Statement

Position of the Confederation of German Trade Unions (DGB)
concerning the report "Completing Europe's Economic and Monetary Union" (five presidents' report) and the further development of economic governance in the EU and Eurozone

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1.) To ensure stability, fairness and growth: Europe needs a different common economic policy

The President of the European Commission, Jean-Claude Juncker, together with Council President Tusk, Eurogroup President Dijsselbloem, President of the European Central Bank (ECB) Draghi, and President of the European Parliament Schulz, have presented a paper entitled "Completing Europe's Economic and Monetary Union".[1] It contains proposals for greater coordination and pooling of European economic policy, in particular in the eurozone.

The call for effective economic governance in Europe is in principle completely correct and has been promoted by trade unions for a long time. The crisis in the euro area has shown that the EU continues to suffer from structural problems that need to be addressed urgently: for example, from the outset, the euro area deliberately refrained from accompanying uniform interest rate and monetary policy with a coordinated economic, fiscal and tax policy, which would aim to achieve harmonisation of economic conditions in the eurozone.

Different initial levels at the start of monetary union, as well as different price developments and economic dynamics since then, have led to imbalances between the eurozone countries. Economically strong countries (such as Germany) have generated trade surpluses, while other countries (such as Spain, Portugal and Greece) have built up deficits. The foreign debt of the weaker economies has thus increased. As there is no longer the possibility to adapt within the eurozone by means of exchange rates and other effective compensation mechanisms (such as the fiscal equalisation payments between federal states within Germany), these imbalances have given rise to ever-increasing tensions.

At the same time, a lack of coordination within Europe has hindered a common European response to the economic crisis: economic stimulus packages have been decided at the national level, and the rescuing of troubled banks has remained a matter for individual nation states. The same has applied regarding state financing. Given that, despite having a common currency, each member country in the eurozone issues its own government bonds for financing purposes and because a joint liability of all the EU countries - for example through the use of common bonds (eurobonds) - or an implicit guarantee of government

[1] http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report_de.pdf

debt by the central bank (as a "lender of last resort"), are not provided for in the eurozone, investors have been able to speculate against the bonds of individual euro countries. This was the trigger for the ongoing euro crisis.

In order to prevent such crises, a better coordination of economic policies in the eurozone is required. However, such economic governance must fulfil the following criteria:

- It must concentrate on actually fixing the problems mentioned above, stabilising the eurozone and thus fully developing the potential of an economic and monetary union.
- It must serve the economic and social interests of the population.
- It must be democratically legitimised.

2.) The report from the five presidents is heading in the wrong direction and will only exacerbate the situation further

The measures addressed in the five presidents' report do not fulfil the above-mentioned criteria:

2.1.) The report ignores key causes of the crisis

The five presidents ignore key causes of the crisis and the subsequent relatively poor economic development in Europe, and neglect important measures required to stabilise the eurozone. No mention is made, for example, of the fact that there is no lender of last resort in the eurozone, i.e. a central bank that at least implicitly guarantees sovereign debt. There is not enough focus on the fact that unregulated capital flows before the crisis led to the formation of asset bubbles and the overheating of economic development in certain eurozone countries. Instead of formulating solutions for the persistent lack of regulation of financial markets (which was one of the causes of the crisis), the report calls for even greater integration and a tendency towards the liberalisation of European financial markets and the rapid implementation of the Capital Markets Union, which could have negative effects for financial stability or entail an increase in the systemic risks.[2]

The proposals made by the presidents ignore the fact that previous anti-crisis policy, with its focus on a reduction in government spending and wages, has led to a significant deterioration in the economic situation in Europe and has promoted deflationary development. Instead, the report continues to be based on the erroneous analysis that the crisis is based primarily on "unsound" budgetary policy and high wage costs in certain member states. The five presidents are of the opinion that the previously applied rules on economic governance were generally hitherto unsuccessful because they were not implemented to a sufficient extent. As a result, the report does not aim to introduce the necessary realignment of

[2] See also the DGB statement on the Capital Markets Union Green Paper: http://www.dgb.de/themen/++co++7318b91a-fe07-11e4-9ff1-52540023ef1a

economic governance. It does not aim to implement a policy that achieves a convergence of the economic performance capability of the individual eurozone countries on a path that strengthens demand, growth and prosperity. Instead it continues to focus on wage cuts and a reduction of public demand.

