October 2015

AK Position Paper

Position paper on the Report "Completing Europe's Economic and Monetary Union"

www.akeuropa.eu

About us

The Austrian Federal Chamber of Labour is by law representing the interests of about 3.4 million em-ployees 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, communityand military service - of the 3.4 million members are exempt from subscription payment, but are entitled to all services provided by the Austrian Federal Chambers of Labour.

Rudi Kaske
President

Werner Muhm
Director

Executive Summary

On 22 June 2015, Commission President Juncker – working in close cooperation with the Presidents of the European Council, the ECB, the Eurogroup and the European Parliament – submitted a report entitled „Completing Europe's Economic and Monetary Union". In doing so, Juncker joined the debate on EU reform, which peaked in 2012 during the worsening economic crisis and in which the **precursor to the current Presidents' Report** and a European Commission „blue print" constituted key points of reference. At that time, the Austrian Federal Chamber of Labour (AK) was already **expressing profound criticisms**[1]. The packages of reforms failed to „represent a suitable basis for an urgently-required reorientation of the EMU", since they were aimed at solidifying the union of austerity and competition.

We continue to hold this view in respect of the present report, even though **first indications of a more sensible budgetary policy**[2] at European level are included in it. At the same time, the report reveals an **even stronger adherence to the concept of competitiveness and contains no progress on the removal of the democratic deficit or any reinforcement of the social dimension** of Economic and Monetary Union (EMU). As we judge the **reform proposals on the basis of whether they are likely to promote a coordinated prosperity-orientated economic policy at the European level with a focus on employment and fairer distribution**, the AK considers the new **report to represent an unsuitable basis for restructuring reorientation** of the EMU. It should also be noted that with its focus on competition, the Commission is almost exclusively concentrated on wages and not on the creation of fairer competition rules in the form of minimum standards on social rights or the effective taxation of cross-border economic activity.

The Eurozone continues to find itself in a deep political, economic, social, legal and democratic crisis. We, therefore, share the opinion of the Confederation of German Trade Unions (DGB) that „Europe needs a new common economic policy"[3]. Against this background, the AK believes that any restructuring of the Economic and Monetary Union can only be supported if the following central points are addressed:

- **The establishment of institutions at the member state level in order to increase competitiveness** by influencing wage policy must be strictly opposed, especially as they would disrupt the generally guaranteed collective bargaining autonomy of the social partners. Nevertheless, there is no doubt about the importance of a balanced interplay of monetary, budgetary and wage developments for the purposes of increasing employment levels and promoting prosperity in a monetary union. **Enhancing the role of the Macroeconomic Dialogue (MED)**, especially in the context of the Eurozone, as proposed by among others the EESC[4] and the Austrian social partners, could contribute to the necessary coordination work through the direct involvement of the social partners.

- Economic policy decision-making in the EMU must be broadened, deepened and made more democratic. **All the areas of European economic policy** (including the individual process steps in the European Semester cycle) must be **co-determined by the European Parliament.**

- The **overriding aim** must be a **balanced, prosperity-orientated economic policy**, in the sense of a new magic polygon[5]. Medium-term aims should focus on correcting **the distribution imbalance,** bringing down unemployment and **creating qualitative jobs**, social and ecological **investment** and safeguarding the **welfare state**. Increasing domestic demand must be acknowledged as a central requirement and must be promoted in the first instance by a productivity-orientated wage policy and an appropriate fiscal policy. The instrument currently available for such a setting (the so-called **„Macroeconomic Imbalance Procedure"** introduced during the crisis), is not suitable and **needs to be completely reworked.**

- Those principles which have been promised to working people in Europe not least also by the Treaty of Lisbon must be enshrined in a **„Protocol for Social Progress"** at the level of EU primary law. This includes, for example, prioritising fundamental social rights, including trade union rights, over market freedoms; consolidating the principle of equal pay and conditions for the equal work carried out at the same place, especially in the context of effectively combating wage and social dumping; and protecting the autonomy of the social partners. In addition, further measures for reinforcing the social dimension of European integration are required, such as the establishment of minimum social standards, including minimum wage thresholds at the national level (under the full protection of national collective bargaining systems and the autonomy of the social partners).

- **Employment-friendly fiscal policy:** The economic impact on the whole of Europe must be put at the heart of fiscal policy. An adequate revenue base of states must be guaranteed by means of **effective tax coordination**, for which the unanimity requirement in tax policy must be removed. al of the unanimous voting requirements related to tax policy. In this context, there must be in particular increased efforts with regard to combating tax evasion and tax fraud, tax havens and aggressive tax planning. The **EU budget** must be more strongly focused on the requirements of combating the social consequences of the financial crisis and of making future-orientated investments. Instead of adhering to strict fiscal rules limiting the **fiscal policy space of states**, the focus should be on a more flexible orientation parameter which takes into account the economic situation, which in fact corresponds to a spectrum of a methodologically-better calculated structural deficit, extended by the Golden Rule of public investment[6]. For member states with too restrictive fiscal policies from the European perspective, an „Insufficient Fiscal Stimulus Procedure" should be introduced as a counterpart to the „Excessive Deficit Procedure" currently in place. Depending on the scale of the remaining restrictions on national fiscal policy space, an automatic cyclical stabilisation mechanism may be created, which would serve as some kind of insurance against strong asymmetrical economic developments.

