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AK Position Paper

Integrated Guidelines

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About us

The Austrian Federal Chamber of Labour is by law representing the interests of about 3.4 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, 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

The AK position in detail

As we informed several times before, we perceive a need to update the Integrated Guidelines; in particular, we have proposed a specific guideline for youth employment. Our basic comment on enhancing the endogenic forces for growth remains valid and must also be reflected in the Integrated Guidelines. We quote from our response: "Despite the stabilizing of the economy that can be observed, the financial and economic crisis is by no means over yet. The fear is that Europe is facing a protracted phase of stagnation if it fails to establish a new wealth model that is based on endogenic growth forces and at the same time takes account of social and ecological challenges. To strengthen endogenic growth forces is therefore one of the most significant challenges that must also be reflected in the Integrated Guidelines. This actually means: Improving domestic demand and expanding future investments". This approach is now included to some degree in the guidelines proposed. However, we are still of the opinion that current economic governance in the EU (fiscal rules) constitute a major obstacle to future public investments in research, training, the environment and social infrastructure, etc. We would therefore open with a renewed request for the introduction of a **"Golden Rule for Public Investment", in other words to enable debt financing of wealth-creating public investments**. There is sufficient need and potential for meaningful investments. Consequently, the European conurbations which continue to grow need to invest more in order at least to maintain the present level of public infrastructure in the face of soaring populations. The Austrian social partners are also demanding among other things a "European Green New Deal" to create new jobs, encourage innovations and save costs through intelligent investments (e.g. in the renewable energies sector).

Against this background, we respond as follows to the individual guidelines:

Guideline 1: Boosting investment

In principle, we welcome the fact that the first guideline is already attracting investments and thus responding to the demand side. Since the beginning of the financial and economic crisis, the level of private and public investment has clearly been on the decline. This has made a significant contribution to the dramatic rise in unemployment. However, the Federal Chamber of Labour is **fundamentally sceptical** that the European Fund for Strategic Investments (EFSI) mentioned in the guideline is a suitable vehicle for increasing investments.

We see **the main problem** in that the reliance is almost entirely on private investments, but the direct lever available to the member **states – public investments – remains practically unused**. Public investments also remain under significant pressure to make savings in most member states as a result of European fiscal rules. Even if, as hoped, the EFSI leads to additional private investments of some 100 billion euros, this will only just be enough to offset the decline in public investment quotas since 2010[1]. In times of very low interest rates, an expansion of public investment opportunities would therefore be a particularly effective measure for increasing the investment level in Europe. The EFSI also entails the risk of a renewed "communitisation of losses and privatisation of profits".

The key **demand** of the Federal Chancellor's Office is therefore the **introduction of a Golden Rule for public investment**, as was recommended recently in a study by Prof. Achim Truger[2] – and expounded on earlier in less detail by the Director of the German Economic Institute himself[3]. Such a rule would at least absorb the pressure on public investments for savings. However, the **minimum demand** would be for a substantial **widening of the investment clause**[4] so that it would at least be possible for public investments to be co-financed by the EFSI without exception. This would encourage investments which promote a more responsible approach to resources and the environment, as well as ongoing social development of the community. In the EFSI itself, these criteria are to be reinforced and must be accompanied by an extension of supervisory rights for the European Parliament. An amendment to the guideline along the lines of the golden investment rule we have recommended would present a promising way of putting Europe back on the path to sustainable growth and employment.

Guideline 2: Enhancing growth by the Member States implementation of structural reforms

For the Commission, structural reforms – and this is also evident from this guideline – is a kind of magic formula for more growth and employment. The question, however, is what specific actions are envisaged to achieve the structural reform goals referred to in the guideline. The Commission's specific proposals on structural reforms repeatedly show signs of a neoliberal leaning toward greater flexibility in labour markets, decentralisation of collective agreements or interventions in social security and pension systems. With regard to labour market reforms, for example, it is apparent that the claim that there is a close correlation between labour market regulation and the employment trend is sustainable only ideologically, not empirically. It has already been repeatedly established that there is no empirically reliable correlation between either the level of employment market regulation nor any changes to it. Janssen[5] has recently shown that even with the "employment protection legislation" indicator used by the Commission, there is practically no correlation with the trend in unemployment: For example, rigidity in Germany is greater than in Spain and the unemployment trend in the most weakly regulated instance - Ireland - is similar to that in the most strictly regulated - Portugal.

