



March 2009  
AK Position Paper

Special summit of the European Council on  
1st March 2009

## 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 Labor.

Herbert Tumpel  
President

Werner Muhm  
Director

## The AK position in detail

We are - in the words of Nouriel Roubini - contemporary witnesses of the "first global synchronised recession in 50 years". EU Commissioner Günter Verheugen has never seen anything like the extent and the speed of the crisis. The danger of the EU economy sliding into deflation has not yet been averted.

In view of this dramatic development, we welcome the convening of a special summit of the EU Heads of state and government. Nothing is currently more important than a coordinated approach to combat the crisis.

In order to overcome the crisis, the Union should orientate itself on the following guidelines:

**1. Securing employment by stabilising the macroeconomic demand must currently be the most important task of economic policy. That means that fiscal policy has to let the automatic stabilisers take full effect; at the same time additional measures have to be brought in to stimulate both private consumption and investments. Budget consolidation must - while the crisis lasts - take a backseat.**

The by now worsened growth prospects have a negative effect both on income and expenditure of public households. For 2009, the EU-27 expects on average a Maastricht deficit

of -4.4 % and of -4.8 % for 2010. 16 states will reach or exceed a Maastricht deficit of -3 %. With respect to Austria, the EU Commission expects a total state deficit of -3 % in 2009 and of -3.6 % in 2010. That means that already today it is possible to exceed the 3 % deficit limit.

In the meantime, the EU Commission has opened deficit proceedings against six Member States. These have exceeded the 3 % limit in 2008 already. The Council of Finance Ministers is discussing the answer to the question of the Commission, what steps should be taken if the deficit target has been exceeded. After the meeting of the Eurogroup in February, Luxembourg's Prime Minister Jean Claude Juncker was of the opinion that the Stability and Growth Pact had to be adhered to "in its spirit and wording".

In a crisis of the current magnitude, the consolidation must not be given priority over revitalizing the economy. The Austrian Federal Chamber of Labour (AK) advocates a position, which leaves active economy management with enough room for manoeuvre and which is not thwarted through early consolidation. The main emphasis of the efforts made by the Finance Ministers should lie on the creation of jobs, an anti-cyclic budget policy and a coordinated approach to tackle the crisis!

The AK welcomes the convening of a special summit of the EU Heads of state and government and underlines the necessity to secure employment by stabilising the macroeconomic demand.

## 2. Monetary policy must not lag behind development

Over the past months, the ECB has reduced the base rate several times - most recently to 2.0 % in January 2009. So far there has been no positive impact, which seems to indicate that its decisions are regularly lagging behind actual development. The ECB should have reacted much earlier and much more decisive to the recession.

A member of the ECB Directorate has recently pointed out that the scope for interest rate cuts of the ECB has not yet been exhausted. In view of the fact that the inflation pressure continues to be in decline, we argue for an immediate further reduction in interest rates and an increased flexibility of the ECB in making use of so-called non-conventional measures (increased sale of gilt-edged securities in the secondary market etc).

We respect the ECB's independence; we are, however, of the opinion that the ECB should review its definition of price stability and take steps towards a dialogue with autonomous tariff partners. We would therefore suggest upgrading the macro-economic dialogue, in which representatives of the national central banks, the ECB, the social partners, as well as of the Council and the European Commission are taking part. The dialogue concerns a soft form of politico-economic cooperation, whose aim it is to achieve a harmonious collaboration of policy areas with regard to preserving the independence of the central banks and the free collective bargaining to

avoid frictional losses and to stabilize expectations. In particular in situations such as this, a high value has to be attached to these goods. It is the only forum, where the European social partners sit at the table with the ECB. It is therefore imperative that the macro-economic dialogue is both upgraded and intensified.

## 3. Further economic stimulus packages have to be prepared

Europe must do more for the economy. In the meantime, even the ECB, which so far has come up only with rather restrained formulations, expects a "long-lasting and deep recession"<sup>1</sup>, whereby the Commission establishes an unprecedented collapse of all of Europe's industry sectors<sup>2</sup>. As crucial an - if possible - immediate restoration of the finance function of the credit instrument and the capital market is; it is of equally vital importance to stop the downward spiral in the real economy.

In accordance with a report of the Federal Ministry of Finance dated 2.2.2009, the EU Member States so far adopted resp. announced economic support measures for 2009 (2010) worth 131 (81) billion Euro resp. 1 % (0.6 %) of GDP. A group of prominent macroeconomists, among them Nobel Prize Winner Robert Solow, recently declared in a manifesto<sup>3</sup> that a net impulse of at least two percent of GDP per annum would be necessary to stimulate demand. Important is that at least all

<sup>1</sup> ECB Monthly Report, February 2009

<sup>2</sup> Financial Times Germany, 12.2.2009

<sup>3</sup> FR-online, 9.2.2009

The AK is of the opinion that the ECB should review its definition of price stability and take steps towards a dialogue with autonomous tariff partners.

Member States of the Eurozone are participating. This goes far beyond the EU economic support programme that was passed by the European Council in December 2008 and it also finds our approval.

We also share the opinion held in the manifesto that public expenditure should concentrate on investments with substantial employment effects, whereby "Investments in labour-intensive projects to solve ecological problems" promise a double dividend. These must, however, under no circumstances be financed by simultaneous savings in public services, as the negative employment effect of reducing jobs in the public sector, would overcompensate the positive impact of the investment measures. Such consolidation steps should only be taken again in a booming economy.

At the same time we also need a "social economic support programme". The crisis must be used as chance for a new orientation and for measures to implement a fairer distribution of income and wealth. Targeted help must be provided for lower income segments of the population to sustainably increase their income.

#### **4. Politico-economic coordination must be strengthened**

In view of the close interweaving of the EU states in the internal market, a close coordination of economic policy measures is of vital importance for their effectiveness. In particular the major European national economies,

with Germany, but also France leading the way, have the primary responsibility to avoid the creation of a relapse into protectionist policies in the first place, let alone foster it through measures of their own. As justified as it is, to request a service in return from companies, which are benefitting from state bail out or support measures, so clear it is on the other hand that it is not in the well understood own interest, in particular of small open national economies such as Austria, when these conditions represent an obvious infringement against the freedoms of the internal market resp. the EU competition law. The practice, however, to request for example location or employment guarantees in case of state subsidies, must under no circumstances be called into question. The European Globalisation Fund should be adapted in such a way that the redundancies required for the financial capital are reduced so that this instrument can be increasingly used in times of an economic crisis. Apart from that the option of using the EGF capital for company closures due to the relocation of industry to low-wage countries within the EU must be available.

However, protectionist tendencies cannot be thematised in isolation of concrete framework conditions. We are dealing with an internal market with enormous differences in social, wage and tax standards, which virtually invite the danger of unfair competition between the Member States and encourage industrial relocations. Raising existing resp. creating new social minimum standards can at least lessen

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Furthermore, the AK proposes the preparation of a "Pact against unfair competition", which determines the measures against wage, social and tax dumping.

this development. At the same time we need effective measures against tax dumping at EU level. We therefore propose the preparation of a "Pact against unfair competition", which determines the measures against wage, social and tax dumping.



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