- Issues relating to conditions and possibilities for refinancing public budgets are fundamental to crisis management in a monetary union - as the euro crisis has clearly demonstrated. Therefore, options for **emancipating the credit financing of states from the financial markets** must be further developed.

- **Effective regulation of the financial markets:** The aim must be to put the core function the financial sector should play in the economic cycle back at the centre, namely to ensure a balance between the savings of households and the financing of long-term investment of companies in the real economy as well as the public sector. A banking union without **structural reform of the banking system** is incomplete. The „too big to fail" issue must be solved by separating the risk associated with investment banking from those of thecommercial banking system. The shadow banking system must also be regulated and a **financial transactions tax** covering a broad spectrum of activity must be introduced.

The AK Position in Detail

1. Main problem: supply-side fixation

The fundamental problem of the Presidents' Report is its adherence to an almost exclusively supply-side economic policy orientation. Improved financing conditions for enterprises (Capital Markets Union) in combination with competitiveness-orientated restructuring of government regulation (Economic Union) and state budgets (Fiscal Union) are supposed to usher in a new export-driven economic upturn. This less-than-successful approach has however been pursued since the recession of 1992/1993 and the resulting tabling of the European Commission's White Paper entitled „Growth, Competitiveness, Employment". **The European fiscal rules and the fixation on price competitiveness are a hindrance to a prosperity-orientated economic policy** aimed at fair distribution, a solid social security system and decent work.

We are of the view that this presents a threat to the monetary union, and we therefore expressly distance ourselves from the currently **prevailing economic liberal and democracy-endangering course** which would be **further intensified according to the proposals in the Presidents' Report**. There has only been a shift in emphasis. Thus, competitiveness-orientated structural reforms are to be made increasingly enforceable, whereas a cautious loosening of fiscal policy is indicated.

2. Attempts at reinterpreting crisis and convergence

A further problem with the report is its attempt to reinterpret the crisis and the concept of convergence. So, instead of blaming the current crisis on the three often mentioned causes insufficiently regulated financial markets, the unequal development of income and wealth and inequalities in current account balances, but rather on bloated, deficit-financed states, the Presidents note that crises can best be averted by sustainable fiscal and economic policies and an efficient state apparatus. Against this background, in the area of financial markets the report demands no further regulatory measures, such as a financial transactions tax, banking regulation or measures to combat the shadow banking system, but rather more intensive promotion of the capital markets, including "innovative" financial products.

If it would still come to a new crisis, it would be necessary according to the report that member states comply with the agreed rules and have a so-called absorption capacity as large as possible, that is the possibility to absorb the shocks from a crisis and to get quikkly back into normal economic development mode. The need for competitiveness-orientated structural reforms is then derived from this, which allow for rapid price adjustments on labour and product markets and an export-induced upturn . The strengthening of the interlinkages of capital markets is supposed to improve the shock-absorbing capacity of the financial markets

– something, which at the time of the last crisis, however, led not to its cushioning, but rather to **a deepening of the crisis and its ultimate spread worldwide.** Mention is admittedly made of the potential shock-absorbing effect of state budgets through demand stabilisation, but the necessity of a massive expansion of state investment in downturns is ignored. In particular, the introduction of a **Golden Rule of public investment** would be a sensible policy, but this is not mentioned in the report. In the longer term, some sort of public risk-sharing within the Eurozone ("fiscal stabilisation function") is supposed to be introduced in order to raise the absorption capacity - , in addition to consistent medium-term fiscal consolidation. While such an idea is put forward in the report, it is only intended as a final step to be realized by 2025 and it is coupled to new EMU convergence conditions.

These suggestions, however, have very little to do with the **convergence and cohesion concept**, as defined in the Single European Act of 1986. This was aimed at „reducing disparities between the various regions and the backwardness of the least-favoured regions". In the lead up to the last stage of the completion of EMU, there should now be a new convergence process, intended to serve the „ultimate aim" which is „to achieve similarly resilient economic structures throughout the euro area". Common standards relating to labour markets, competitiveness, business environment, public administrations and certain aspects of tax policy (e.g. corporate tax, but only in respect of the tax base) are to be defined. Any adjustment considered to be taking too long would trigger a macroeconomic imbalance procedure. In addition, the Euro-Plus Pact, which was designed to reorientate European economic policy from an orientation on prosperity to a competitiveness orientation, is to be anchored in European law.