On the other hand, there are some proposals from the Commission which also receive our support. In this sense, we can agree this guideline in the recommended version insofar as we assume from this that the member states must be left exclusively to decide the specific measures they want to take in order to achieve the intended structural reform objectives. In this context, we therefore one again expressly reiterate our clear and unequivocal objection to **specifically binding mechanisms** (keyword: competition pacts) which serve to grant the Commission the right to intervene in the design and implementation of structural reforms in the member states.

In respect of the "digital economy", we affirm that this is indubitably one of the pillars of future economic growth. However, in the proposals for the digital internal market, many questions still remain unanswered. The development of digital technologies and the marked increase in their areas of application significantly affect almost all sectors of the economy in times of structural change. People are affected not only as consumers, but also at the workplace. In additional to increased autonomy and greater flexibility, digital technologies also give rise to the pressure to rationalise at the workplace, incurring significant costs for those affected, and resulting in job losses. Against this background, we consider the widespread exclusions of these issues in connection with almost all the initiatives of the digital agenda for Europe as a major shortfall which requires a corresponding rethink. Accordingly, this topic should be addressed in the guideline.

Guideline 3: Removing barriers to growth and jobs at Union level

Recognition of full implementation of **consumer protection in the financial markets is welcome**. It should be noted that – after the unfettered outbreak of the financial crisis in 2008 – some guidelines in the finance area were revised or reissued and these almost always had in the preface improved consumer protection as a priority goal. In the reality of implementation, however, aspects of effective consumer protection took a back seat and commercial interests took priority (e.g. Mifid, IMD2). We welcome the bank accounts guideline (PAD) which for the first time confirms the right to a basic bank account; however, the review of the investor compensation guideline was withdrawn. It would therefore be useful to make the consumer protection agenda more specific.

While there is no doubt that the funding capacity of Union banks need to improve, there are considerable concerns about **securitization**. Securitisation was at the heart of the financial crisis by setting adverse incentives. In the „originate and distribute" model of banking, the institution originating loans and selling them afterwards did no longer bear the risks. The institution buying the securitised loans does not have the same access to information as the creator of the loan. Therefore opaque risk has built up in the financial system which eventually has led to the biggest financial crisis since World War II. (re)establishing such a system therefore bares the risk of rebuilding up opaque risk with adverse incentives for the originator and distributor of risk.

Any attempt to create or deepen a **Capital Markets Union** has to bear in mind that there is a considerable problem of asymmetric information involved. Banks are generally speaking institutions that are in a better position to examine, scrutinise and control risk than single investors for whom the acquisition of information about the quality and risk of an investment project or a firm given the limited sum to be invested and limited capacities compared to professional investors. Institutions to tackle the problem of asymmetric information and fair risk pricing must therefore be at the heart of any attempt of creating or deepening a Capital Markets Union.

The formulation concerning a strong **energy union** is very general and there is nothing to object to. At this point, however, we would recommend making a reference to the possible conflict with the objective of strengthening the production sector ("industrial renaissance"), perhaps by adding (after "… demand and supply side reforms") "at the same time taking into consideration the importance of a strong industrial sector as envisaged, for instance, in the Commission Communication 'For a European Industrial Renaissance' (COM(2014) 14 final)".

The commitment in the last paragraph to more **"social impact" analyses** in advance of legislative changes and further developments is welcome. In light of the existing social upheavals in Europe, a renunciation of the present austerity regimes would therefore be essential and only a progressive interpretation of "structural reforms" as defined in Guideline 2 – in contrast to what went before, namely dismantling the standards of employment and social legislation and deregulation – would be acceptable.

The further development of the **external dimension of the domestic market** must target fair trade which puts social and ecological goals at its centre instead of undermining them. Compliance with and effective control of internationally recognised standards of employment legislation must be a fundamental requirement for the signing of a free trade agreement. The current focus on the external dimension and the (in our opinion) excessive expectations in terms of growth and employment in Europe (see in particular the discussion about the ongoing negotiations on a trade and investment agreement with the USA) fails to recognise that the incentive for domestic demand is the most important approach to creating wealth in Europe.

Guideline 4: Improving the sustainability and growth-friendliness of public finances

Once again, we strongly emphasise the need to introduce a Golden Rule for public investment in connection with fiscal policy in order to facilitate future investments. At the least, the latest investment clause reinterpreted by the Commission in its Communication on flexibility of the stability and growth pact[6] should be expanded substantially. At least two changes must be made so that this exception can have a noticeable effect on the economy:

- All countries should be able to profit from this, regardless of whether they are member states of the programme, subject to deficit proceedings or are "merely" documented by the preventive arm of the stability and growth pact.
- It should also apply to countries with low shortfall in output.

