



December 2012
AK Position Paper

“Towards a Genuine Economic and Monetary Union”, Report by the President of the European Council

About us

The Federal Chamber of Labour is by law representing the interests of about 3.2 million employees and consumers in Austria. It acts for the interests of its members in fields of social-, educational-, economical-, and consumer issues both on the national and on the EU-level in Brussels. Furthermore the Austrian Federal Chamber of Labour is a part of the Austrian social partnership.

The AK EUROPA office in Brussels was established in 1991 to bring forward the interests of all its members directly vis-à-vis the European Institutions.

Organisation and Tasks of the Austrian Federal Chamber of Labour

The Austrian Federal Chamber of Labour is the umbrella organisation of the nine regional Chambers of Labour in Austria, which have together the statutory mandate to represent the interests of their members.

The Chambers of Labour provide their members a broad range of services, including for instance advice on matters of labour law, consumer rights, social insurance and educational matters.

Herbert Tumpel
President

More than three quarters of the 2 million member-consultations carried out each year concern labour-, social insurance- and insolvency law. Furthermore the Austrian Federal Chamber of Labour makes use of its vested right to state its opinion in the legislation process of the European Union and in Austria in order to shape the interests of the employees and consumers towards the legislator.

All Austrian employees are subject to compulsory membership. The member fee is determined by law and is amounting to 0.5% of the members' gross wages or salaries (up to the social security payroll tax cap maximum). 560.000 - amongst others unemployed, persons on maternity (paternity) leave, community and military service - of the 3.2 million members are exempt from subscription payment, but are entitled to all services provided by the Austrian Federal Chambers of Labour.

Werner Muhm
Director

Executive Summary

The European Union, and in particular the Eurozone, are faced with enormous problems: economic output is once again in decline and unemployment is constantly reaching new heights. Instead of effectively tackling the causes of the financial and economic crisis, the European Union's exit strategy failed, undermining the potential for growth and employment.

In view of the pressing problems, the BAK welcomes the debate on reforming the Economic and Monetary Union. However, the **Report "Towards a Genuine Economic and Monetary Union"**¹ drawn up by the President of the European Council, in cooperation with the Presidents of the European Commission, the ECB and the Eurogroup prior to the meeting of the European Council in December 2012, does **not** represent a **suitable basis for an urgently required reorientation of the EMU**. On the contrary, some of the proposals contained therein have to be regarded as exacerbated continuation of the failed current crisis policy.

The BAK suggests a number of measures in the context of reorienting the economic governance of the EMU. Within the scope of changing the **economic policy**, first of all it is necessary to take effective measures to reduce unemployment, to make social and environmental investments and to safeguard

the welfare state with its demand-stabilising effect.

With regard to the **institutional structure of the EMU**, the BAK suggests the following necessary changes:

1. **Effectively limiting the interest burden** for Member States with very high real interest rates is essential to tackle the financing problems of some Eurozone Member States.

2. **Fiscal policy coordination to ensure a sufficient revenue basis through effective tax coordination, to guarantee a proper fiscal stance for the EMU as a whole and to create an automatic cyclical stabilisation mechanism** to deal with national cyclical asymmetries.

3. It is important to extend the social dimension which has not been taken into account in the Report by the four Presidents. The BAK calls for a **Social Compact for Europe** which among other enshrines minimum social standards and includes measures against wage and social dumping and for tackling youth unemployment.

In addition, it is necessary to

4. **effectively regulate the financial markets,**

¹ TOWARDS A GENUINE ECONOMIC AND MONETARY UNION, Report by President Herman Van Rompuy.

5. **expand, deepen and develop the democratic legitimacy of economic policy decision-making within the EMU** and

6. **reduce the economic policy rules** within the EMU to a few clear, essential and realistic points of reference.

Concerning the Report presented by the four Presidents, the BAK welcomes that some steps, addressed under the heading of an integrated financial framework, are generally going in the right direction. However, given the current framework, **the BAK is strictly opposed** to further interventions in national budget policy and to the planned **mandatory implementation of so-called structural reforms based on contractual agreements**.

Based on a description of the key structural problems (Section 1), in section 2 we address in detail the urgently required changes to the economic governance of the EMU. Finally, we critically assess (Section 3) the current proposals of the four Presidents.

The AK position in detail

1. The structural problems of the Economic and Monetary Union

The European Union is at a crossroad, facing the consequences of the global financial and economic crisis in the form of a massive economic collapse and record unemployment, in particular in respect of young people. However, the EU's **current exit strategy** is **not capable of effectively tackling the actual causes** of the crisis – uneven distribution of income and wealth, inadequately regulated financial markets as well as current account imbalances. Instead, economic governance in the EU and the adjustment programmes of the Troika (European Commission, ECB and IMF) are oriented towards strict austerity policy which thus exacerbate the crisis and cause devastating social consequences.

