

Ways out of the Debt Crisis



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FOREWORD

The crisis countries, particularly those in southern Europe, find themselves exposed to a worrying downward spiral. Growing public debt calls for cuts in social security and in the labour market; rising unemployment results in a decrease in purchasing power and a reduction in the state's tax revenue.

How can this development be turned around? Are there alternatives to cut-backs in the social area? What short-term and long-term approaches to solving the crisis can be developed to overcome it? How can workers' organisations in Europe play a part in this, and what concrete possibilities for action do they have to improve the situation of workers?

These and other questions were the focus of projects co-ordinated and carried out by EZA in the 2012 fiscal year on "The impact of public debt on social security and the labour market". The issues addressed were based on the Final Report and the Recommendations for Action from the EZA Financial Crisis Project from 2009/2010. At that time we were particularly concerned to develop our proposals for solutions to the crisis on the basis of Christian social values.

My special thanks go to Michael Schwarz, who was in charge of co-ordinating the projects, evaluated the results and drew up the Final Report published here, as well as the member organisations involved. I would also like to thank my colleague Matthias Homey, who co-ordinated activities from the EZA Office. The European Commission's Directorate-General for Employment, Social Affairs and Inclusion assisted with the content and funded our activities.

Our aim with the results and recommendations for action in this brochure is to give workers' organisations and their multipliers suggestions for their

daily work; we would be delighted to receive ideas and comments on these issues that are of importance to all workers. Our contact details can be found on the back of the brochure.

Roswitha Gottbehüt
Secretary-General EZA

1 INTRODUCTION

The boom of the new financial economy that lasted from 1990 to about 2005, triggered off primarily by the deregulation of the banking sector in the USA and by financial and technological innovations, resulted in a serious miscalculation of the stability of capital markets. The consequences were the collapse of the US real estate market, the bankruptcy of mortgage providers and investment funds, the actual bankruptcy of the US investment bank Bear Stearns, which could only be prevented by a takeover, and the bankruptcy of the New Yorker investment bank Lehman Brothers in 2008. In the two years that followed this led to a global economic crisis that started in the USA, with the worst recession in post-war years that forced governments and central banks to bail out the banks at risk with public sector loans under favourable terms in order to prevent the economy collapsing.

The consequences of the financial, economic and employment crisis, in particular the extremely costly bank bail-out, caused a debt crisis in the EU 27 and in the eurozone that started in late 2009, in the course of which rescue packages costing billions have been adopted and which has become a threat to the entire system of the European Monetary Union. The main features of the situation in the countries with the biggest debts are high unemployment rates, decreasing tax revenues, refinancing problems on the capital markets and the implementation of cutback and consolidation programmes. The resultant cutbacks in the social security systems for the growing number of workers in precarious employment and out of work are proving increasingly problematical.

Despite all the rescue packages, despite the establishment of a European rescue fund with a total volume of 750 billion euros and despite the creation of a special-purpose entity, the European Financial Market Stabilization

Facility (EFSF)¹, which is supposed to have 440 billion euros in available funds and is to be superseded from 2013 by a permanent European Stability Mechanism (ESM)² with nominal capital of 700 billion euros and a maximum credit capacity of 500 billion euros, the structural problems causing the crisis are still there. Only the shift in policy of the European Central Bank (ECB) towards buying up the European crisis states' government bonds – provided those states resort to the ESM and meet the associated cutback conditions – reduces these states' problems with regard to borrowing caused by the downgrading of their credit ranking. In addition, the ECB's decision has a stabilizing effect on the EFSF and ESM, particularly in the context of the latest downgrading of the credit status of the euro rescue package.³ Despite the implementation of these measures, so far it has not been possible to put a complete stop to speculation against heavily indebted states.

The latest example of this development is Cyprus.