In addition, owing to the general contractional effect of austerity policy, it is necessary to allow a more sensitive consolidation of national finances, employment, distribution and economy. Consequently, the economic exception rule (weakening of the consolidation instructions in "bad times") should also be expanded. Policymakers must also ensure that this does not lead to any procyclical discretionary intensifications of the regulations by the ECOFIN Council, as has been the case in the past. It is therefore necessary to also apply the economic circumstances clause in the corrective arm of the stability and growth pact and to extend it to automatically shift the 3% limit in parallel during "bad times".

However, even if these changes are made, this should only be an intermediate step on the way to a Golden Rule for public investment.

The formulation "growth promoting disbursements" should be complemented by "promoting jobs", with investments in the social infrastructure also being mentioned. In its response to the "Effects of Social Investments on Employment and Public Budgets" dated 26 March 2014, the European Economy and Social Committee demanded among other things that promoting social investments must be a central element when revising the Integrated Guidelines and at the same time the use of the socalled golden financing rule ("Golden Rule") should be mentioned[7]. Likewise, the expansion of child care and care institutions is particularly labour intensive and at the same time an area which also increases employment potential overall.

The tax recommendations are having a slightly half-hearted effect. It is important that the tax burden on the work factor is reduced. However, if there is a wish to strengthen domestic demand, it is problematic to increase the tax burden on consumption without providing compensation for low and middle income earners. Meanwhile, the uneven distribution of assets within the EU has reached enormous proportions and this must be corrected as a matter of urgency. In order to achieve sustainable solutions here, stronger coordination at European level with minimum standards for asset-dependent disbursements is required urgently. The recommendation merely to increase recurring taxes on property is not enough. Also lacking is a clear recommendation for the introduction of a financial transaction tax which is urgently needed to ensure that the financial sector, which was in part largely responsible for the outbreak of the financial crisis and is also clearly undertaxed, especially since it enjoys general exemption from VAT, makes an appropriate financial contribution to public budgets. The recommendation to introduce a "common consolidated corporate tax base" is important, but taken in isolation this does not go far enough, as the introduction of a common tax base must also be linked to a minimum rate for the corporation tax, in order to be able to effectively combat the damaging tax competition inside the EU and the methods of aggressive tax planning practised by multinational groups. Combatting tax fraud is also important, but here again a clear, coordinated procedure inside EU member states, in particular in respect of combatting tax havens, is essential.

Guideline 5: Boosting demand for labour

The insight that the tax system must not erode the work factor despite a (tax) concession is welcome and facilitates a discussion on fairer design of the tax and expenditure structure in the member states. The objective of offering adequate social security and stimulating investment in matters of (social) policy is shared by the Federal Chamber of Labour.

After "Member States should, together with the social partners, encourage wagesetting mechanisms allowing for a responsiveness of wages to productivity developments", the following sentence should be inserted: ".to ensure consumption growth in line with overall production possibilities". In any event, the option of eroding collective bargaining standards by increasingly transferring wage negotiations to company and individual levels is to be rejected.

Guideline 6: Enhancing labour supply and skills

As mentioned already in the introduction, we advocate a separate guideline to combat youth unemployment. The common concern of the EU states to reduce youth unemployment appreciably in every country by 2020 must increasingly appear in EU-2020 core objectives and in the guidelines. In view of developments since 2010, we consider the cursory mention in Guideline 6 inadequate.

In the area of training, it should be noted in general that important challenges (quality, migration and integration, higher education) are not mentioned by name this time. The emphasis on the importance of training and professional development is a key part of the content of Guideline 6 and is worthy of support, although many of the elements and measures quoted are logistic components of an LLL strategy; however, the term "lifelong learning" is missing. This should definitely be reinserted in brackets. In this connection, however, an important aspect should be added to the guideline. Advanced training is not affordable and feasible for everyone. Member states should therefore set initiatives to allow people actually to undertake further training both while they are in work and during periods of unemployment. This includes financial support, as well as the right to further training in employment and structural measures to be able to agree a balance between work, family life and continuation training. A stronger obligation on the part of companies should be addressed in this guideline.

The guideline should also make low-erqualified individuals the focus of employment policy and require member states to develop special strategies to address this aspect.

Another aspect, which is not adequately dealt with either in Guideline 6 or in Guideline 7, is placement in employment with good working-conditions and living wages, which should be a cornerstone of employment policy.

We support the special emphasis on the ESF. However, a number of aspects should be noted at this point: The current funding of the ESF in respect of the extra tasks in the area of youth employment is much too low. The rules for prefinancing and administrative expenditure should be improved appreciably.