The financial and economic crisis exposed the **structural problems of the Economic and Monetary Union**, which was created as an **asymmetric construction**: whilst a common monetary policy was introduced for the Member States of the Eurozone, there was no common fiscal policy aiming at an appropriate fiscal stance or a mechanism to tackle asymmetries. Moreover, the exclusive orientation towards price stability enshrined in the statutes of the European Central Bank (ECB) lays down a monetarist monetary policy – at the expense of giving more weight to the objectives growth, employment and financial market stability.

While the fiscal rules of the Stability and Growth Pact (SGP) and the Fiscal Compact significantly constrain public expenditure, they are not appropriate to ensure a sufficient **public revenue basis** for public goods and services and the welfare system. In this context, the lack of effective tax policy coordination at EU level reveals a key weakness which favours a race to the bottom for the lowest capital gains and corporate tax rates.

The economic orientation of the Eurozone was already misguided before the crisis and even contributed to its aggravation. **Instead of focussing on a balanced economic policy** within the meaning of the magic polygon of economic policy¹, policies concentrated on low inflation and restrictive fiscal rules. The **one-sided neoliberal orientation** was reflected in growing wealth concentration and increasing polarisation of income, inadequate financial market regulation, a failure to take account of domestic demand, a European labour market policy which is almost exclusively focused on labour market flexibilisation, a lack of qualitative economic coordination at horizontal level and massive macroeconomic imbalances between the Member States of the Eurozone (in particular current account imbalances). An active economic policy aiming at growth and employment, social equity, the crisis resistance of the financial sector and the ecological reorientation

¹ Cf. http://www.politischebildung.com/pdfs/33_rothschild.pdf, p. 6 (in German),

of the economy as well as economic convergence while avoiding income and wealth concentration, was regarded as either irrelevant, non-desirable or automatically achieved by market mechanisms.

The worrying extent of unemployment, the macroeconomic divergences between Euro States and the shrinking economy in some of them result in continuous fiscal problems and a disintegrated capital market. The financing crisis of some Euro Member States due to sharply increased interest rates and the enormous interest rate differentials within the Eurozone threaten to become a crucial test for the entire Economic and Monetary Union. These **problems cannot be solved by continuing the current crisis policy**.

In view of the deep-set structural problems of the Economic and Monetary Union and the requirement to **reorient the Eurozone**, the BAK welcomes the current debate on reforming the Economic and Monetary Union. However, the Report by the President of the European Council "Towards a Genuine Economic and Monetary Union", which was presented prior to the meeting of the European Council, is in its entirety just as little suited to put into motion an urgently required reorientation of the Economic and Monetary Union as is the Communication of the European Commission "A blueprint for a deep and genuine economic and monetary union"², which has been here addressed only marginally. On the contrary, the proposals represent to a large extent an exacer-

bated continuation of the failed current crisis policy.

2. Necessary structural changes in the Economic and Monetary Union

Securing the continued existence of the Eurozone is of utmost importance and urgency. Hence, efforts to push individual Member States out of the Euro area have to be vehemently opposed.

The **most important cornerstone of successfully tackling the crisis** in the short as well as in the long run is a **high level of employment** with high-quality jobs. Persistently high levels of unemployment would prevent any stabilisation of public finance, restrict growth potential and deepen banking problems due to rising private insolvencies as well as endangering political and social stability in the medium term. However, unemployment can **only** be reduced by **a change of economic policy**, as the current purely supply-side deflationary orientation of economic policy blatantly failed. If this course was continued, it would be extremely difficult to rescue the Eurozone.

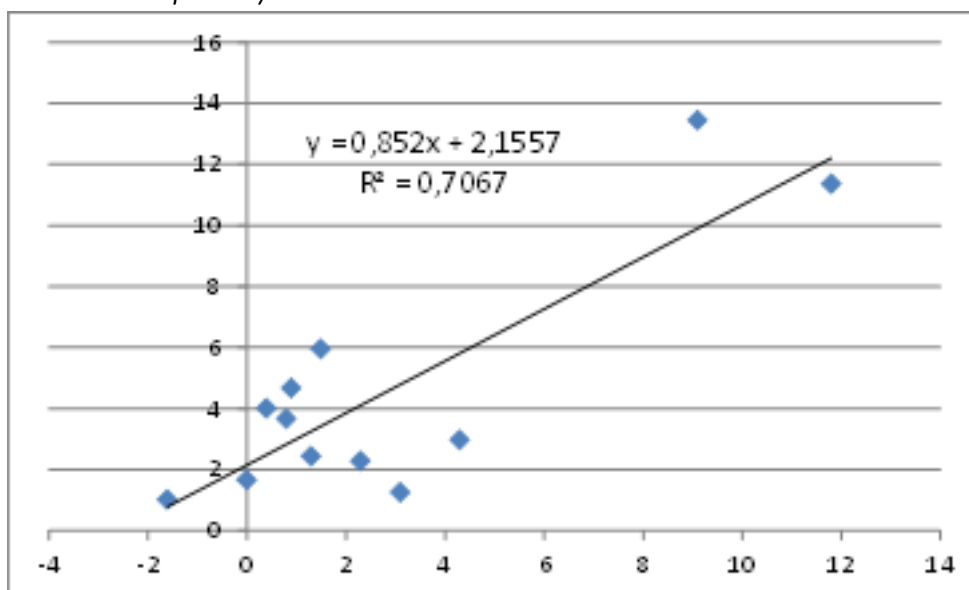
First timid steps were made with the so-called Growth and Employment Pact which was adopted at the end of June 2012. However, the Growth and Employment Pact will remain insufficient if at the same time the austerity policy in countries such as Spain is being radicalised even though millions of jobs have been destroyed³. A first important step is to stop extensive austerity measures.