With these attempts at reinterpretation, the concept of convergence loses its original substance. It does not focus anymore on economic convergence on a high level of prosperity between and within the member states , but rather on „[c]onvergence towards similarly resilient national economic structures „", i.e. in terms of absorption capacity, which tends to encompass the very opposite of prosperity-orientated convergence. **This new interpretation would mean the departure of the European Union from one of its fundamental promises and thus an important source of the Union's legitimacy would be lost.**

3. Economic Union as an instrument for competitiveness fixation

This pillar is central to the report and contains the most concrete problematic proposals. These encompass the further development of the concept of pacts for competitiveness, which are re-emerging on the one hand in the form of a "euro area system of Competitiveness Authorities" and on the other hand in the form of tightening the imbalance procedures and its extension to economic policy in general, at the discretion of the Commission and the Council. **The most urgent economic policy problems - such as, in particular, on-going high levels of unemployment and the distribution imbalance - will not only remain unresolved, but will be further exacerbated with these proposals.**

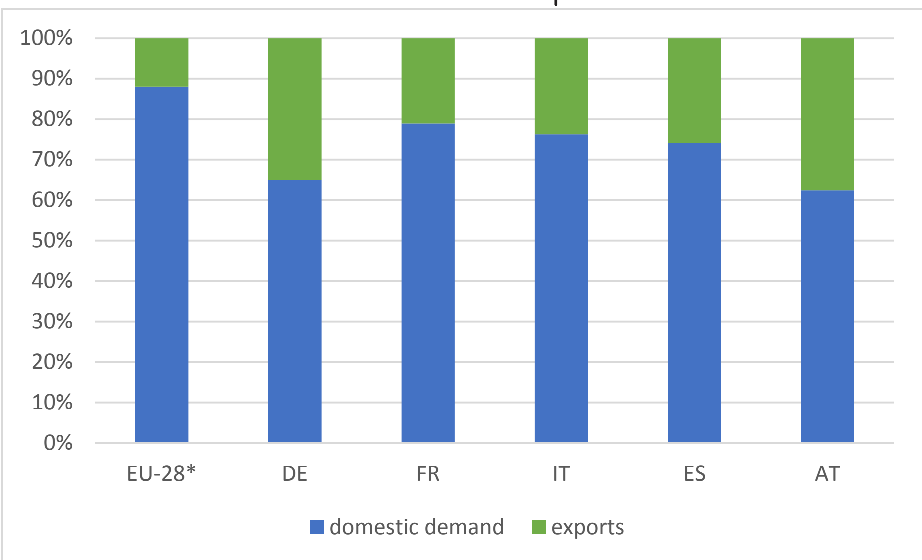
The proposals are aimed at a further intensification of the one-sided fixation on - an extremely foreshortened idea of – competitiveness[7]. It is now no longer about „the ability of the economy to provide its population with high and rising standards of living and high rates of employment on a sustainable basis"[8], but how much companies can prosper. And, it is about ensuring that citizens „can adapt to[…] new demands, trends and challenges"[9]. This would once again mean more pressure on wage levels and working conditions. From our point of view, this text reflects an ignorance of macroeconomic principles and in particular the relevance of the demand side.

Increasing the competitiveness orientation through national Competitiveness Authorities

The **establishment of "independent" national Competitiveness Authorities** designed to increase the pressure on reforms and wages within the member states – in particular via the issuing of „guidance" on collective bargaining – is absolutely **rejected** by the AK, not least also because interference in the guaranteed fundamental right of the social partners to free collective bargaining would be a breach of taboo.

The proposal completely ignores the double role played by wages which are on the one hand production costs, on the other hand incomes used for the purposes of consumption. Although even in export-dependent countries such as Germany and Austria domestic demand (which is determined first and foremost by wages) is higher than foreign demand, the focus is only on international competitiveness.

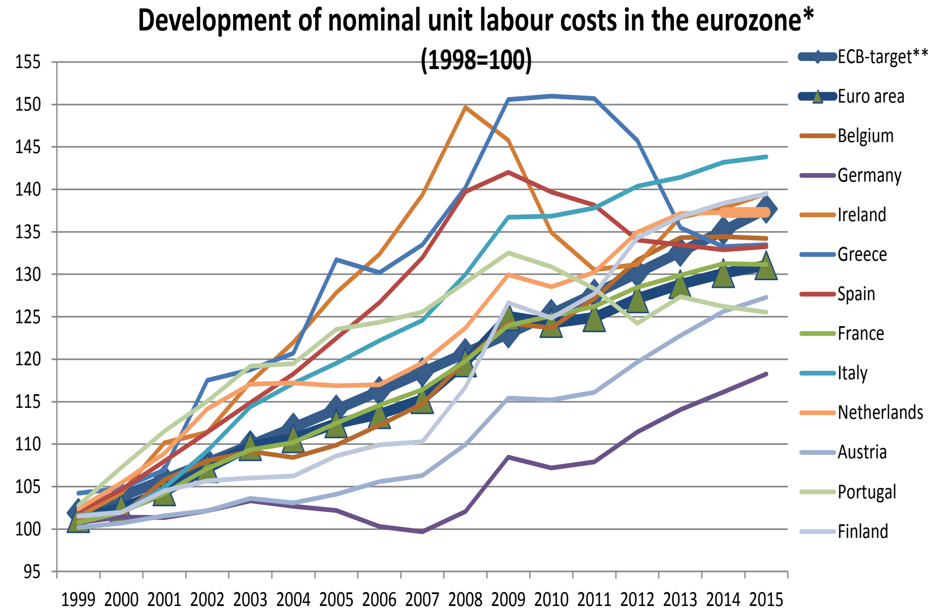
Domestic demand and exports in 2013



Source: European Commission (Ameco database, May 2014), own calculations. *Based on the assumption that the proportion of intra-EU services exports – the data of which is not available – corresponds with those of intra-EU goods exports..

