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AK Position Paper

EUROPA

AK-position paper on the Legislative package of the Commission on strengthening economic governance

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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.

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.

Herbert Tumpel
President

Werner Muhm
Director

Executive Summary

The present drafts have little in common with a basically desirable positive coordination of economic policy at European level

To begin with, we would like to comment that the present drafts have little in common with a basically desirable positive coordination of economic policy at European level between institutions, social partners and civil society players. Instead they aim to expand negative coordination (sanctioning of certain national deviation) even though this so far has not been very successful. Furthermore it is giving us cause for concern in terms of democratic policy.

From the point of view of the AK, economic governance in Europe must at least be able to cope with the following questions:

- Does it draw the right lessons from the latest crisis, which first and foremost was a result of the **"3U"** - **u**nreasonableness of deregulated financial markets, **u**neven distribution and structural **u**nbalances through different internal and external development models?

- Does it promote a balanced economic policy, which apart from international balances does at least also take prosperity, employment, distribution and environmental targets into account?

- Does it provide sufficient scope for sensible growth and employment promoting public investments for the eco-social restructuring of the economy?

- Does it respect the European treaties resp. the objectives and values of the Union contained therein?

- Is the involvement of democratically legitimised organs (parliaments and national governments), of the social partners and other civil society players strengthened?

- Does it create the opportunity to address and meet country-specific particularities and challenges?

From the current point of view and based on the present drafts it is not possible to provide a positive answer to these questions. **In somewhat exaggerated terms, we regard the legislative package on economic governance as economically, legally and also in democratic policy terms as questionable.** We therefore support the **mandatory evaluation after 3 years** requested by the EU Parliament and urge for making changes before the adoption - in particular with regard to the objections argued hereinafter. Also, we would like to remind you of our position on the drafts of the Commission presented in March.

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The AK position in detail

The AK would like to support some of the proposals of the European Parliament, for example the intention to incorporate the guarantee of fundamental rights as well as a broad integration of the relevant stakeholders at European and national level

Referring to the ongoing trilogue negotiations resp. the forthcoming adoption by the Parliament and the Council, we regard in particular the structure of the scoreboard in respect of reducing macroeconomic imbalances as well as fiscal policy scope to be retained in the so-called Stability and Growth Pact as a central issue.

We regard the new voting system provided for in the proceedings as particularly sensitive both in legal and democratic policy terms. The differences between the Parliament and the Council concerning the new voting system with reversed majority (reverse majority rule) miss the core of the problem. Such a system is neither covered by the bases of competence mentioned nor by the European treaties. That is why renowned experts on European law (among others Prof Ulrich Häde, Prof Stefan Griller and Prof Walter Obwexer) regard the proposed voting system as unlawful. Should the present regulations be adopted in this form, the success of an action for annulment would therefore be highly likely. Instead of deciding another expansion, Parliament and Council should generally distance themselves from this legally more than questionable amendment, which in addition is extremely problematic in democratic policy terms, as democratically legitimised policies can be levered out.

We are also sceptical whether political processes - as the National Reform Programmes to be prepared within the framework of the European Semester - should be juridified by incorporating all procedural steps into the regulation.

2.1 Macroeconomic imbalances/ Scoreboard

The newly planned procedure to reduce macroeconomic imbalances (EIP) misses the actual problems of the Eurozone. It neither provides an adequate answer to the problem of the ending convergence process, nor does it tackle the actual real devaluation competition with its deflationary side effects. It also misses out on a stronger democratic legitimisation of European economic policy as it is also demanded by the EESC in its opinion.

Nevertheless, we would like to support some of the proposals of the European Parliament, for example the intention to incorporate the guarantee of fundamental rights (in particular free collective bargaining, see Art 1 resp. Art 6 (2) a of the Regulation) as well as a broad integration of the relevant stakeholders at European and national level. This is vital as in particular in respect of tackling macroeconomic imbalances, wage formation processes are playing a central role.

We would also like to underline the fixation and expansion of the scoreboard indicators requested by the Parliament, by means of which it shall be possible to recognise undesirable economic developments in the euro area (Art 3 (3) b of the Regulation). In any case, this broader approach is better suited for this purpose than the Commission's and Council's indicators, which are one-sidedly oriented towards competitiveness. It should be mentioned at this point that in its opinion the EESC refers several times to the necessity of a growth-promoting orientation of the EIP as well as to retaining the definition of competitiveness by the Commission, which refers to it as the "ability of the economy to provide its population with high and rising standards of living and high rates of employment on a sustainable basis".

The aspect of real growth is particularly necessary in conjunction with the demand of the European Parliament for a symmetric treatment of current account balances (Art 3 (2) of the Regulation): in Germany for example, the current account surplus was not only a result of strong exports, but also a consequence of the relatively weak imports caused by low domestic demand and real growth rates below the European average until the crisis. The situation in Spain was the complete reverse. Hence, considerable current balances occurred in both countries. If one would follow an asymmetric approach, and therefore only define current account deficits as a problem, the EIP could result in the fact that the slowest growing Member State - via the foreign trade mechanism - would be regarded as a reference model for the Union. If this model was to be adopted by other states, it would lead to a worse economic development throughout Europe.