² COM(2012) 777 final, A blueprint for a deep and genuine economic and monetary union. Launching a European debate.

³ According to Eurostat, the unemployment rate in Spain in October 2012 stood at 26.2%; the youth unemployment rate at 55.9%.

The close **correlation between rising unemployment and increasing public deficits can no longer be ignored**. The large and rapid consolidation programmes, which are used to react to increasing deficits, set off a vicious circle by in turn increasing unemployment, thereby significantly weakening the effective consolidation.

Correlation between the rise in unemployment (X-axis) and budget deficits (Y-axis) at the start of the crisis (2010 compared to 2007) in the Eurozone-12, in percentage points of the labour force and GDP respectively



Data source: European Commission (Nov 2012).

Due to the fact that it is undoubtedly vital to significantly decrease the budget deficits, their reduction must remain a medium-term target. In the short term, tax increases focused on the better-off in society can already bring improvements without any relevant loss of demand and employment. At the same time there are some demand- and employmentineffective expenditure items where savings should already be made at this stage, for example imported military goods.

Secondly, particularly effective areas of expenditure should even be strengthened in the short term. For example, **investments** in social housing or an increase in energy efficiency not only provide short-term economic stimuli, but also bring additional long-term benefits. Well-developed social housing is the best guarantee to prevent further property bubbles. The reduction of fossil fuels through thermal building insulation as well as investments in alternative power generation not only provide employment and growth stimuli, but also reduce trade balance deficits by decreasing imports of energy products, which are particularly high in southern Member States. In addition, environmental damage which increases expenditure in the long run could be reduced. Thirdly, **domestic demand has to be strengthened** first and foremost through a productivity-oriented wage policy as well as an adequate fiscal policy. In this context, it is particularly important to protect and expand the **welfare state**. Unemployment benefit, minimum social security benefits and pensions are key elements to stabilise mass income and, thus, demand.

We believe that such a change of policy is **primarily a question of political will** and of political objectives, and that changes in the economic governance architecture are only a secondary requirement. As we will demonstrate below, one will nevertheless also need the latter in order to overcome the current economic crisis and to avoid further crises.

2.1. Effective limitation of the interest burden

A working monetary policy is an important precondition for a positive contribution to tackle the crisis. **High real interest rates** in countries such as Spain or Italy are not only a **burden** for public budgets, but also for indebted companies and private households. This continues to curb investments and consumption and results in a direct medium-term deterioration of the current account balance (investment income balance), which is only in the short-term met by an indirect improvement as a consequence of weak imports.

The **current** economic governance architecture of the Eurozone already enables a **partial limitation of the interest burden** through the ESM and indirectly through the ECB. This form, however, remains **inadequate**, in particular because it is subject to an exacerbated austerity policy which all the more causes a loss in employment and growth and leads to social hardship. Due to reduced public revenue and increased expenditure because of plummeting growth rates, the actually proclaimed target of reducing the debt ratio will not succeed. This results in new uncertainty with regard to the stability of public fi-

nances and the financial sector, which again can lead to an increase in interest rates. Hence, coupling stabilisation measures to strict austerity policy triggers a self-perpetuating negative development which further aggravates the crisis. Even if conditions for those countries which, in a broad sense, receive support by means of a solidarity instrument are essential, they have to be designed in a way that is sensible and fair for the society as a whole.

2.2. Coordinated fiscal policy with automatic cyclical stabilisation

A genuine fiscal union must be more than restrictions on national fiscal policies. It has to take into account the **correlation between fiscal policy and other economic policy objectives** such as a high level of high-quality jobs, a balanced distribution of income, sustainable growth through high domestic demand, stable prices and balanced foreign trade, and it must be at least coherent for the common monetary union. This requires a significantly higher level of active coordination as it is the case today.