In ignoring this double role, the report proposes a move away from a **distribution-neutral and price-neutral wage policy by the social partners**. To this end, the wage cost development in the eurozone is supposed to be increasingly aligned to that of the major exporting countries. Poor wage development in one country – as was the case prior to the crisis particularly in Germany, and is now the case in the member states most affected by the crisis – would then drag all the others down. **The economic consequence would be the further lowering of wages although, on the whole, wages have developed poorly since the inception of the eurozone.** Thus, unit labour costs within the eurozone prior to the crisis (in 2007) remained a good three percentage points below their price-neutral and distribution-neutral margin. Since in times of crisis, typically production drops more dramatically than the wage sum, a moment of overshoot was indeed reached in 2009, but that was more than compensated for by even greater under-utilisation in the years to follow. By the end of 2015, the under-utilisation of the margin in relation to productivity development (which is compatible with price stability in terms of the ECB definition) that has been accumulated since 1998 is set to stand at seven percentage points.

Since 1998, of the eleven largest member states of the eurozone, only Italy has nominal unit labour costs clearly above this orientation mark. The disparity in this case of six percentage points hardly registers, however, when compared to Germany, where the shortfall amounts to 19 percentage points. Moreover, the difference in Italy has been decreasing year-by-year, whilst in **Germany** it is still increasing. It is, therefore, clear to see where **a correction of course** is required. **Despite that, the European Commission** is still focusing **on countries with comparatively higher unit labour costs** in its country-specific recommendations and sees the need for further downward adjustment **at the expense of employees**. Developments in prices, profits and credit, which are just as relevant to the formation or removal of imbalances, receive far less attention. There is also a failure to admit – in view of ever closer European ties - that improvements in competitiveness driven by a reduction in labour costs in one country inevitably lead to a deterioration in the labour cost-based competitiveness of the other member states / trading partners.



Source: EU Commission (AMECO database 10.9.2015), own calculations. *Only eurozone member states with a proportion of the eurozone's GDP of at least one hundredth, i.e. not including SK, LU, SI, CY, EE, LT, LV, MT. **ECB target of close to, but less than 2% annual inflation is calculated here at 1.9% p.a.

If the EU were an economic area producing primarily for export, a strategy of lowering unit labour costs would be at the expense of employees, but would at least be beneficial for the economic development. However, with the share of exports of the aggregate demand of the EU being only 12% in 2012, the above condition is not fulfilled. A **weakening of the development of wages simply leads to a weakening of aggregate demand and, consequently, to a worsening of employment and the economy**.[10]

The European proposal for national Competitiveness Authorities is therefore a completely wrong course of economic policy. What is instead required, are European institutions which restrict measures of member states aimed at weakening other member states within a competition over lower costs. Since wages are always an important factor in the development of domestic demand, promoting **wage coordination by the social partners at the European level** is the right thing to do. This would require institutional strengthening of the trade unions in particular, which due to the poor growth in employment and the removal of employee rights find themselves under increasing pressure.

At the same time, we suggest that the importance of a balanced interplay of monetary, budgetary and wage developments in order to promote growth and employment in a currency union has to be taken into account more strongly at the institutional level. **Strengthening the Macroeconomic Dialogue (MED)**, especially in the context of the eurozone, as proposed by among others the Austrian social partners,[11] **could contribute to this necessary coordination work through the direct involvement of the social partners, and at the same time protect free collective bargaining**. The MED has until now primarily been a forum for information exchange and not an instrument for effective coordination, but in the context of EMU deepening, it could play an important role. As proposed by the DGB, an MED of the eurozone (MED EURO) should include representatives of the social partners, the European Central Bank, the Eurogroup (including the ministers for employment and social affairs) and the Commission as well as also the chairperson of the European Parliament's Committee for Economic and Monetary Affairs acting on an equal footing. The MED EURO should become an integral component of economic governance and its results and conclusions should form the basis for the Annual Growth Survey and other elements of European economic governance.

A stronger Macroeconomic Imbalance Procedure

The extension and **intensification of the procedure for establishing macroeconomic imbalances** envisaged in the report, which is now also to be used "to encourage structural reforms". Since the leeway for interpretation by the European Commission is already extremely wide in this procedure, the widening of the scope and the simplified introduction of corrective procedures would allow the Commission to ultimately intervene in the economic policies of the member states free of any controls by the the European Parliament or Council. Only when it comes to the introduction of such a procedure and the imposition of sanctions, the Council could block the Commission by acting quickly and decisively (the normal vote-taking procedure was transformed in this area by the Six Pack into the so-called „reversed qualified majority voting").

However, it is a positive sign that the procedure „should also foster adequate reforms in countries accumulating large and sustained current account surpluses". Concrete measures - such as, for example, an „Insufficient Fiscal Stimulus Procedure", under which member states with too low levels of demand would be required to pursue government measures to extend domestic demand - are however absent.

