthermore, the European Assembly would be competent in fiscal matters, and therefore conceives of itself as a European body of the national Parliaments whereas the European Parliament has a more transnational status. However the European

Parliament would not be an unknown quantity in this new Assembly since some of its elected members would already be members.

### **What is meant by the pooling of debts?**

We propose the possibility (if the European Assembly so decides) of a pooling of the refinancing of States for all or part of their debts (article 10 of the TDEM). This proposal is based on the “Public Debt Redemption Fund” proposed in 2012 by the German Chancellery’s economist council, except that it is a democratic body (the European Assembly), and not an automatic rule, which will decide the rhythm of repayment. Each country would continue to repay its own debt but at an interest rate which is the same for all. We would thus avoid a crisis in the spreads like the one which occurred and would institute a new point of reference which is more satisfactory than that of the market.

We should stress however that the TDEM proposal is built for the most part around the idea of fiscal justice, and the possibility for a European Assembly that can adopt common taxes to finance a democratization budget. The questions of debt and money also play a role of the TDEM, but these parts of the proposal would need to be strengthened. Generally speaking, our objective is not to close the discussion but to open it on a precise basis, so that everyone can participate and amend and improve our proposal.

### **Is your proposal the only one possible, or can it be amended?**

We emphasise that the whole of our proposal can be amended and modified and only constitutes a basis for discussion. In particular, numerous parameters can be modified to adjust the project to our aims. Thus the percentage of national elected members (80% in the present project) can be lowered. The ceiling for fiscal transfers - 0.1% of GDP – is also adjustable depending on whether the desire is to direct the budget towards an aim of convergence of the economies or whether to reduce inequalities within the different countries and finance joint future projects. Let’s take another example; we have proposed that the treaty be adopted by the States representing a minimum of 70% of the population. We consider that this figure represents a desirable threshold for the control of the economic governance of Europe to be legitimate. However,

it is conceivable that the treaty be adopted by countries representing a smaller proportion of the population focussing exclusively on the budgetary aspects: a joint France-Belgium, or France-Germany or France-Belgium-Germany Common Assembly levying a common corporate tax on firms or large fortunes would already be a considerable advance!

Our aim is not to bring the discussion to a close but to open it on precise bases. Everybody has the right to disagree with our proposals, but on condition that the alternatives envisaged are clearly stated. The European debate is being stifled by statements which assert that “nothing is possible”; let’s hope that the time has come for proposals.

**Do the European Treaties not deserve to be challenged more globally?**

The TDEM proposal aims to provide the means to act with the countries who so wish, with no country being able to use its veto and block all. But it is very obvious that ultimately the ideal course would be to overhaul all the treaties. It is however too easy to say that we are going to withdraw from all the treaties without stating precisely what new treaties we propose to replace them. The fact of withdrawing from certain aspects of existing treaties may constitute a useful strategy for the future, but only on condition of making constructive and alternative proposals. This is the spirit of the TDEM.

**Why not improve what already exists in the framework of the present institutions?**

The problem is that the present institutions, in particular because of the right of veto held by each country in fiscal questions, does not enable us to advance to greater fiscal justice. Expecting people to believe the contrary, whereas European citizens have witnessed for years that this does not work, amounts to exacerbating the feeling of distrust in dealing with the European institutions.

**How is it possible for some countries to progress faster than others? Is this authorised by the present treaties?**

All the countries have always had the right to conclude bilateral or multilateral treaties with each other, as long as this is not a violation of the treaties which they have already concluded in the past (except of course in withdrawing from the latter). In this case, the TDEM does not violate any of the existing European treaties, because the new sovereignties attributed by the TDEM to the European Assembly (in particular on the fiscal level) are not covered by the present treaties.