Firstly, in the current situation, with a relatively high level of debt in the Eurozone as a result of the crisis, it must be the **primary task in a fiscal union to secure the fiscal function**; hence sufficient revenue to finance public expenditure has to be ensured. Instead of tax harmonisation, the principle of a tax race to the bottom still dominates, even though first steps have been introduced by the attempt to introduce a Financial Transaction Tax as well as by making timid approaches to har-

monise the corporate income tax base. These have to be supplemented by minimum corporate income tax rates and a coordinated increase of top tax rates and property and financial sector-related taxes, which are also sensible in terms of distribution policy and reduce the possibility of further financial crises. Coordinated and consequent steps to combat tax evasion and to dry up tax havens are as well important, both within the European Union and beyond. As tax evasion results in drastic revenue losses for the States, efforts have to be significantly increased.

Secondly, within a fiscal union the **fiscal stance** of the monetary union as well as each Member States has to be **coordinated**. For a specific situation, this cannot be accomplished by rigid rules, but must be achieved by an **adequate coordination**, as it was done for example at the start of the crisis when economic stimulus and bank rescue packages were provided. In contrast, severe national austerity programmes which ignore the negative consequences of consolidation as well as the European interactions create an illusion as they cannot stabilise public finance. The current diverging economic situation requires a differentiated fiscal policy with expansive impulses in countries with more scope in order to support consolidation efforts in countries with a tight financial situation. Apart from that, it has to be ensured that the common resources within the framework of the European Structural Funds or the European Investment Bank are more targeted at sustainable growth, high-quality jobs and social security.

The economic crisis exposed the lack of tools to deal with asymmetric shocks within the monetary union. As a third necessary step towards a fiscal union one has to aim at an **automatic cyclical stabilisation mechanism**. As unemployment has a particularly strong fiscal effect and tests the limits of national automatic stabilisers, such a mechanism should in principle lead to payments to Member States **based on unemployment rate fluctuations**. To avoid false incentives, reference should be made to the harmonised European unemployment rate plus unemployed enrolled in training courses; because this correction ensures that a tactical restriction of active labour market policy is avoided. As unemployment reacts more slowly than economic development and because its reduction takes longer, one has to take care not to cut benefits too quickly. Payments should be funded by common taxes. Details, such as for instance a restriction to countries with an above-average level of unemployment, have yet to be discussed. Additional conditionality for this instrument is neither necessary nor sensible, because it would inevitably weaken the automatism and because such a model already includes the desired incentive effect.

Fourthly, **more consideration needs to be given to the stabilisation function of fiscal policy**. In particular in a primarily decentralised monetary union, fiscal policy is the most important tool still available to national economic policy. In future, fiscal policy decisions shall, therefore, no longer be orientated one-sidedly towards deficit and debt targets, but must also be used to correct divergent macroeconomic developments within the Eurozone. This applies

in particular to persistent inflation differences, which played an essential part in building up the current account imbalances within the Eurozone⁴. If inflation rates threaten to miss the target over a longer period or to a larger extent, or if the current account balances diverge, a European framework for fiscal policy action at national level has to be coordinated, within which the Member States select concrete measures themselves. If, for example, inflation is significantly below the European average for a longer period and if this is accompanied by current account surpluses, expansive fiscal policy measures would have to be taken to reduce the macroeconomic imbalances.

2.3. Social Compact

On the one hand, the Economic and Monetary Union has to be redirected towards sustainable growth and high-quality employment; on the other hand, a social dimension has to be added. Any further deterioration of the social situation in parts of the Eurozone would destabilise the Eurozone socially and politically, which would be as fatal as economic disintegration. A Social Compact for Europe⁵ shall ensure that European Integration promotes **social progress**.

In particular, **binding wage floors** have to be primarily guaranteed by expanding generally applicable collective agreement systems in all EU States for all employees. Only in countries where

⁴ IMK Report 75, October 2012.

⁵ See e.g.: European Trade Union Confederation: A Social Compact for Europe, <http://www.etuc.org/IMG/pdf/EN-A-social-compact-for-Europe.pdf>.

re this variant is difficult to realise and where it is demanded by the respective trade unions, minimum wages must be determined by law.

Apart from that, within the context of a treaty change, a Social Progress Protocol has to be introduced which is embedded in primary law and determines that **fundamental social rights, including trade union rights, are given priority over economic freedoms**. In addition, effective measures have to be taken to improve the **quality** of jobs and to combat precarious employment. **The principle of equal pay and equal rights for equal work at the same workplace** must be ensured. It is of particular importance to take effective measures to tackle **wage and social dumping** with regard to cross-border posting of workers. These measures should be accompanied by an **active labour market policy** which includes initiatives in particular to support people who have only restricted or no access to the labour market. Also required are effective measures to reduce pay gaps between men and women.

So far, minimum social standards in the form of directives have made an essential contribution to improve living and working conditions in Europe. These **minimum social standards must be further developed** and guarantee a high level of social protection. There is a particular need for action in respect of general protection against dismissal, transfer protection, protection of employees against unfair contract clauses and continued pay in case of sickness, caring for close relatives and other important reasons for the inability to work. European minimum standards should also be created in social law, such as

a minimum net replacement rate in respect of unemployment insurance or ensuring comprehensive healthcare.