A stronger coordination of economic policies

Here, the report refers to the European Semester and the country-specific recommendations. The member states are meant to receive „clear recommendations" on the reforms which are of fundamental importance for increasing growth potential, creating job opportunities and taking advantage of the internal market. At the same time, however, the recommendations are intended to be political, which means

„Member States should have a degree of freedom concerning the exact measures to be implemented". Due to the **ambivalent experiences with previous country-specific recommendations**, we view this coordinating tool with a high degree of **scepticism**. This applies even more so to the proposal to establish in the second stage „a set of common high-level standards", for example regarding[12] labour markets and competitiveness, which are supposed to make the convergence process „more binding" and are to be deployed in the context of the country-specific recommendations and the Macroeconomic Imbalance Procedure. One study commissioned by the Vienna Chamber of Labour shows that the **interpretation of structural reforms has been primarily driven by a neoliberal understanding of the economy and society**, which has dominated political decision-making processes in Europe and elsewhere since the 1980s. Many of the proposals for structural reforms, currently given to member states in the context of the country-specific recommendations, **are aimed at the removal of labour market standards**, such as, for example, the decentralisation of collective agreements and interference in social security and pension systems etc. and as such contradict the objective espoused in the EU Treaty of promoting economic and social cohesion, as well as the Europe 2020 goals of combating poverty and social exclusion. This is very clearly demonstrated in the measures prescribed for the member states that are mostly affected by the crisis.

The European Semester must be adapted in such a way so that it no longer rests with the Commission to decide which concrete reforms the member states should be implementing (as is also indirectly suggested in the report). This could mean **agreeing** in a democratically legitimised way **on economic policy priorities**, such as higher employment quotas, increasing the quality of employment, combating the unequal distribution of income and wealth, increasing potential growth etc. Within this scope – **whereby the overall medium-term strategy (currently the Europe 2020 goals) should serve as a higher-level frame-work for orientation** – the actual configuration of the reforms to be implemented would have to be left to the individual member states. To put it into concrete terms: we have strongly and repeatedly rejected the proposal to adjust the statutory retirement age to match increasing life expectancy, which is repeated again in this report, since in our view, no such actions are required to achieve the respective aims of safeguarding the pension system and the sustainability of the public budget. The right measures in order to help keep older employees longer in employment would be to improve working conditions for older workers, provide better health protection, expand rehabilitation and retraining options for health-affected workers and increase the involvement of older employees in company further training programmes. Generally, the best strategy to guarantee the long-term funding of a high quality system of social security is the best possible integration of people of working age – throughout the different age groups – into the labour market[13]. Moreover, country-specific recommendations such as these have to be criticised also because they undermine the aim expressed in the report that „Member States should have a degree of freedom concerning the exact measures to be implemented".

An Economic Union with no tax policy measures?

For us, it is incomprehensible to pursue an approach in which tax policy aspects are almost completely excluded with regard to the Economic Union. The notion of tax policy appears only once in the report when it comes to the establishment of common standards for more intensive economic policy coordination. In our view, further deepening of EMU would most certainly require an **increase in tax policy competence** for the European Union. The unanimity requirement that still exists when voting on EU issues relating to taxation, which allows a single member state to block attempts at a coordinated approach to tax policy, must be finally removed. A liberalised internal market with markedly different tax systems and rates of taxation (particularly since the last rounds of EU enlargement) inevitably leads to a race to the bottom in taxation, especially in the area of corporate taxes. This is a development that will have an overall negative effect on both growth and employment and must be stopped. Distributional justice, the guaranteeing of revenues to finance the welfare state, the protection of jobs and lowering the too high taxation on labour must be given priority over corporate profit. Therefore, a **harmonisation of the corporate tax systems including harmonising tax bases and establishing a minimum tax rate** is necessary. At the same time, we would once again urge rapid implementation of the necessary **measures to combat tax fraud, tax evasion and aggressive tax planning, as well as the prompt introduction of a financial transaction tax**.

4. : The report does not contribute to a social Europe

It is characteristic of the general competitiveness-orientated approach of the „Five Presidents' Report" that it contains no significant concepts on reinforcing the social dimension of European integration. The statements contained in the report under the heading „A stronger focus on employment and social performance" in the section on Economic Union, are nothing less than shameful. In this context, „efficient labour markets" which are „able to absorb shocks" are proposed, strongly indicating an envisaged increase of flexibility and a removal of alleged „rigidities" at the expense of employees. We do not see how placative phrases such as „labour markets and welfare systems need to function well and in a fair manner in all euro area Member States" can help achieve the grandiosely-formulated ambition outlined in the report „to earn a 'social triple A'". On the contrary: the catastrophic employment situation and the social crisis have been massively exacerbated in many EU member states (see Greece, Portugal, Spain etc.) by the European crisis policy.

For the AK, **the strengthening of the social dimension** of European integration - and in particular of EMU - is of absolutely **paramount importance**. Below are some of the key steps to be carried out on the way towards a social Europe. In any case, a general comprehensive change of course in the economic policy orientation of the EU and EMU is necessary if European integration is to justify its claim of contributing to high levels of prosperity, qualitative full employment, social security and sustainability, rather than actually undermining these aims.