2.2.) The presidents focus on wage cuts and a continuation of the policy of austerity – to the detriment of the European economy

The plans put forward by the five presidents risk a strengthening and long-term institutionalisation of the policies of austerity, wage reductions and social welfare cuts. A permanent dismantling of workers' rights, the pushing back of social good, an increase in inequality and negative economic effects are to be feared.

2.2.1) Strengthening of existing instruments

In their report, the presidents praise previous approaches to economic governance that have aimed at reducing wages and government spending. Such approaches should be developed further and made mandatory, the report states. For example, it is claimed that the "Euro Plus Pact", which was concluded by a number of European governments in 2011, is a step in the right direction but has not been effective due to a lack of binding commitment. In fact, however, it is the political content that is the problem: the DGB heavily criticised the pact at the time because it committed all the signatories to harmful interference in collective pay scale systems and to the lowest possible wage increases. For example, the Euro Plus Pact stated that countries should review salary-setting procedures and decentralise these if necessary. In addition, they were to ensure "that the wage settlements in the public sector are compatible with the efforts in the private sector to enhance competitiveness (bearing in mind the important trendsetting effect of public sector wages)."[3]

The "Mechanism against macroeconomic imbalances" that was institutionalised at the European level by means of a directive is praised in the report drawn up by the five presidents, who propose that it be strengthened. This mechanism defines, for example, sanction-based ceilings (but no lower limits) for the development of wage (unit labour) costs, thus supporting a weakening of wage development. The mechanism is also asymmetrical in other respects and therefore unsuitable for the reduction of disparities: current account deficits are, for example, punishable far earlier and more harshly than surpluses.Although the report from the five presidents correctly says that surpluses should also be reduced, for example if they are a sign of low domestic demand, the focus is quite clearly on further measures in the deficit countries.

[3] Page 16 at http://europa.eu/rapid/press-release_DOC-11-3_de.pdf

2.2.2) Interference with the right to free collective bargaining by competitiveness authorities – application of pressure on wages in order to bring about greater competitiveness?

In the opinion of the DGB, the new proposals made by the five presidents in terms of influencing salary developments are particularly problematic. They state that intervention in the collective bargaining agreements exerted on the crisis countries and already included in the "Mechanism against macroeconomic imbalances" should be reinforced and institutionalised for the entire eurozone: every euro member state should establish an independent "national office" for strengthening competitiveness (a Competitiveness Authority). This should assess whether "wages are developing in accordance with productivity" and make comparisons with wage developments in other euro area countries and major global trading partners. The opinions of these bodies should be used as guidelines by the social partners in collective pay scale bargaining negotiations.

This means that "the independent national office" should interfere with the right to free collective bargaining. "Independent" experts should provide guidelines for the negotiating parties. A "race to the bottom" in terms of wages will thus also be institutionalised as result. With this system, the country with the worst wage development would become the standard from which all others should take their lead. This would be justified in terms of ensuring "competitiveness".

Experience and also previous analyses by the Commission also show what is meant by the requirement that wages should "develop according to productivity": first, the Commission, the ECB and others regularly call for operational productivity (not aggregate economic productivity) to form the basis for wage negotiations, which can lead to an erosion of region-wide collective agreements. Secondly, it is often not made clear that nominal wages have to increase not only in line with productivity but also in line with inflation, so that wage income (as is the case with profit income) is adjusted to price developments and in order to ensure that wage and profit income do not become decoupled as a result of taking inflation into account in different ways. In any case, the idea of the new Competitiveness Authorities aims to prevent a redistribution in favour of employees. Such a redistribution is, however, exactly what is needed if one considers that the share of wage income compared to the gross domestic product has in certain cases declined massively in Europe since the 1980s. The growing income and wealth inequality is a problem that threatens economic stability and cannot be addressed solely by means of tax policy, but also needs to be supported by changes in primary distribution.