Apart from that, comprehensive, non-discriminatory and affordable access to high-quality **public services** has to be ensured. Adequate regulatory and budgetary scope has to be guaranteed for this cornerstone of the European welfare state. This makes a departure from the European politics of liberalisation and cutbacks in the public service sector even more necessary.

In view of dramatically increased youth unemployment, the **employment of young people** must be given particular consideration in such a Social Compact. In this context, it is essential to bindingly stipulate a measurable EU target to reduce youth unemployment. Also necessary is the introduction of an EU-wide youth guarantee which guarantees young people adequate training opportunities or a decent job within four months after leaving school or becoming unemployed, whereby precarious forms of employment are completely unacceptable.

Hence, within the scope of the EU budget, significantly more resources must be provided for the European Social Fund and/or the creation of a Youth Employment Fund. In turn, EU subsidies for the agricultural sector should be reduced. In addition, unused Structural Funds should be made available quickly and without red tape to finance a broad package of measures to tackle youth unemployment. In this context, the share from EU funds should be calculated at a high level, and pre-financing requirements of the Member States should be dispensed with.

2.4. Adequate regulation of financial markets

There is broad consensus that the financial sector requires comprehensive and fundamental reforms in order to achieve adequate regulation of the financial markets. The top priority must be to avoid further financial crises which will not be achieved without measures **to reduce, simplify and making the financial sector significantly more transparent.**

In the current financial crisis, it must be the partial target to regain as quickly as possible a **solid banking sector** that does not need comprehensive (implicit) guarantees by the State. In order to achieve a sustainable stabilisation of the financial sector, it is of particular importance to close loopholes which make avoiding the regulation possible. Apart from banks, in particular shadow banking and trading outside comprehensively regulated trading places (for example in respect of OTC derivatives) have to be drastically reduced or prohibited. Some of the steps mentioned under the heading of an integrated financial framework (see section 3.1 for details) are moving in the right direction but are too hesitant and compared to the efforts regarding budget consolidation and to achieve fiscal stability not ambitious enough.

Accompanying fundamentally comprehensive regulation, **national lending** should also be more controlled in a coordinated manner to lower the risk of new financial market bubbles. This can be achieved by suitable buffers in respect of additional capital requirements.

2.5. More democratic spaces for economic policy consensus building

The monetary union suffers from a blatant lack of **forums of economic policy consensus building**. Decisions are taken by the Eurogroup without a parliamentary equivalent, without integrating important stakeholders (in particular social partners) and without broad public debate. Particularly sensitive decisions such as those on structural adjustment programmes are delegated to a troika which is explicitly not subject to democratic control. Apart from that, the crisis revealed the broad lack of participation opportunities of employees in case of strategic decisions in transnational companies, in particular in the financial sector, which have an impact on them and other stakeholders but cannot be co-determined by them.

In contrast, the BAK believes that the **balance of interests** and the **democratic decision-making process are part of the solution** and not part of the problem. Therefore, appropriate spaces have to be created in which stable solutions with backing from society can be generated. Only on this basis, it is possible to take decisions for the monetary union as a whole which in case of doubt take priority over national decisions.

In future, economic governance in the Eurozone must focus in particular on an **ex-ante integration of the social partners**. In the process of the European Semester, this applies especially to all economic policy recommendations. In particular the reduction of imbalances cannot be regulated but, in view of the price and income development, must

be coordinated between social partners and European economic policy institutions, whereby macroeconomic productivity and price development has to be the point of reference. Hence, what is needed is a form of macroeconomic dialogue for the Eurozone, as suggested by the Austrian social partners in their paper "Future of Europe"⁶. One-sided interventions by the Commission or the Eurogroup, which lately have been made at the expense of trade unions, have to stop.

From the point of view of the BAK, a **more comprehensive** approach has to be taken with regard to the **democratisation process** within the EU, and in particular within the Economic and Monetary Union. The co-decision rights of the European Parliament should be expanded in general. All areas of European economic policy (including the process stages of the European Semester up to the country-specific recommendations or the implementation of the legislative packages on economic governance) should be **co-decided** by the European Parliament.

In view of the fact that ever more far-reaching decisions are taken at Eurozone level, which, however, does not have any democratic body that is especially responsible for the Eurozone, it is essential to set up a **parliamentary decision-making body** within the European Parliament which is especially responsible for democratic control

⁶ Social Partners Austria: Bad Ischl Dialogue 2012 "Future of Europe", Austrian social partners' positions (Summary), p. 5, http://www.sozialpartner.at/sozialpartner/badischl_2012/Bad%20Ischl%202012_Kurzfassung_EN.pdf.

and decision-making matters of the **Eurozone**. Various concepts are being discussed in this context, for example to set up a special Committee for the Eurozone in the European Parliament which consists of MEPs from the respective Member States. A consequent solution in this regard would have to be found for plenary votes, as the European Parliament in these matters would have to decide in the composition of Members from the Eurozone.