- Those principles which have been promised to working people in Europe not least also by the Treaty of Lisbon must be enshrined in a „Protocol for Social Progress" at the level of EU primary law. This includes, for example, prioritising fundamental social rights, including trade union rights, over market freedoms; consolidating the principle of equal pay and conditions for the equal work carried out at the same place, especially in the context of effectively combating wage and social dumping; and protecting the autonomy of the social partners. Moreover, a „Protocol for Social Progress" should define the notion of „social market economy" contained in EU primary law by clearly stating that it encompasses employee rights at a high level and excludes any competition at the expense of wages and working conditions. Furthermore, a „non-regression clause", which guarantees that any measures at the EU level must not lead to a regression in the protection of employees in the labour law of member states, should also form an integral part of the said protocol.

- Minimum social standards in the form of directives have so far made a significant contribution to improving living and working conditions in Europe. These minimum social standards must be extended further and must guarantee a high level of social protection. In the area of labour law, there is a need for action in particular in respect of the general protection against dismissal, protection against transfers, protection of employees against unfair contractual provisions and those impeding mobility, continued remuneration in the event of sickness, care for close relatives and other valid reasons for absence from the workplace, measures for improving reconciliation between work and family, instruments to promote gender equality (e.g. obligatory quotas for women on company boards) and the creation of a European notion of employees to confront phenomena such as pseudo-self employment. Also in the area of social law, European minimum standards should be created, such as a minimum net replacement rate for unemployment benefits or the ensuring of comprehensive healthcare provision.

- In this context, **obligatory minimum wage thresholds** at the level of member states (with full protection of collective bargaining systems and the autonomy of the social partners) should also be agreed.

- The creation of **high-quality, secure and well-paid jobs** must be at the very heart of the EU's employment strategy. The increase of precarious work, i.e. the growing numbers of people in marginal employment, on temporary, fixed-term or part-time employment contracts and the increasing physical and psychological pressures linked thereto, must no longer be ignored in EU policy.

- The **EU budget** must be **more strongly focused on the requirements of combating the social consequences of the financial crisis and of making future-orientated investments**. Implementation of the Europe 2020 Strategy must therefore be better supported, financing for the European Social Fund must be increased and the combating of youth unemployment must become a core point of focus of the EU budget.

- In view of the continuing dramatically-high levels of youth unemployment, the subject **of youth employment** must be put more strongly at the **focus of the politica**l agenda. In this context, a measurable EU target for the reduction of youth unemployment must be established and made compulsory. The establishment of a European youth guarantee and its support by means of a youth employment initiative are important measures in combating youth unemployment. Nevertheless, there are further steps that must be taken to ensure that the fight against youth employment is successful:

  The Europe 2020 Strategy must address the most urgent problems in Europe. The subject of youth unemployment must therefore be one of the main priorities in the Europe 2020 Strategy. This requires setting an individual goal as well as a specific guideline in this area.

  The funds set aside for the youth employment initiative (6.4 billion euros for the period 2014-2020) are insufficient. Even if the start of the projects has been delayed and the uptake in the first few months has been slow, all the programmes have now been approved and the advance financing simplified, so that the funds can now actually be disbursed. Additional financing from the EU budget must clearly be provided for the European Social Fund budget, which has responsibility for handling youth employment funding.

- In addition, a comprehensive, non-discriminatory and affordable **access to high-quality public services** must be guaranteed. These are a cornerstone of the European welfare state and as such must be afforded adequate regulatory and budgetary policy space. In this context, there is the clear need to stop the liberalisation and austerity measures affecting public services.

- Within the European Semester, all measures must be subject to a **social impact assessment**, to contribute to ensuring that the horizontal social clause enshrined in the Lisbon Treaty is finally being implemented.

- In view of the high levels of unemployment in the European Union and in relation to the **target of full employment defined in the EU Treaty** and the constantly increasing labour productivity, **intelligent models for a reduction of working time coordinated across Europe** must be put on the agenda.

5. Banking union without a structural reform of the banking system remains incomplete

The future of the euro area cannot be decoupled from developments on the financial markets. In the last couple of years, the EU has introduced a number of important legal acts in the field of financial market regulation, but there is still a lot more that has to be done. The aim must be to put the core function the financial sector should play in the economic cycle back at the centre, namely to ensure a balance between the savings of households and the financing of long-term investment of companies in the real economy as well as the public sector. As a further deepening of the banking union, what is required first and foremost is a **structural reform of the banking system** which must separate the risk associated with investment banking from that of commercial banking and solves the „too big to fail" problem. This is because credit institutions which are too big, too complex and too deeply interwoven with other financial market actors to crash, still constitute a serious problem especially within the euro area. There is also plenty of work still to be done in the shadow banking sector, the over-the-counter trading of derivatives, high-frequency trading etc. Furthermore, the problem of regulatory arbitrage has still not been solved within the euro zone. Only in the medium term, and following successful structural reform in the entire financial sector, would we see the strengthening of the third pillar - i.e. a common deposit insurance - as a potential element of the deepening of the Banking Union.