The attempt, established with the official anti-crisis policies, to improve "competitiveness" by putting pressure on wages, has already failed anyway and is not addressing the problems in Europe. Firstly, wage costs are just one variable among many that affect "competitiveness"; other costs and above all other factors, such as quality, innovativeness, availability of skilled workers etc. also play a major role. Secondly, experience has shown that declining or only slowly increasing wage costs do not necessarily lead to lower prices (and therefore higher price competitiveness) and increased exports. Labour costs have been reduced in Spain, for example, but some export prices have risen significantly. And Spanish exports grew just as fast in times of strongly rising unit labour costs as they most recently did in times of declining unit labour costs. In Germany, unit labour cost growth in the second half of the past decade lagged significantly behind the development of export prices - reduced wage costs were not used by the companies to increase their price "competitiveness", but in order to increase profits. Thirdly, wage development is itself dependent on other variables - variables that should be focused on more strongly in terms of economic governance: for example, capital inflows from countries with current account surpluses contributed to the building up of speculative asset bubbles and the overheating of the economic and price development in Spain. This development resulted in turn in high nominal wage increases. Economic governance should focus on the causes of possible problems (different business cycles, economic overheating, speculative asset bubbles ...). So far, this has not sufficiently been the case.

Basically, it is not the alleged lack of competitiveness in the EU and the eurozone that has caused the crisis, but disparities between countries: as described above, some countries have developed current account deficits, whereas in others the stagnant domestic demand has led to the emergence of perennial surpluses. However, the eurozone as a whole had on average a generally balanced current account between 2000 and 2010. The current approach to economic governance, which the five presidents' report wants to continue and intensify, aims at achieving export surpluses in all euro countries. Accordingly, a current account surplus for the entire eurozone has already emerged. This is not a sensible strategy for the large economic area formed by the eurozone. Imbalances are transferred to the global level, and domestic demand is sacrificed as a result of the unilateral focus on exports. And this is done despite exports to countries outside the EU making up only a small percentage of the overall economic demand in Europe and the advantages of the internal market being left untapped to a great extent should a unilateral focus on the cheapening of exports to non-EU countries be pursued.

The most important driver of growth in the EU and in the Eurozone remains domestic demand. In this context, wages are a key determinant of consumer demand. Correspondingly, the elements of economic governance that aim to reduce wage growth lead to economic development characterised by contraction: domestic demand is choked off, and recessionary and deflationary tendencies are encouraged.

2.2.3) Continued focus on fiscal consolidation

The public sector often contributes to weak demand as well. The German government, for example, is investing far too little - in fact not even enough to maintain the existing infrastructure. In the crisis countries, the conditions have led to restrictive fiscal policy being implemented. Overall, austerity, debt brakes and the one-sided focus on balanced budgets have resulted in a heavy brake being applied to economic growth.

Nevertheless, the structures created for economic governance and the report from the five presidents have also in this respect mainly advocated a "business as usual" approach. Although the report admittedly talks about the need to avoid pro-cyclical fiscal policy, the focus is on strengthening and expanding the restrictive structures of economic governance, for instance by means of a more stringent Stability and Growth Pact. For example, a new "European Fiscal Committee" should be established in order to assess the budgets of the national parliaments and their implementation based on the rules of the Stability and Growth Pact. Only in the long term - and under strict conditions - is a fiscal stabilisation function contemplated, which may also have expansive elements (see below).