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- 1 The EFSF is a provisional stabilisation mechanism set up in May 2010 that is to cease in June 2013. Until June 2013, it will continue to operate in tandem with the European Stability Mechanism (ESM), which is planned to succeed it. The EFSF is a special-purpose entity that takes on loans from the capital market for which the member states of the eurozone are jointly liable with eurozone shares of varying size. The share is determined by the amount of the states' capital share in the European Central Bank, which in turn is worked out by the size of the population and the gross domestic product of the member states in equal measure.
 - 2 The ESM is being set up as an international financial institution based in Luxembourg as soon as the ESM Treaty has been ratified by as many euro member states that together subscribe to at least 90% of the nominal capital of 700 billion euros (80 billion paid in and a guarantee volume of 620 billion) initially planned. From mid-2012, this institution is to secure the solvency of the states in the eurozone. Insolvent members states of the eurozone are to be given financial assistance with loans from the Community of the euro states, provided they comply with economic policy conditions (Article 13 of the ESM Treaty), with other member states of the European Union having the option of signing up to the treaty (Article 44). One aim of the ESM is to close the real economy gap between countries with a low productivity standard and those with a high one by a redistribution of capital.
 - 3 The US rating agency Moody's withdrew the best credit ranking from the European rescue package ESM on 31.11.2012. Justifying the downgrading by one level, the agency pointed chiefly to the economic problems of France, one of the major backers of the ESM. The agency downgraded the ESM from the best score AAA to AA1. It also gave the prospects for the rescue package a negative rating – this means that the rating agency could reduce the score again in the medium term. And the ESM's predecessor, the EFSF, was also "temporarily" downgraded from the best score AAA to AA1.

1.1 Objectives for workers' organisations

Given previous experience with European crisis management and the consolidation and austerity measures implemented, it is the duty and task of workers' organisations in the EU 27 to champion quality growth and quality employment, in order to lay a sustainable foundation for stable tax revenues and a consolidation of public budgets appropriate to the economic situation whilst considering national priorities. Only this objective combined with labour market reforms and investments in future-oriented sectors to create competitive products (e.g. ecotourism in Spain; solar energy in Greece; high-quality manufacture of high-quality food in Portugal) and the development of a specialisation can show a way out of the crisis in the long term and at the same time help intensify European integration. At the same time workers' organisations throughout Europe must stress that the crisis can only be overcome successfully by solidarity between the EU member states, and the reform fatigue in the crisis states as well as support fatigue in the surplus states must be overcome. If this fails, in the long run the crisis states will be trapped in a downward spiral of rising debt and increasing unemployment, which will have a negative impact on the other member states. Workers' organisations should also draw attention to the fact that the crisis states are not solely responsible for the situation in their countries.

For these reasons, in the 2012 budget year projects were coordinated on issues relating to the debt crisis, taking into consideration the recommendations for action produced by the EZA Financial Crisis Project 2009/2010. Five member centres were involved. The aim of the project coordination was, whilst taking national circumstances into account, to identify short-term and long-term problem-solving approaches for workers' organisations to overcome the debt crisis and point up concrete possibilities of action to improve the situation of workers.

1.2 The seminars' questions and objectives

Five member centres from four EU member states were involved in the coordination and sought answers to the following question:

The Conference of Experts organised by [HIVA](#), the University of Leuven's Research Institute for Work and Society, which took place in Leuven on 29.03.2012 with the title **"The European social policy in relation to the financial crisis – money, ethics and Europe's future"**, aimed to discuss ethical, social, financial and economic questions and correlations as well as to come up with possible answers. The issues focused on were the development of the social security systems, the structural reasons for the financial crisis, the developments of the fiscal crisis and the role of the banking system.

"The challenges facing social protection in the EU" was the theme of the seminar organised by [USO - CCFAS](#) (Trade Union Confederation of Workers – Federal Centre for Training and Social Work) in Madrid from 11 to 14 June 2012. The focuses here were on the different realities of the European social protection systems, the cutback policy of the EU and the member states, and the question of what the role of the social organisations should be in the fight for the welfare state. They also discussed how a joint, coordinated strategy could be developed to defend social and labour rights.