**What interest is there in advancing with only a few countries?**

One of the reasons for which Europe has the reputation of being 'cast in stone' or unchangeable is the cumbersome negotiation procedures with 27 or 28 countries. The European Union was built by a few countries before expanding. It does seem logical that to begin with it advances in a small group. The present system of 'enhanced cooperation' is inadequate because it is not based on truly democratic institutions: whence the TDEM proposal and the creation of a European Assembly which, de facto, provides a legitimate democratic framework for the adoption of much more ambitious forms of 'enhanced cooperation' than those allowed at the moment, in particular in fiscal and budgetary matters.

**What interest would Ireland and Luxembourg have in joining the budget which imposes a high minimal corporate tax rate?**

The proposed budget does not consist wholly of taxes; there are also investments in future projects. Fiscal competition is not a very solid lever for development and does not create much value added. The ecological transition of a whole continent all together is a much more attractive lever for development. We have to break the vicious circle of unfair competition.

Furthermore, there is no need for Ireland or Luxembourg to join the project right now. Simply, nothing can stop them from blocking the countries who do want to advance. This would give countries which do

join the TDEM the possibility of demonstrating to the others the interest of having joint taxation and budgets and of thus convincing them to join the project.

**Why not use the mechanism for “enhanced cooperation” provided for in the existing Treaties?**

The “enhanced cooperation” between Member States of the Union is sometimes presented as a mechanism enabling to overcome the rule of unanimity, particularly in the field of taxation. But in reality this mechanism is based on extremely restrictive rules which today block any genuine advance in the fiscal or institutional fields. The implementation of a common corporate tax (or any other common tax) in the context of enhanced cooperation would require a minimum of 9 participant States, as well as the qualified majority agreement of the Council.

In real terms that means, over and above ensuring the participation of 9 Member States, the tax would require to be voted by 55% of the Member States of the Council representing 65% of the population, to approve the initiative. Even more restrictive is the fact that without the prior approval of the Commission (which is probable), it would require the agreement of 72% of the Member States representing 65% of the population of the Union! Finally, 4 States representing 35% of the population could completely block the proposal.

Briefly, at the moment “enhanced cooperation” does not allow a small group of countries to embark on the task of fiscal harmonization or an ambitious institutional reform. On the contrary, there is nothing to prevent a few pioneering States to create common taxation with the support of a Treaty and an Assembly of the same type as we propose. We consider this could create a dynamic for further opportunities (as was the case at the beginning of European construction) which could break the present institutional inertia.

**How can you be sure the European Assembly will adopt a Budget of the type you propose?**

By definition, we cannot know in advance what the European Assembly will adopt. But we are convinced that the only way to move Europe forward is to have confidence in democracy.

At the moment, given the rule of fiscal unanimity there is no possibility of adopting common taxes to reduce the inequalities in Europe. With the European Assembly and the TDEM, this possibility will exist. At worst, the European Assembly will not adopt any of these taxes, or else will only adopt them with extremely reduced rates, at least at the outset. But this will in no way prevent the States from continuing to follow the current fiscal policies. The European Assembly will open up the possibility of adopting common taxation and, in this case, redistributive and ecological taxes (taxes on corporate profits, on top income and assets and on carbon emissions), but will in no way affect the rights of the States.

Furthermore, all parliamentary and fiscal history shows that the establishment of parliamentary assemblies endowed with considerable fiscal powers very rapidly has an effect on political dynamics. As soon as the 16<sup>th</sup> Amendment to the American Constitution was adopted in 1913, the Federal Congress lost no time in using its new powers to adopt some of the most progressive taxes in history on income and inherited assets. On the contrary, it is the absence of federal, fiscal parliamentary power and the rivalry between national Parliaments which explains why, since the 1980-1990s, Europe has witnessed an overall lowering of taxation rates on corporate profits, while the Federal Congress in the USA maintained an IS (additional tax) at 35% (until recently) over and above the State taxes. If a European Assembly had the power, it is probable that it would choose to tax corporate profits at a high rate to proactively involve the most powerful economic actors, in response to the demand of by far the majority of European public opinion, right across the political spectrum.