In addition, the European Parliament or a parliamentary body for the Eurozone should also be responsible for the democratic control of the ESM. Apart from that, the ESM has to be transferred to the European Treaties. Furthermore, it is important that during the negotiation and implementation of EFSF or ESM programmes their results are subject to democratic control. Hence, the troika should be accountable to the European Parliament or a parliamentary body for the Eurozone; the latter should have the competence to confirm or to reject a negotiated Memorandum of Understanding which determines the conditionalities for financial aid.

In the context of a full democratisation, the role of the European Parliament would generally have to be strengthened vis-à-vis the other institutions. For example, **judges of the European Court of Justice** should be appointed by the European Parliament and, following the example of the US, take part in a comprehensive hearing by MEPs prior to their appointment.

Further steps towards democratisation must also be taken in the context of the Council. The Council should become a type of **"State Chamber"** whose

sessions will be transparent and held in public. The influence of intergovernmental decision-making should also be reduced by increasingly transferring decision-making in policy areas which - from the point of view of employees - are central to the future of the EU and which currently require unanimity of the Council (e.g. tax policy) to qualified majority rule.

Apart from that, the Commission should be transformed to become a **“genuine” European government** which more than before can be held accountable for its actions by other bodies, in particular the European Parliament. In principle, the composition of the Commission should be more tied in with the elections to the European Parliament and better reflect the political balance of power in accordance with the election result. In order to strengthen political control over the Commission, the European Parliament should in future also have the option of calling a **vote of no confidence** against the Commission with simple majority instead of the current two-thirds majority requirement. It should also be possible to call a vote of no confidence against individual commissioners.

2.6. Reduction of economic policy regulation

Finally, fixed economic policy rules should be **simplified** and **relaxed** again. The crisis has shown that, even with good will, it is impossible to comply with these rules anyway. Instead of constantly adjusting rules to the changing economic situation, they should be restricted to **a limited number of clear and realistic points of reference**. Only on this basis would it be possible to hold a broad economic policy debate

on appropriate economic interventions and their coordination. This would also be an important contribution to cut red tape as recommended by the European Commission as an economic policy guideline. In contrast, the monitoring of compliance with a diverse set of rules without considering the specific requirements, as it is currently at the centre of attention, is administratively inefficient and counterproductive to a sound economic policy debate.

3. On the proposals of the Van Rompuy Report in detail

Based on the needs for reform mentioned above, we welcome the initiative by the President of the European Council Van Rompuy and the other participating Presidents for a comprehensive reform of the common currency area. However, at the same time we regret that the ideas are only in few areas going in the right direction and also contain a number of counterproductive proposals. Our detailed comments are first and foremost based on the Report by the President of the European Council.

3.1. Integrated financial framework (“Banking union”)

We agree with the considerations according to which the lack of suitable instruments for bank resolution has made effective crisis management more difficult. As a result, the risk which was part of bank balance sheets has spread to public budgets as governments had to support credit institutions and associated with them the financial system. Such burdens of a budgetary and macroeconomic nature caused by the financial sector are no longer sustainable and lead budgets to breaking

point and beyond, which makes **rapid progress** in this matter an essential requirement.

Single supervisory mechanism

It is true that the segmentation of the banking market, which has taken place since the outbreak of the crisis, has become a problem of the single market. Creating a single supervisory mechanism is therefore an important and correct measure which in our opinion is an **essential condition** for further steps to link national guarantee schemes and national resolution funds.

Accountability should also comprise adequate **publicity** and **transparency** of the decisions. As it cannot be excluded that in a major case public funds will be required or public funds will have to be withdrawn from the deposit protection fund in case of bankruptcy, and as accountability is a fundamental principle for the authority, audit reports should have to be submitted to a Committee of the European Parliament which is subject to confidentiality. Following a one-year blocking period, the reports should be made public. This would enable ex-post control, audit reports would have more relevance and possible risks could be better analysed. So far, neither Parliament nor scholars have the opportunity to access such highly relevant documents when assessing risks.

Resolution of credit institutions

The experiences of the crisis have clearly shown that prevention, early intervention powers of the supervisory authority and resolution instruments are essen-

tial for effective crisis management. Hence, the Commission complies with the obligations resulting from the G20 resolutions.

However, in respect of prevention there is no **specification of obstacles to resolution**. From our point of view, this should include measures which ensure a better isolation of risks of saving and deposit banking from other risks of the banking business. Hence, the proposals of "ring fencing"⁷, i.e. isolating saving and deposit banking, seem to be the more sensible way than isolating investment banking and proprietary trading (as suggested by the Volcker Rule and the Liikanen Report). The reason for this lies in the fact that the latter option is based on assumptions about what might cause future threats, and has to set arbitrary limits on how much investment banking a universal bank can cope with.