The impact of the debt crisis, the structural flaws of the EU, regulation of the financial and banking sector, the implementation of a radical tax reform and the question of overcoming the crisis in the long term were discussed at the 24th KGZE (Conference on Trade Union Cooperation in Europe), held in Brno from 21 - 24 June 2012 on the subject of **"Europe and the debt crisis – How are the social systems and the labour market affected by sovereign debts and how can a new tax system recreate political tolerance?"**

The seminar run by [KAP](#), the Czech movement Christ and Work o.s. ČR and the Christian Institute in Ostrava o.s. ČR, in Velehrad from 5 - 7 October 2012 on the subject of **“The effects of sovereign debt on social security and the labour market”** addressed the following questions and issues: What are the causes and consequences of the huge public sector debts and what experiences are there? What are the consequences of the global financial and economic crisis not only in the financial sector? How can the debt trap be overcome? What possibilities do alternative economic models offer? What role does moral action have in present-day life and the corporate world?

“The consequences of the national debt crisis on workers in Europe” was the issue addressed by the working group organised by [CST](#) (Social Centre for Workers) in conjunction with [USO – CCFAS](#) (Trade Union Confederation of Workers – Federal Centre for Training and Social Work) in Madrid from 15 - 17 February 2013. The working group looked at the situation of European workers and their attitude to the debt crisis, discussed the impact of public sector debt on workers in the EU and the impact of the crisis on consumption, and evaluated active employment policies to stabilize employment.

1.3 Method

The aim of this publication is to edit by subject the results and conclusions of the seminars grouped together in the project coordination on the debt crisis and to present in a structured way causes relevant to the crisis as well as short-term and long-term problem-solving approaches from the viewpoint of workers' organisations.

Besides the seminars' content and results, this publication also includes relevant studies carried out by the [European Trade Union Institute \(ETUI\)](#) and

the [German Confederation of Trade Unions \(DGB\)](#) as well as European Commission key documents such as the *“Employment Pact”* and the *“Blueprint for a Deep and Genuine Economic and Monetary Union”*.

2 THE CAUSES AND CONSEQUENCES OF THE DEBT CRISIS

2.1 The ethical dimension of the crisis as a starting point

The discussion of ethical and social standards that took place during the Czech **KAP** seminar is highly relevant to the reorganisation in the relationship between European social and fiscal policy and crisis policy for future coexistence in Europe. When we shed light on the reasons for the crisis it becomes clear that an ethical dimension is part and parcel of political and economic causes or wrong decisions respectively. Hence the current crisis is at the same time a social crisis of our age that provides the opportunity for an ethical and moral reorientation and rethink towards responsible and moral social action. From an ethical perspective the crisis puts in question the legitimacy of the economic system - whose main features are the focus on short-term profit, irresponsible behaviour on the part of management, and a neoliberal ideology - and at the same time underscores the importance of political supervision of the economic and financial system.

However, political attempts to achieve stricter regulation of the financial system are being undermined in the USA and Europe by huge efforts on the part of the finance lobby or stymied by the employment of former investment bankers in various governments' key positions.

In an ethical respect, the present crisis can also be explained by a change in the concept of humanity. This is due to the development of politically acting man into economically rationally acting, egoistic man. In this context there is also the development towards a loan-financed pattern of consumption on the part of many people resulting in a legacy of debt for future generations and clearly opposing the common good. It is the core duty of a state to protect the common good - in political, legal and moral terms - and to enable

citizens to lead a decent life by means of a social constitution. Ethical action can help overcome the social crisis, but the precondition for this is political involvement and the assumption of civic responsibility in private and public life.

2.2 Structural reasons for the eurozone crisis

In the eurozone crisis states, the austerity measures have had severe social consequences. The national governments' limited scope for action and the cutbacks imposed by the [International Monetary Fund \(IMF\)](#), the [European Central Bank \(ECB\)](#) and the European Commission have induced large sections of the population to lose all confidence in their own opportunities to exert political influence and all trust in their governments. This has also been made clear by the fact that in Greece, Ireland and Portugal, which were no longer able to meet their payment commitments arising from their debt on their own, and in Spain and Italy, which have had serious problems obtaining new loans on the capital markets, there have been changes of government as a result of early elections and the formation of transition governments comprising economic experts.⁴ The structural causes described below were mentioned and discussed during the **24th KGZE**.