The envisaged expansion of the **Capital Markets Union** is in our view **a new threat to Europe's financial stability**, since it will mean the stimulation of already controversial financial instruments. Despite findings to the contrary, such as those of the ECB and the Austrian National Bank (OeNB) (Bank Lending Survey, Report on Bank Credits), it is assumed that the primary reason for low investment is on the supply side, whereas the surveys define the finding of new customers as the most pressing problem in particular for small and medium-sized enterprises. Moreover, as regards checking the risks associated with small and medium-sized enterprises, small savers are not in the same position as banks. In particular, we are expressly against any revival of securitisation. In our view, this proposal is based on a highly problematic approach framed by the motto „this time is different". The securitisation of and trading in credits have made a major contribution to the emergence of the crisis, since the separation of the taking of risks and the assessment of risks has led to false incentives. Instead, it is necessary to regulate the shadow banking system and to finally ensure that the financial sector bears its share of the costs of the crisis, via the introduction of a financial transaction tax, as well as to implement a harmonisation of the corporate tax base and a minimum corporate tax rate.

As regards the checking of direct bank recapitalisation issues by the ESM, in our view, the option of usingliability instruments of the ESM for financing the SRF (Single Resolution Fund) should be considered, as otherwise the danger of risks being absorbed by the state and the false incentives linked thereto („moral hazard“) would remain. It would only come down to shifting the risk from the member state to the community level.

6. Fiscal Union has to supplemented by a Golden Rule on public investment

Unfortunately, the report contains no proposals on how to avoid the mistakes of the past - a too restrictive fiscal policy that significantly contributed to poor economic development in the euro zone from 2011 to 2013 - and how to not repeat them in the future.

In the context of the deepening of Economic and Monetary Union, the creation of **adequate policy space for growth-inducing investment in the social and ecological infrastructure** must therefore be a priority. The tightening of the EU's fiscal rules has crippled the forces for growth within the EU. The restrictive fiscal rules must therefore be loosened so that public budgets can be orientated in a more anti-cyclical manner and public investment in research, development, education as well as the social and ecological infrastructure, which creates the potential for intelligent growth, is not incorporated into the calculation of the structural deficit or the deficit in relation to the GDP (**Golden Rule of public investment**).

This could be **implemented** by means of a „**Protocol for Social and Ecological Investments for the Future**“. Since such a protocol on future-orientated investments would have to be adopted as a protocol to the EU Treaties, it would as a new rule at the highest level of the EU legal order take precedence over all previously adopted rules. This would mean that all corresponding regulations at the level of EU secondary law (the relevant provisions of the Stability and Growth Pact), EU primary law (the Maastricht Criteria) and also regulations in international law (for example, the provisions of the Fiscal Compact) would have to be interpreted in a corresponding restricted way.

As an immediately implementable **interim solution**, the already existing **investment clause** should be made usable in practice, as it was intended by the Commission's Communication on making the best use of the flexibility within the Stability and Growth Pact, in that the Commission would refrain from adopting the respective restrictive conditions (especially poor economic situation, no current deficit procedure, medium-term compensation etc.). Moreover, also the EESC[14] has repeatedly picked up on the idea of a Golden Rule for public investment in the recent past. It is important to follow up on this development, which should ultimately lead to the introduction of a genuine Golden Rule for public investment.

It remains unclear whether the **European Fiscal Board** proposed in the report would give rise to even more restrictive fiscal policy or, by contrast, would be a tool for a less strict interpretation of fiscal regulations. On the one hand, it is supposed to ensure better compliance with fiscal regulations, on the other hand it has the task to make recommendations about which course should be taken from an economic point of view and explicitly not from a legal perspective. Essentially, the orientation of this board would depend on its political majority situation, i.e. the members appointed to it. As regards its composition, the report only establishes that it should be „pluralistic" but does not state which institution should preside over it. If the call for pluralism is to be taken seriously and the board is to remain truly independent of the decision-makers in the Commission and the Council, the experts should be appointed by the European Parliament and by organised civil society (European Economic and Social Committee).

The long-term proposal of setting up a **„macroeconomic stabilisation function for the euro area" could represent a sensible addition** to the ESM and, in view of the too rigid, pro-cyclical budgetary rules, help to establish balancing and stabilising elements in the eurozone that go beyond the ESM. As already discussed prior to introduction of the euro, this role could be taken on by an automatic anti-cyclical stabilisation mechanism, which would kick in when unemployment begins to rise, in a similar way to the unemployment benefit systems at the member state level. Whether such a mechanism actually makes sense, **depends primarily on three factors**. Firstly, on the criteria that entitle participation. If these are themselves restrictive - as the report implies - the proposal is to be rejected. Secondly, the mechanism must not lead to any deterioration of the proven national unemployment benefit systems. Thirdly, whether such a mechanism makes sense is dependent on the degree to which national fiscal policy space is limited: If policy measures to counter a bad economic situation are possible without the restriction of fiscal rules or conditions for the financing on the financial markets, then national measures are more efficient than any - almost inevitably modestly-financed - superordinate stabilisation mechanism.