Increasing the loss-bearing capacity of credit institutions is also to be seen as measure of prevention, where from our point of view current approaches do not go far enough. If the loss-bearing capacity is too low, the last resort is always access to external financing – be it funds or public resources – leading to negative incentive effects. It is therefore not comprehensible why the bail-in instrument should only be applicable in 2018 – 10 (!) years after the collapse of Lehman Brothers. It would also make sense to supplement the bail-in by mandatory convertible securities, which could also increase legal certainty and "automatically" make availab-

⁷ http://www.hm-treasury.gov.uk/d/whitepaper_banking_reform_140512.pdf

le fresh capital if required. In addition, the instrument provides the supervisory authority with information close to the market on the basis of price and could thereby be included in the set of indicators for triggering measures of early intervention.

With regard to financing recapitalisation of credit institutions via the **ESM**, it should be clarified that **conditions have to refer to the financial sector** and not to governments. Neither employees, older or younger people of supporting nor of supported states should be burdened with the costs. It is not comprehensible why the failure of a credit institution in a single supervisory mechanism should result in pressure on the welfare systems of the Member States via consolidation measures, or why free collective bargaining should be put into question. Financial stability measures which are already taking place must also put significantly greater focus on including bondholders and owners. Apart from that, these measures have to be funded on the basis of the **costs-by-cause principle**, a reason why among other the Financial Transaction Tax should be implemented as quickly as possible. The possibility of guarantees coming into effect via the ESM makes the topic of coordinating the taxation of property even more urgent.

Deposit guarantee schemes

We agree to the harmonisation and partial pre-financing of **deposit guarantee schemes**. However, with regard to potentially using deposit guarantee schemes to pre-finance bank resolutions, one has to take into account that this is **not their purpose**. On the one hand, their actual purpose is to prevent

bank runs and to maintain payment transaction and liquidity functions. On the other hand, a deposit guarantee fund, which is entrusted with paying out secured deposits, does not necessarily have the know-how of a restructuring fund. Hence, arguments such as economies of scale and scope and an increase in efficiency are not based on substantive reasoning.

Apart from that, using funds of the deposit guarantee schemes contradicts their basic principle according to which saving deposits have to be treated differently from other liabilities, as savers are not in a position to analyse and check a credit institution as has to be expected of holders and professional creditors. In addition, the revealed risk preferences of savers are also a strong argument against using the funds in question.

3.2. Integrated budgetary framework ("Fiscal union")

As already explained in Section 2.2., we regard setting up an automatic mechanism for the **cyclical stabilisation** of the Eurozone and its Member States as a key reform element. However, this should neither result in any intervention in national unemployment insurance systems nor in a reduction of other public expenditure, as it is envisaged in the Report. At the same time, the BAK clearly rejects the linking with an increasingly mandatory implementation of the **failed economic policy agenda**, or of "structural reforms".

We are furthermore convinced that structural policies should not be mixed with automatic cyclical stabilisation, as by definition they are actually independent from each other. However, the

implicit classification of unemployment in the Report as an individual problem as well as longer phases of economic weakness as problem of economic structure shows that on the basis of such basic assumptions a continuation of the wrong economic policy course seems unfortunately to be pre-programmed. The BAK strictly rejects the idea that the national implementation of this course shall be funded by means of financial incentives.

Concerning a further strengthening of the fiscal rules, which have been exacerbated by the Six Pack, the Fiscal Compact etc., we see a need for action with regard to a general relaxation of the too restrictive provisions, instead of the currently observed repeated discretionary deviations from the rules in situations where they cannot be complied. One possibility would be to develop the proposal in the Communication of the European Commission ("Blueprint") to treat public investments within the scope of the provisions of the Stability and Growth Pact differently from the remaining public expenditure. We propose to go further by implementing a restricted **"Golden rule of fiscal policy"**: additional borrowing equal to half of public investments⁸ up to a maximum of 3 % of GDP shall be possible in addition to existing fiscal rules. Such a restriction would guarantee that even in case of continuous maximal use of the additional rule, national debt would in the long term fall below 60 % of GDP (provided average annual economic

⁸ The "Golden rule" is based on –statistically difficult to determine – productive net investments. To enable the simple operationalisation of the rule, we suggest using 50 % of public gross investments according to SNA.

growth of at least 1.5 % and the ECB's inflation target are achieved).

The BAK criticises that, in contrast to previous versions of the Van Rompuy Report, the current version no longer provides any proposals for effectively reducing interest burdens.

3.3. Integrated economic policy framework

The Austrian Federal Chamber of Labour rejects the proposals on the integrated economic policy framework as these would **exacerbate and tie down the wrong course**. We demand instead a change of policy course and a broader reform of the economic governance architecture, as outlined in Section 2.

