

position

The logo for the DGB (Confederation of German Trade Unions) is located in the top right corner. It consists of a red parallelogram shape with the letters 'DGB' in white, bold, sans-serif font.

○ Position paper on the Eurozone crisis

A 4-point programme for a change of course in Europe

Imprint

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European integration is currently experiencing the greatest crisis of its history, with the situation in the Eurozone reaching alarming proportions. The OECD is no longer ruling out the possibility of Europe going into deep recession, leading to a breakdown of trade worldwide. Politicians are to a large extent responsible for this escalation. All their attempts at calming the markets and convincing them of the necessity for rescue measures have failed so far. There is a threat of the Eurozone disintegrating due to the thoroughly undemocratic, timid, hesitant and misdirected crisis management.

Instead of removing the underlying causes of the crisis, countries find themselves subjected to rigorous cutbacks hitting wages and social security systems. Public property is being privatised and a question-mark put over social security. High incomes and wealth are not demanded to contribute to a reduction of national debt. The gap between rich and poor is widening further. Labour markets are being deregulated, employment protection relaxed, low wages introduced, free collective bargaining undermined, and the retirement age raised. These cutbacks are depriving the already weakened world economy of substantial purchasing power - when everyone is saving and cutting back expenditures, business turnover and prospects decline. Investment and innovation will not materialise, production declines will be inevitable. As a consequence, an unemployment crisis will be inescapable. Without growth and employment, the very cornerstones of state budgets disappear, with debt continuing to pile up instead of melting away.

For all these reasons, trade unions are pleading for a rapid change in course. The measures taken so far are leading society into a cul-de-sac, promoting poverty, inequality, recession and ultimately higher public debt and political instability. The progress already made in integrating Europe is endangered. European integration is not up for discussion. We therefore call on the German Federal Government in particular to accept the ECB's key role as a lender of last resort and to stop blocking the introduction of Eurobonds. The proposed "Elite" bonds for the six States retaining their AAA ratings would do nothing more than further encourage the movement of capital away from the crisis countries into this AAA group, thereby accelerating Eurozone disintegration.

This would be a *de facto* division of the Eurozone. What Europe needs is not a policy upholding the interests of individual Member States but a truly pan-European perspective. What we want is a common future encompassing all EU Member States. What we want is a fair and prosperous Europe, a democratic Europe free of worries about the future, without poverty, with all citizens benefiting from work, wealth and prosperity.

These are the reasons behind our proposing the following programme for Europe:

1. The ECB as a stability and rescue anchor

What the Eurozone lacks is a stability and rescue anchor, able to calm the markets and provide orientation for all investors. There is no credible institution setting the course and bringing interest levels on government bonds down to a macro-economically acceptable level. In its current form, the European Financial Stability Facility (EFSF) is neither in a position to persuade investors to purchase the government bonds of crisis countries, nor does it have enough financial resources of its own to itself buy such bonds at acceptable conditions - as a purchaser of last resort. The only institution in a position to credibly exercise such a role and provide orientation for the markets is the European Central Bank. The bank is and remains the core of any sensible solution to the current current crisis. In any developed economy, the central bank is and remains the sole credible lender of last resort. It is the only institution able to buy up unlimited amounts of government bonds. It is the only institution able to provide the markets with orientation. It is the only institution able to credibly exclude the risk of a default when buying government bonds. This is why the ECB must adopt the role of lender of last resort, not only *vis-à-vis* banks but also *vis-à-vis* States, at the same time making sure that adequate liquidity is available.

Currently, the ECB's statutes prohibit it from directly purchasing government bonds, meaning that at present the ECB cannot adopt the role of lender of last resort. We therefore suggest that the EFSF be granted a banking licence, enabling it to refinance itself at the ECB just like any other commercial bank. This would allow the EFSF to expand its credit capacity without limits, in turn allowing it to buy up unlimited amounts of government bonds at favourable conditions.

As a way of actively encouraging deeply unsettled investors to buy government bonds, the EFSF should also be developed to act as a credit default insurance. The EFSF would announce that it would be offering all investors a free credit default insurance if they bought government bonds at the interest rate set by the EFSF. The EFSF would offer investors a free-of-charge 100 % guarantee against them having to accept a politically dictated lower rate of interest. The EFSF interest rate would be the maximum rate of interest for all Eurozone government bonds and also the price of the respective credit default insurance.