In the long term, the report proposes a **„euro area treasury"** as the „place" for „more joint decision-making on fiscal policy". However, it is not clear precisely what is being proposed here because, on the one hand, decisions on taxation and government expenditure are supposed to remain at the national level but, on the other hand, „some decisions" would „increasingly need to be made collectively". Regardless of the vagueness of the proposal, however, an „EMU treasury" would at least have the potential for a more far-reaching communitisation of the fiscal function, i.e. financing – with an eye on the economic situation – through effective tax coordination to ensure an adequate revenue base as well as the issuing of eurobonds.

7. Political Union as a farce

This pillar is particularly disappointing, in view of the fact that EU Parliament President Schulz was involved in the report for the first time, but the earlier reports were actually more far-reaching. The report mainly envisages the European and the national parliaments receiving no new powers and only being in a position to discuss European economic policy more intensively. To actually make this proposal, which constitutes a mere „consultation democracy", under the headline and it is completel „A key role for the European Parliament and the national Parliaments" is, in fact, light years away from the demand of the AK defined in the position paper issued at the end of 2012, which calls for all areas of **EU economic policy have to be co-decided by the European Parliament. Furthermore, social partners must also be given a genuine and meaningful right t a say in these matters**. When it comes to points mentioned in this regard, the national parliaments are reminded of their entitlement to invite an EU commissioner to discuss the European Commission's fiscal recommendations. Furthermore, it is suggested that the European Parliament should debate economic policy issues with the Commission before decision-making takes place.

In addition, it is proposed that the EU **should speak with one voice** – particularly in respect of trade issues. In view of how the current negotiations on TTIP and other EU trade and investment agreements are configured, this proposal also **runs contrary to any increase in terms of legitimacy or accountability**.

The AK believes that of the process of democratisation of the EU, and more especially of Economic and Monetary Union, needs to be approached much more comprehensively. The right to co-decision of the European Parliament should be generally extended. All areas of European economic policy (including the individual process steps in the European Semester cycle) must be co-decided by the European Parliament.

At the same time, the economic governance of the eurozone should in future in particular involve an **ex-ante integration of the social partners**. Especially the removal of imbalances cannot be prescribed, but must instead – in respect of price and income developments – be coordinated between the social partners and the European economic policy institutions, with macroeconomic productivity and price developments being used as the point of orientation. What is therefore required is a form of macroeconomic dialogue for the eurozone, as we have already suggested above.

In this context, the institutional and symbolic detachment between the Finance and Economic Affairs Ministers on the one side and the Employment and Social Affairs Ministers on the other side (and the respective policies) also needs to be removed.

8. Future steps

In early spring 2017, the Commission will table a **White Paper on measures for deepening EMU**. The White Paper will include the analyses of an „expert consultation group", which „will further explore the legal, economic and political preconditions [...]", in the context of which, in our view, also the **role of the ECB** needs to be discussed. It has not yet been decided who these experts will be and how they will be selected. Due to the potential far-reaching scope of the measures resulting from the White Paper (obligatory reference values for convergence), considerable attention has to be devoted to process of its drafting. Proposals should not only be put forward by "insiders", but social partners and civil society must also be allowed to take part. For us, the claim made in the Presidents' report that "[i]t has benefitted from intense discussion with Member States ans civil society" is incomprehensible. An honest, open and intensive dialogue with the social partners and civil society would have probably led to the setting of very different priorities in the report.

Footnotes

[1] http://akeuropa.eu/_includes/mods/akeu/docs/main_report_en_273.pdf

[2] http://blog.arbeit-wirtschaft.at/oekonomisch-vernuenftige-budgetpolitik/ (in German)

[3] http://www.dgb.de/++co++76ea837e-523b-11e5-a134-52540023ef1a (translation from German)

[4] ECO/380, The Community Method for a Democratic and Social EMU, September 2015 (https://webapi.eesc.europa.eu/documentsanonymous/eesc-2015-01820-00-00-ac-tra-en.docx)

[5] http://blog.arbeit-wirtschaft.at/wohlstandsindikatoren-als-instrument-der-wirtschaftspolitik/ (in German)

[6] http://media.arbeiterkammer.at/wien/MWuG_Ausgabe_138.pdf

[7] See the Presidents' Report, p. 8: „In the end, a competitive economy is one in which institutions and policies allow productive firms to thrive."

[8] Cf. COM(2002) 714 final „Industrial Policy in an Enlarged Europe", 11 December 2002

[9] See Presidents' Report, p. 7

[10] Cf. e.g. http://wug.akwien.at/WUG_Archiv/2007_33_2/2007_33_2_0175.pdf (in German)

[11] http://www.sozialpartner.at/wp-content/uploads/2015/08/Beirat-Ungleichgewichte-FIN.pdf (in German)

[12] http://media.arb+eiterkammer.at/wien/PDF/studien/Strukturelle_Reformen_in_Europa_2015.pdf (in German)

[13] http://media.arbeiterkammer.at/wien/PDF/studien/EPC_-_1000bn_Euros_at_stake_11-2012.pdf

[14] http://www.eesc.europa.eu/?i=portal.en.eco-opinions.34400

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

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

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

and

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

Christof Cesnovar
(in our Brussels office)
T +32 (0) 2 230 62 54
christof.cesnovar@akeuropa.eu

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

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