2.3) The report promotes technocratic and undemocratic structures

Although the report from the five presidents contains a chapter dedicated to democratic accountability and the legitimisation of decisions, the ideas it proposes for improved *communication* with the European Parliament (EP) and better *integration* of the EP are unlikely to be sufficient to compensate for the shortcomings of the democratic design of the economic governance.

The strengthening of the existing economic governance structures defined in the report would result in a further strengthening of the Commission, not the EP. The planned European Fiscal Committee would most probably become a new "independent" and not democratically legitimised "expert panel" that would be granted considerable influence over the budgetary policies of the national parliaments.

With the recommended "institutions for strengthening competitiveness", new bureaucratic bodies would be formed at the national level that would interfere with the area of responsibility of the social partners. The idea contained in the report that statements from these competitiveness authorities should form the basis for collective agreements would constitute impermissible interference with the constitutionally guaranteed principle of free collective bargaining in Germany. Furthermore, the Commission would again be granted, with its intended coordinating role, undue influence on wage setting. In this context, the statement provided by the report is wrong: Belgium, for example, does not have such an "institution for strengthening competitiveness"; in Belgium there is another system that is run specifically by the social partners and which does not involve applying any guidelines provided by external, "independent experts".

A real "ownership", i.e. the stronger acceptance of and identification with the economic policy rules by the EU population and civil society, would make greater participation and also an actual strengthening of the social dimension necessary. The report from the five presidents, however, remains generally very vague with respect to social issues and seems to actually propose counterproductive measures in certain respects (raising of the retirement age, belief in an "efficient" (labour) market in order to eliminate unemployment, etc.).

The fact that intergovernmental agreements are to be increasingly refrained from is certainly welcome news. However, it would be fatal if, of all things, the Euro Plus Pact was to be cited as an example of an intergovernmental pact that is to be "incorporated into the legal framework of the European Union". As explained above, the Euro Plus Pact includes economically counterproductive government commitments that are in part directed against the interests of workers and unions. An increase in prominence of the pact as a result of integration into the ordinary legal framework of the EU is therefore not appropriate.

3.) Alternative approaches to economic governance

Parts of the five presidents' report contain good proposals. For example, some elements of the banking union, such as the separate supervision of global, systemically important banks and the creation of a single fund for bank and treasury functions, are on the right track. Although the envisaged sum of 55 billion euros for the banking fund would be insufficient in serious cases. There are also as yet unresolved issues relating to the planned design of the common deposit insurance. An effective banking union can in any case only be ensured if it involves all EU member states without limitations. In addition, a banking union can never replace the additional measures relating to financial market regulation that continue to be necessary and continue to be sorely missed.

It is regrettable that the reasonable and necessary proposal to create a European "automatic stabiliser" is only considered cautiously and in a longer-term perspective. And even then it is to be linked with the effective implementation of the measures that have been criticised in this statement. But automatic stabilisers would be sensible instruments for preventing a divergence in economic development in the eurozone, thus combating the overheating of economies and creation of bubbles, as well as recessionary phases in other countries.

The vague idea of a "Euro Area Treasury" could also be on the right track, if the approach were designed, for example, to work against counterproductive tax dumping between countries.

In general, the one-sided focus on budget consolidation and, in certain areas,even direct reductions in state spending in the existing structures of fiscal governance, must be abandoned. Scope for expansionary fiscal policies must be reclaimed. The tightening of the Stability and Growth Pact and the introduction of the Fiscal Pact were false moves and should be reversed. As a minimum, elements that promote investment ("golden rule") must be incorporated into the regulations.

It is regrettable that the European Fund for Strategic Investments (EFSI) is only mentioned in the five presidents' report in connection with the automatic stabilisers envisaged in the long-term. The DGB is of the opinion that it is an urgent task to further develop the Juncker-plan for investment. The DGB has submitted a proposal for a Marshall Plan for Europe to tackle the crisis with high levels of investment and to make Europe permanently liveable and sustainable. The politicians must finally implement such a programme. Two per cent of the EU's economic output must be invested to address goals that are of crucial importance to the future of the EU: the European energy transformation, the rehabilitation and development of infrastructure and the creation of good services for the citizens.