With such a twin role of the EFSF - as a bank and credit default insurance - in place, the risk of a crisis country going bankrupt and defaulting on its debt would be virtually reduced to zero. The threat of a collapse of the banking system would be averted.

The monetary stabilisation of the Eurozone would restore confidence in politicians' capability to act, thereby restoring overall confidence. This in turn would promote growth and employment, laying the economic foundations for solid budgetary policy especially in the crisis countries.

2. Agreement on a fair fiscal policy promoting economic stability and a fair income distribution

As a necessary supplement for ensuring the refinancing of government debt we need a more intensive and binding coordination of national fiscal policies. For this purpose Member States would have to commit to a budget consolidation which promotes economic stability and a fair income distribution over the business cycle. A specific focus would have to be on increasing tax revenue. Raising taxes on high incomes and wealth plays a major role here. Rightly, tax revenues, rather than debt, should be the source of government financing during phases of strong and stable economic activity. Countries must be prohibited from using tax dumping as a policy for increasing their own competitiveness at the expense of other countries. In line with the principle "the stronger the shoulders, the more they must contribute to the common good", the tax system must support a fair distribution of income and wealth. "One man's debt is another man's wealth" - the sharp rise in large personal

fortunes is one of the drivers of high government debt. What we need in the future is a long-term reduction in income and wealth disparities. We therefore need to consider introducing substantial taxes on large personal fortunes throughout Europe to achieve a substantial reduction of national government debt in a socially acceptable manner.

3. A comprehensive programme for the future, a "New Deal" for Europe

The crisis in the Eurozone is not just a crisis of public finance. It is also an economic crisis, with the crisis countries either in a depression or at best experiencing stagnation. Even countries with - as yet - stable budgets are heading towards recession.

Europe, and the crisis countries in particular, do not need just a fiscal union, but also a comprehensive pan-European "New Deal", helping them to grow their way out of the present crisis. Such a New Deal must be a long-term programme, facilitating investment in sustainable industries and services, promoting education and ecological modernisation, and, above all, focusing on removing the development backlog in Europe's peripheral regions. The latter is needed to counteract growing unemployment - and youth unemployment in particular. The programme would be a core instrument in reducing the economic disparities between the Member States, in turn supporting the reduction of foreign trade imbalances. At the same time, surplus countries - and Germany in particular - need to give a major boost to domestic demand through raising mass income and increasing public investment and employment.

This programme for Europe's future contains elements of a stimulus programme, a modernisation initiative and a Marshall Plan for the crisis-ridden countries, along with active policies to promote employment, education as well as crafts and trades. Europe's future must be shaped in a joint effort of all Member States working together for the common European good. Priority must be given to investments in the improvement of the energy efficiency of buildings, in renewable energy sources, in energy-saving machinery and equipment, and in pan-European infrastructure projects, as well as to modern environmentally-friendly mobility concepts. Similarly, extensive social services,

greater investment in kindergartens, schools, universities and research institutes as well as integration projects need to be included in the list of tasks for a better future. The quality of education must be increased throughout Europe. At present, too many young people are dropping out of school, too many are low-qualified and not enough have a university degree. Life-long learning must be seen as a concept for preventing and overcoming crises. In this way, millions of new, meaningful and innovative jobs can be created. To achieve it, we need to tap new financial sources.

Europe is rich and poor at the same time. In 2010, some EUR 27 trillion were the subject of wealth management. This vast amount of wealth must be seen in the light of an increasing number of private households and government budgets suffering from a chronic lack of funding. At the same time as tax cuts were ruining public budgets, private fortunes were growing. While political support for the low-wage sector was endangering the livelihoods of large numbers of workers, dragging them down to the poverty line in spite of being in work, business models building on rock-bottom wages were flourishing. This must change. We need to combat low wages also on the political front and, increasing taxes, reduce the enormous disparities in wealth distribution to a macro-economically acceptable level in the long term. This will lead to an overall mitigation of the euro area countries' financial problems, and greatly help to reduce the euro area countries' high debt caused by the financial and economic crisis.