The Federal Chamber of Labour sees it as positive that the guidelines include a **clear commitment to gender equality** with particular emphasis on the need for **income fairness** and a guarantee of **access to affordable, high quality, early childhood development and care**, but also considers it important to develop equality policy and incentives for women, as this is also expressed in the 2009 Equality Report by the European Commission: *"Equality is not merely an issue of versatility and social fairness – without equality, objectives like sustainable growth, jobs, competitiveness and social cohesion will also recede into the distance. Investments in equality measures will be rewarding, as they provide for an increase in the proportion of women in employment, increase their contribution to GDP and* *to tax income and guarantee sustainable birth rates. As equality of men and women as a key to a permanent solution has proved more enduring than new problems, it is important that the topic of equality remains a core element of the EU strategy for 2020. Equality measures should therefore not be considered as a short term cost factor, but as a long term investment."*

It would also be important not only to refer to the importance of income fairness, but to encourage incentive measures, such as income reports: As the best practice example, Sweden, shows, reports about the income situation of men and women are a good instrument for more transparency at company level. They contribute to disclosing and compensating unjustified wage differentials. These reports serve not only to gather facts, but also set in train a process of discussion with executives, as experience with the company reports introduced in 2011 in Austria shows. In Austria - unlike in Sweden - there are still no compulsory measures for businesses to combat established inequalities.

In the opinion of the BAK, the Commission's commitment to **high quality early childhood development** and care should be emphasised. It would also be desirable here to consolidate this important objective, i.e. care places which can be combined with a full time job and also – if child care is understood to be an elementary educational institution – quality standards for the training of care workers, the care key (relationship between children and care workers), training plans etc.

With the Barcelona targets of 33% care quotas for the under-threes and 90% care quotas for children aged between three and school age, the EU set specific targets up to 2010, but some EU member states (including Austria) have not yet or have only partially achieved these goals. In any case, the achievement of these goals should continue to be monitored. The use of EU resources for expanding a high quality child care infrastructure should also be encouraged.

Guideline 7: Enhancing the functioning of labour markets

Guideline 7 includes welcome aspects, in particular the reference to the quality of work. However, the quality criteria listed should still be complemented by "fair wages" and "co-determination rights"[8].

Also, from our perspective, the social and employment security of employees and job seekers should be emphasized more strongly. The corresponding formulation could also be interpreted as differing from social and employment standards in order to create a job-friendly environment for businesses. However, no measures which are to the disadvantage of employees should be included in this directive. Strengthening an active job market policy is important and significant. However, this also entails an adequate financial structure.

The emphasis on employee mobility to overcome their problems of integration in the labour market should, from our perspective, be qualified by way of a reference to the limits of mobility throughout Europe, which should be listed. This must always be voluntary and associated with standards that are compatible with adequate employment and social legislation.

Guideline 8: Ensuring fairness, combatting poverty and promoting equal opportunities

Whereas the recommendation to raise the actual retirement age is compatible with our objective the recommendation to adapt the statutory retirement age to changes in life expectancy is once again emphatically rejected. That only a high level of employment is a guarantee for the sustainability of the public finances – and thus the pension system as well - should finally prevail as the key argument against reduced payments and poorer access.

Footnotes

1. See AMECO database (March 2015): Were 2016 public investment quotas not 2.8% of GDP, as in the Commission's forecast, but 3.5% of GDP, as before the start of austerity policy across Europe (2010), then public investments would be around 100 billion euros greater (specifically 521 instead of the present forecast of 423 billion euros)

2. See http://media.arbeiterkammer.at/wien/MWUG_.Ausgabe_138.pdf

3. See http://www.iwkoeln.de/en/presse/interviews/beitrag/michael-huether-in-der-frankfurter-rundschau-der-staat-soll-investitionen-ueber-kredite-finanzieren-119859

4. Specified in the Commission's communication on flexibility of the stability and growth pact, see http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/2015-01-13_communication_sgp_flexibility_guidelines_en.pdf

5. http://www.socialeurope.eu/2015/03/european-economic-governance-and-flawed-analysis/

6. http://ec.europa.eu/transparency/regdoc/rep/1/2015/DE/1-2015-12-DE-F1-1.PDF

7. http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013IE6193&qid=1429775745472&from=EN

8. See the formulation in the conclusions: „Good work means employee rights and participation, fair wages, security and health care at work, as well as a family-friendly employment organization. Good and fair working conditions, together with a reasonable social security scheme are essential for acceptance of the European Union by the citizens".

Should you have any further questions
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