

EXECUTIVE SUMMARY

A RELATIONAL ECONOMIC PLAN

# CONFEDERAL EUROPE

STRONG NATIONS  
STRONG UNION

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# EXECUTIVE SUMMARY

## THE EUROPEAN UNION AS IT IS

Europe stands at a turning point.

The long trek towards political unification has been championed by the large numbers of, usually, wealthier Europeans who have gained most by globalism and the Single Market. But the prolonged economic slowdown following 2008, worsened by many nations' barely sustainable debt positions, has revealed, and given voice to, a groundswell of discontent. Today, electorates in many major

EU nations are split down the middle, and not always on party lines. It is no longer fanciful to think that the UK's narrowly won decision to leave the EU could be followed by exit votes in Italy, France, the Netherlands and Greece. In addition to a sustained period of fiscal weakness and political instability, Europe is facing an existential crisis.

*Financial and political systems generate – and set the terms of – relationships between whole classes of people across Europe.*

It could be argued that the recent economic troubles were just bad luck, and that the best way forward is to intensify the unification process – including the political and fiscal centralisation without which it is difficult to maintain a single currency covering even part of the EU. But this suggestion

is too conveniently simple. The refrain of 'ever closer union', first introduced by those who drafted the Treaty of Rome, imagines a willing convergence between peoples, not a mere welding together of the political and financial structures within which they live. The two are not the same. The first may legitimize the second; the second will not achieve the first.

In fact, some of the mechanisms by which the EU has attempted to unify its peoples have themselves been counterproductive. Within the euro's fixed internal exchange rates, the failure of the Greek economy has turned Greece into an economic vassal state – with predictable effects on Greek sentiment about creditor countries. More widely, a reliance on debt finance creates in the EU, at individual, corporate and national levels, a densely interwoven network of those struggling to repay loans and those who could be ruined by default. The relationship – or, more correctly, lack of relationship – between corporates and their investors has helped shape a financial landscape in which capital gravitates to the strongest growth points and drags labour in its wake, with sometimes severe repercussions for the sending and receiving populations.

The point is that financial and political systems generate – and set the terms of – relationships between whole classes of people across Europe. Some of these systems, like the euro, have been designed. Others (including debt-finance, the operation of capital markets, and a short-term democratic cycle) already existed in the Western political-economy and were used or adapted. But ironically, in view of the stated goals of the European project, at no point has the relational structure and impact of these systems – which includes the relationship between Europe's present and future citizens – been subject to serious scrutiny.

## THE EUROPEAN UNION AS IT MIGHT BE

But what if the EU took the Treaty of Rome at its word, and set 'ever closer union' – in the sense of willing convergence built on a popular sense of European identity – as a primary and pragmatic long-term goal? In the real world, what kind of policies would that inspire?

Policies in Europe, at national and EU level, reflect a broad range of aims and considerations, including economic growth, security, constraining environmental impacts and, not least, the likely effect on votes. This paper suggests that a further consideration should be introduced, which provides an anchor to the others: namely,

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the impact of policy on relationships between peoples, between institutions, between stakeholder groups, and between individuals. A principal test for policies would therefore be not just their economic, social or environmental effects but whether they can be expected to produce greater interaction and mutual understanding, sufficient fairness to all parties, and a convergence of purpose and values.

Confederal Europe proposes neither a withdrawal from the European project nor a headlong and premature rush towards full political integration. By addressing the underlying weakness

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of relationships, it provides a more constructive and less controversial way to deal with the fact of interdependence from which no European can escape. In a confederal structure lies an opportunity for the EU and its constituent nations to be strong together, to resolve sovereignty issues, and to reframe the mandate, membership and procedures of the EU's most important central institutions: the Council of Europe, the European Parliament, the

European Commission, and the European Central Bank. The paper also focuses on economic concerns. Europe needs a way to stimulate growth and to reduce, rather than add to, an unprecedented debt burden that could inflict more devastating short- and medium-term damage than acknowledged threats like sea-level change.

The paper puts forward twenty policy proposals under seven main headings. But beneath this is more than a policy direction. There is also a recognition that the great engines of thought and action flowing from Europe's Christian roots and Enlightenment are not complete in themselves.

In the end, a culture that builds so much upon the rights and freedoms of individuals will also have to attend to the relationships it codifies into major institutions, and place an explicit value on quality of relationship in the way it conducts civic life and educates the next generation. Liberty and equality are matchless ideals – but they are only two of three. Neither can be implemented in isolation from the third, which since the middle of the twentieth century has received far less attention – namely fraternity.