We reject in particular the claim that an aggravation of the course of austerity and social cuts would be required to "preserve the European social models". On the contrary, in particular the wage and job cuts implied as "cost adjustment" to increase price competitiveness are suitable to **further harm these models**. Instead, Commission and Council should rather tackle the issue why, even though their current measures have resulted in reducing imports in the crises states, price-driven export growth has not materialised in spite of significant real wage cuts. They would once more recognise that macroeconomic results strongly depend on macroeconomic demand and that structural reforms on the supply-side are not able to achieve the supposed effects in the short term.

We therefore strictly reject the intended contractual commitment of the Member States to implement econo-

mic policy measures which correspond to the failed and democratically hardly legitimised economic policy course at European level. We regard the watered down supplementary proposal, according to which Community funds are alienated as bonus for the implementation of country-specific economic policy recommendations, as being similarly negative. This is added by the problem that these recommendations are rarely sufficiently measurable to clearly establish how consequently the implementation was carried out and to which extent it should be "rewarded".

Assessment from a legal perspective

From a legal perspective one has to make the initial general comment that the current "crisis measures" were to a large extent passed on an **inadequate legal basis**. Within the system of the European Union law, for example, the so-called Six Pack was based on Art 136 para1 TFEU to enable sanctions also in the preventive arm of the Stability and Growth Pact and to introduce a new voting procedure (**Reverse Majority Rule**). Leading European Union law experts almost unilaterally agree that this intrusive instrument which indirectly gives the European executive without parliamentary control influence on the development of wages, is "obviously illegal and without any competence base".⁹ Completely outside European Union law is the Fiscal Compact which was passed as a treaty under international law. Even though its provisions

encroach deep in the constitution of the European Economic Union and assign important responsibilities and decision-making competencies to EU bodies, the European treaties (pursuant to Art 48 TEU) were not amended. In an overall assessment of the current crisis policy, renowned personalities too voiced harsh criticism. Not without good reason reference is made to a "post-democratic executive federalism"¹⁰.

We also reject that the Commission in connection with the bilateral treaties (or in its diction "Convergence and Competitiveness Instrument", CCI) now argues that with **Art 136 TFEU** the Lisbon Treaty had created a suitable basis which would grant the Commission the competence to conclude agreements on structural reforms (for example to make country-specific recommendations mandatory) with the Member States and to monitor and evaluate the implemented measures.¹¹ This interpretation alleges that Art 136 para1 TFEU grants the legislative bodies of the EU a competence-competence, thus authorising them to assign new competencies to the EU or the Eurozone by way of ordinary legislative procedure without requiring any alteration of the treaty. That this understanding cannot be expected of Art 136.1 TFEU and that it is not in line with the current European constitution, in which Member States are called "Masters of the Treaties", is obvious. The extremely problematic approach in connection with the CCI, not only in

⁹ See instead of many Ulrich Häde: Art 136 AEUV – eine neue Generalklausel für die Wirtschafts- und Währungsunion?, JZ 2011, 333, own translation.

¹⁰ Habermas: Zur Verfassung Europas – Ein Essay, 2011, p. 7f.

¹¹ COM(2012) 777 final: A blueprint for a deep and genuine economic and monetary union. Launching a European debate, p. 22.

respect of European Union law but also from a democratic point of view, is also expressed by the Commission's repeated statement that this instrument should help to **overcome political resistance** in the Member States.¹²

3.4. Democratic legitimacy and Accountability

As explained in the previous section (see 2.5.), the current measures to tackle the crisis at EU level are to a large extent **questionable from a democratic point of view**. Overall, the executive is being strengthened vis-à-vis the parliaments.

In view of the democratic deficit of the European Union, which in the opinion of many citizens has been exacerbated during the course of taking crisis response measures, a broad and public political debate on democratising decision-making at EU level is urgently required. However, from the point of view of the BAK, the considerations on democratic legitimacy and accountability in the Report by the President of the European Council **clearly do not go far enough** to drive forward the necessary democratisation.

The **general reflections** of the Report by the President of the European Council, according to which any further strengthening of the role of EU bodies has to be accompanied by increased integration of the European Parliament and the cooperation between national parliaments and the European Parliament should be intensified, have to be **supported in principal**. However, the "strengthening" of the European Parlia-

ment remains a farce, as long as integration only takes place in form of additional debates without an opportunity to participate in decision-making, when at the same time the decision-making opportunities of national parliaments are being restricted.

The so far presented proposals on greater integration of parliaments and the unspecific "renewed dialogue" with the social partners in respect of the new economic governance architecture are not adequate. In order to embed the European Semester in a broad public debate and democratic decision-making, it should be guaranteed that **national parliaments, the European Parliament and social partners** will be comprehensively and at an early stage involved in the drafting of the relevant documents at the appropriate level. Apart from that, the Annual Growth Survey and the country-specific recommendations should also be passed – with possible amendments – by the European Parliament.

¹² Ibid., p. 20 and 22.

Should you have any further questions
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