The AK also supports the proposed amendment by the European Parliament to add measures of profit development to the indicator set, as it is empirically shown that in some EU states excessive profit growth – and not wage growth – have contributed to the deterioration of the relative price development. It is also essential to include the growth of wealth, as this is a significant motor of the crisis' trigger "financial markets", even if in this case the search for a suitable indicator might be more difficult.

Apart from that, the AK supports in accordance with the EESC the admission of indicators concerning social cohesion, as demanded by the European Parliament at least for the in-depth review (Art 5 (2) ba). An integration into the scoreboard would be even better as the inequality of income distribution played a significant role in creating macroeconomic imbalances.

2.2 Stability and Growth Pact

With regard to tightening the Stability and Growth Pact it has to be pointed out that this is based on an incorrect assumption: it was not irresponsible budgetary policy throughout, which led to the increase of public debt to over 80 % of the GDP, but the economic crisis, which let revenue collapse and expenditure increase, in particular with regard to unemployment: During the period from introducing the Euro up to the crisis it had been possible to reduce public debt. Only Germany, France, Greece and Portugal were significant outliers, as the following table shows:

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Table 2 Government debt in euro area countries

(as a percentage of GDP)

	1999	2007	2009	2011* (forecast)	2012 (forecast)	Debt accumulation (1999-2007)	Debt accumulation (2008-2012)
Belgium	113.7	84.2	96.2	100.5	102.1	-29.5	12.5
Germany	60.9	64.9	73.4	75.9	75.2	4.0	9.0
Estonia	6.5	3.7	7.2	9.5	11.7	-2.8	7.1
Ireland	48.5	25.0	65.5	107.0	114.3	-23.5	70.0
Greece	94.0	105.0	126.8	150.2	156.0	11.0	45.7
Spain	62.3	36.1	53.2	69.7	73.0	-26.2	33.2
France	58.8	63.8	78.1	86.8	89.8	5.0	22.3
Italy	113.7	103.6	116.0	120.2	119.9	-10.1	13.6
Cyprus	58.9	58.3	58.0	65.2	68.4	-0.6	20.1
Luxembourg	6.4	6.7	14.5	19.6	20.9	0.2	7.3
Malta	57.1	61.7	68.6	70.8	70.9	4.5	7.7
Netherlands	61.1	45.3	60.8	66.6	67.3	-15.8	9.1
Austria	67.2	59.3	67.5	72.0	73.3	-7.9	10.8
Portugal	49.6	62.7	76.1	88.8	92.4	13.2	27.1
Slovenia	-	23.4	35.4	44.8	47.6	-	25.1
Slovakia	47.8	29.6	35.4	45.1	47.4	-18.3	19.6
Finland	45.7	35.2	43.8	51.1	53.0	-10.5	18.9
Euro area	**71.9**	**66.1**	**79.2**	**86.7**	**88.0**	**-5.8**	**18.2**

Sources: ESCB, European Commission (Eurostat News Release 170/2010 of 15 November 2010; European Economic Forecast – autumn 2010).
* The European Commission's projections do not include the impact of the activation of the European Financial Stability Facility in the context of the financial support to Ireland.

Source: ECB Monthly Report 4/2011

We would like to point out that from our point of view it is irresponsible to continue delaying the decision on introducing a Financial Transaction Tax at European level

Hence, the current reform proposals completely miss the core of the debt problem: what is required instead of following the proposed restrictive unified process, is a more flexible and specific handling of the problem. More criteria for sanctions (e.g. reduction of public debt), strict 4 to 5-year plans (from European level to the communities) plus tighter sanctioning of deviations is the wrong approach. Apart from extra bureaucratic effort and expense at all levels, this approach will not add up to much. That is why the AK rejects a further tightening through the decisions of the EP as these represent yet a further deterioration with regard to the - in any case - problematic position of the Council.

However, the AK supports the proposals of the EP concerning a stronger involvement of the Parliament, the social partners and other stakeholders both at European and national level, as well as on a possible introduction of Eurobonds.

Finally, we would like to point out that from our point of view it is irresponsible to continue delaying the decision on introducing a Financial Transaction Tax at European level. First of all, the financial system continues to be prone to crisis and secondly, the explosive nature of the growing protest in EU countries and the rise of right-wing parties must not be underestimated. The citizens are right to expect that a stop is put to destabilizing speculation and that the costs of the crisis are borne by those who were responsible for it. The taxation of financial transactions is a sensible and effective political measure, which meets both expectations.

Should you have any further questions
please do not hesitate to contact

Norber Templ
T: +43 (0) 1 501 65 2158
norbert.templ@akwien.at

Georg Feigl
T: +43 (0) 1 501 65 2636
georg.feigl@akwien.at

or

Sepp Zuckerstätter
T: +43 (0) 1 501 65 2365
sepp.zuckerstaetter@akwien.at

as well as

Amir Ghoreishi
(in our Brussels Office)
T +32 (0) 2 230 62 54
amir.ghoreishi@akeuropa.eu

Bundesarbeitskammer Österreich
Prinz-Eugen-Strasse, 20-22
A-1040 Vienna, Austria
T +43 (0) 1 501 65-0
F +43 (0) 1 501 65-0

AK EUROPA
Permanent Representation of Austria
to the EU
Avenue de Cortenbergh, 30
B-1040 Brussels, Belgium
T +32 (0) 2 230 62 54
F +32 (0) 2 230 29 73