## A POLICY SYNOPSIS

### Political structures

- 1. Amend the Lisbon Treaty to redefine ‘union’ as a strong confederal structure rather than a federation**  
(EU LEVEL)
- 2. Amend the Lisbon Treaty to strengthen the life-chances of future generations by including them formally as stakeholders in the EU and by broadening the objectives of educational policy in member states**  
(EU LEVEL)

### International finance within the EU

- 3. Apply symmetrical discipline to current account surplus economies and current account deficit economies**  
(EU LEVEL)
- 4. Defer the objective of achieving a single currency area for the whole of the EU and meanwhile re-enable a flexible exchange rate regime for the rapid correction of balance of payments disequilibria**  
(EU LEVEL)
- 5. Reduce the impact of international indebtedness by converting conventional debt into GDP-linked securities**  
(EU LEVEL)

## Debt-free growth

- 6. Restore the trust between governments and electorates by requiring intergenerational fiscal transparency**  
(MEMBER STATE LEVEL)
- 7. Address national debt, as a matter of urgency by reducing pressure on public expenditure**  
(MEMBER STATE LEVEL)
- 8. Remove tax advantages to debt finance in the corporate sector to create a level playing field between debt and equity finance**  
(MEMBER STATE LEVEL)
- 9. Charge banks adequately for the liquidity and solvency insurance they receive from government and the ECB**  
(MEMBER STATE LEVEL)
- 10. Develop new financial institutions to finance house purchase through shared equity arrangements, and remove any remaining tax breaks for mortgage debt**  
(MEMBER STATE LEVEL)
- 11. Incentivise lender care by banks, retailers and other lenders by removing tax allowances for defaults on their consumer loans**  
(MEMBER STATE LEVEL)

## A three-freedom Single Market

- 12. Create a new Single Market of three freedoms to trade – goods, services and capital – and let national governments control immigration**  
(EU LEVEL)

## Corporate governance

- 13. Make integrated reporting the European standard for corporates, and introduce metrics that directly measure relationship quality between stakeholders**  
(EU LEVEL)

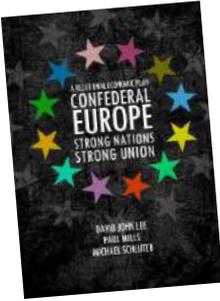
- 14. Strengthen shareholder oversight of corporate management by requiring transparency of share ownership, by deferring aspects of director remuneration, and by incentivising investors to be long-term and involved**  
(EU LEVEL)
- 15. Rebalance the risk between stakeholders by requiring stronger representation of stakeholder interests on company boards and, in liquidation proceedings, prioritising small creditors, customers, suppliers and employees over secured creditors**  
(EU LEVEL)
- 16. Shift the burden of proof in EU Merger Control to require not just clear absence of negative outcomes but demonstration of positive social benefits**  
(EU LEVEL)

### **Realism on migration**

- 17. Formally recognise the limits of national tolerance by keeping immigration controls at national rather than European level**  
(EU LEVEL)
- 18. Create a cooperatively-funded EU immigration system with strong collective external borders**  
(EU LEVEL)

### **Investment and welfare**

- 19. Give city-regions a decisive role in area economic planning, the raising of investment capital, and the distribution of welfare**  
(MEMBER STATE LEVEL)
- 20. Build social resilience by incentivising colocation of relatives and by restoring competencies to extended families and sharing networks, so as to reduce demand on national welfare budgets**  
(MEMBER STATE LEVEL)



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## RELATIONAL VALUES FOR EUROPE

- Freedom, equality, truth, justice and solidarity can only have meaning in the context of relationships – with others and with God.
- For all of us, relationships are the basis of identity, learning, opportunity, achievement, and wellbeing.
- Because quality of relationship powerfully affects both people and institutions, relational capital is a primary source of value.
- A good society connects its members in ways that encourage appropriate mutuality, transparency, understanding, fairness, and common vision.
- All persons should be treated without partiality under the law, and have their inherent worth respected.
- In a sustainable society, the rights of individuals, communities, institutions, and third parties must be held in balance across social networks that include future generations.
- Where relationships break down between individuals or peoples, restraint and mediation are to be pursued in preference to separation or violence.



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