Regarding the combating of macroeconomic imbalances, a balanced approach must be used: achieving a reduction in imbalances while maintaining a growth-promoting and prosperity-creating path is only possible if the mechanisms are at least as strongly focused on promoting domestic demand in countries with large current account surpluses as they are on the reduction of deficits in other countries. In countries with low domestic demand and corresponding surpluses in their current accounts, regulatory foundations are required to achieve an above-average increase in wage income, consumer demand and also private and public investment.

The narrow focus on intervening in wage growth, putting pressure on wages and becoming involved in free collective bargaining must fundamentally come to an end. Instead, free collective bargaining, bargaining coverage and the establishment of regional collective agreements need to be strengthened. A coordination of economic policy must contribute to an upward harmonisation of social standards and workers' rights, and must be accompanied by a labour market policy that counteracts a further increase in atypical employment in Europe, because atypical employment is mostly precarious employment in the low-wage sector, which suppresses growth and prosperity.

But it is the social dimension in particular that must be strengthened in the EU. For example, all measures in the European Semester should be subjected to a social impact assessment, the results of which are published and discussed publicly at the national and European levels. All measures and recommendations relating to economic governance must strengthen the European social model and must not nullify or undermine national welfare systems. In order to provide ecoonomic governance with a suitable alignment and to improve the acceptance of the EU among citizens, social indicators, such as income and wealth inequality, the risk of poverty despite working, and social exclusion, must be accorded a far more prominent role in the economic governance evaluation process.

The state financing of individual nation-states may not become the subject of speculation. Insecurity and a disproportionate rises in interest rates must be prevented. The recent unorthodox measures implemented by the ECB have helped to alleviate these problems. However, these measures are not sufficiently binding in nature; they have been qualified by the ECB management itself and attacked from many sides. They cannot continue in this form in the long-term. A sustainable, political solution is therefore still needed to ensure the stability of state financing. Eurobonds - common bonds shared by all euro or EU countries - could provide a remedy for this in certain circumstances. A decision to equip the European Stability Mechanism (ESM) with a banking licence and to entrust it with the task of acting as a lender of last resort for countries could also help.

In addition, a convergence of economic performance resulting from a strengthening and more effective use of the structural funds must be encouraged. Where differences remain, long-term consideration must be given to the possibility of making equalisation payments.

A forward-looking coordination of economic policies must be democratic and must be accompanied by a strengthening of the rights of the European Parliament. A policy that gives the EU Commission bureaucracy new responsibilities and powers of intervention is rejected by the unions, as are "Pacts" and "Treaties" agreed outside the scope of parliament, with which the ordinary European legislative procedures would be circumvented.

The social partners must be fully involved in the processes of economic governance. An improvement in the participation in the European Semester, which allows sufficient time for consultation and participation of the social partners, is also necessary.

The further development and stabilisation of the eurozone requires an intense debate about the role of monetary, fiscal, social and wage policies. The right place for this is the EU's Macroeconomic Dialogue (MED). The DGB is therefore of the opinion that the Macroeconomic Dialogue must be strengthened and deepened within the eurozone. Against this background, a specific MED for the Eurozone (MED EURO) should be created, featuring equal involvement of representatives of the social partners, the European Central Bank, the Eurogroup (incl. the Employment and Social Affairs Minister), the Commission and the Head of the Committee on Economic and Monetary Affairs of the European Parliament. The MED-EURO should be made an integral part of economic governance. Its results and conclusions should be incorporated into the Annual Growth Report, as well as the country specific recommendations and other elements of the European Semester.

4.) Summary

The aim of the five presidents - "to complete Europe's Economic and Monetary Union" - is a good and important goal. However, the measures proposed to achieve this address the wrong areas or are insufficient for achieving the actual goal: to serve both the economic and social interests of the people of Europe.