Moreover we would like to activate these fortunes in the interest of the people, the environment and the future of the real economy. We want to create a New Deal. And we want to finance this ambitious New Deal through issuing European "New Deal bonds". These would be placed on the European capital market by the already existing European Investment Bank. The thus acquired capital would then be paid into a new "European Future Fund" specifically established for this purpose. As security for these New Deal bonds, the Fund, as a borrower, would need its own equity.

The DGB is proposing two models for financing own equity of the European Future Fund:

1. The Fund's own equity would not be financed out of tax revenue, but by a one-off interest-free loan from the rich. Every rich citizen with assets of more than EUR 500,000 (single persons) / EUR 1 million (married couples) would provide the Fund with an interest-free 10-year loan amounting to 3 percent of his total wealth. In doing so, the wealthy would make a 3-digit billion euro amount available to the common European good at little cost. The wealthy would thus provide a long-overdue contribution to overcoming the crisis and helping Europe to grow.

The Fund's equity would be administered by the European Investment Bank and used solely as collateral for New Deal bonds, thereby guaranteeing the solvency of the European Future Fund and giving the New Deal bonds a top rating, in turn allowing such bonds to be issued at a low rate of interest. The equity would be safely invested at the ECB. At the end of the 10-year period the interest-free loan would be repaid to the lenders. Alternatively, lenders could opt to waive repayment, being then able to deduct their "donations to the future of Europe" from their taxable income. In the course of the 10-year period, the Fund would build a stable stock of capital from current income and interest payments from the ECB, allowing it to operate as a top-rated borrower in the market even after the initial 10 years are over.

2. The Fund's own equity would be financed not out of tax revenue but by a one-off levy on wealth. This levy would be set at 3 percent of all fortunes exceeding EUR 500,000 (single persons) / EUR 1 million (married). In doing so, the wealthy would make a 3 digit billion euro amount available to the common European good at little cost. The wealthy would thus provide a long-overdue contribution to overcoming the crisis and helping Europe to grow.

The Fund's equity would be administered by the European Investment Bank and used solely as collateral for New Deal bonds, thereby guaranteeing the solvency of the European Future Fund and giving the New Deal bonds a top rating, in turn allowing such bonds to be issued at a low rate of interest. The equity would be safely invested at the ECB.

Interest payments for the New Deal bonds could be paid out of the increased tax revenue generated in the Member States through higher growth, complemented by new tax sources such as a tax on financial transactions. The latter alone would yield at least EUR 50 billion.

Such a New Deal as described above requires all stakeholders, whether in society, politics or business, to completely change their way of thinking. Member States would undertake not to attempt to improve their competitiveness vis-à-vis other Member States through any form of dumping, whether regarding taxes, wages, social security or environmental standards. What must be prevented at all costs is a race to the bottom, as this would hit both citizens and companies in all EU Member States. This is why tax regimes need to be gradually harmonised with a fairer base, low-wage sectors dried up, social security systems strengthened and European economies directed towards greater environmental sustainability.

4. Effective regulation of financial markets

European financial markets need to be effectively regulated, macroeconomically harmful transactions and products need to be curbed. Though the long-term consolidation of state budgets will reduce the danger of a banking crisis, we still need to tackle the problem of the chronic under-capitalisation of European banks in the medium term, allowing them in future to cover any losses out of their own equity.

To achieve this, all financial institutions active on the capital markets (banks, investment funds and insurance companies) need to adhere to standardised minimum regulatory requirements and capital ratios, thereby shutting loopholes and preventing the emergence of shadow banking systems. To protect the common good, sectors such as insurance need to be subjected to increased and stricter regulation. System-relevant banks and financial institutions need to be gradually dismantled, thereby preventing the bankruptcy of a single financial institution pulling down a whole economy. Capital requirements for investment banking need to be raised sharply and the investment banking needs to be separated from commercial banking. Banks should be made to return to their original role as a lender for the real

economy, acting as a bridge between citizens' savings and company investment. Therefore, risky financial transactions must be substantially reduced and proprietary trading by banks with their own financial products prohibited. The state must protect society from complex and macroeconomically harmful financial products. To achieve this, an agency needs to be established as part of the European System of Financial Supervisors (ESFS), responsible for reviewing new financial products with regard to their economic benefit - at the expense of the issuing institution – before their approval (or possible banning). Highly complex and intransparent products not even understood by the issuing institution need to be generally banned.

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