In political terms, European integration has been advanced since the Maastricht Treaty by the completion of the internal market. When the euro was introduced, competition between the eurozone states came to the fore. At first political governance and shaping the integration process played a minor role. That is why the political regulation of the markets, the creation

⁴ In Ireland, Portugal and Spain early elections brought changes in government, and in Italy and Greece there were transitional governments. In Italy there were early elections after the pre-term resignation of the independent Prime Minister Mario Monti in February 2013. There was an electoral victory for a centre-left coalition in the lower house, but none of the parties or coalitions achieved a majority in the upper house, necessitating possible new elections.

of central European institutions in economic, tax and fiscal policy along with a centralised banking system within the eurozone are urgently required to put a stop to tax, wage and social dumping in the European internal market in the long run. The harmonisation of living conditions was at first left to the integration power of the internal market and not set in motion in tandem by financial compensation mechanisms or a solidarity surcharge. Market forces were encouraged by the creation of standardized conditions of competition and by compliance with the convergence criteria. So to date the euro system has had no political instrument for dealing with differences of social and economic development.

In economic terms, the euro has suffered from huge discrepancies in trade balances since it was introduced⁵, as the economic efficiency of the euro states varies considerably. The introduction of the euro and the abolition of currency restrictions increased demand for high-quality imported goods. The incentive to export more goods to acquire foreign currency and to reinvest the profit achieved in national development declined in the deficit countries, with a resultant increase in trade balance deficits. This development was boosted by no exchange rate adjustments being made, so the currencies of the surplus countries went into the euro undervalued (less purchasing power) and the currencies of the deficit countries went in overvalued (more purchasing power). The low interest rates in the eurozone induced excessive borrowing and this in turn created an artificial economic boom. Another consequence was that wages in the deficit countries rose faster than productivity, resulting in an increase in unit labour costs and producing a competitive disadvantage. At the same time the politically driven expansion of the German low-wage sector and the small rise in wages led to a decrease in purchasing power and an increase in exports.

5 Imbalance between the revenue from exports and expenditure on imports. The 17 euro states all have different trade balances and balances of payments. There is no standardised recording of key macro-economic indicators. Trade balance deficits are financed primarily by indebtedness abroad.

In monetary terms, the focusing on preserving price stability through a fictitious average rate of inflation in the euro states of about 2 percent did no country any favours. In the crisis countries with higher rates of inflation, this accelerated growth, investments and levels of debt; in countries with lower inflation, it strangled growth, investments and employment. One of the main problems of the crisis, the difficulty in refinancing various euro states on the capital markets, was partly alleviated by the ECB's commitment to buying up government bonds of EU states weakened by the crisis.

2.3 The Fiscal Pact and the consequences for workers

The Fiscal Pact, which was discussed during the **HIVA, KAP, CST and USO** seminars, provides for the Europe-wide introduction of debt caps and a rule for reducing existing sovereign debts, and makes it obligatory for every EU member state to enshrine in the constitution a radical ban on borrowing, with it being possible to prosecute before the European Court of Justice if it is not introduced. From 1 March 2013, the ratification of the Fiscal Pact is the precondition for resorting to the future ESM rescue package.

The fear is that the ratification of the Fiscal Pact will force unsocial austerity measures, and the cutbacks will have a negative impact on social and economic development, particularly in the crisis states.

The Fiscal Pact only allows for public expenditure if no new borrowing is necessary. In future, tax revenues are to determine the amount of expenditure. If tax revenues fall because of economic fluctuations or a continuing recession, public spending will have to be reduced and adjusted to revenues. Structural new borrowing is to be reduced to 0.5 per cent of GDP and total debt to 60 per cent of GDP. The Fiscal Pact thus provides for lower debt levels relative to GDP and has a procyclical effect. Although the decrease in GDP due to the recession causes the ratio of debt to GDP (debt ratio) to rise

automatically, the debt reduction rule forces the states to make cutbacks. Breaches of these regulations will be sanctioned. The Fiscal Pact likewise forbids debt-financed (credit-financed) public investments. The consequence of this is that it will scarcely be possible for government bonds to be issued, leaving investors to switch to riskier forms of investment.

The budget consolidation under Article 3 paragraph 1 of the Fiscal Pact will be achieved first and foremost by cutbacks in spending and not by generating new sources of income such as higher taxes on profits, wealth and financial transactions. The rapid reduction of budget deficits and debt will result in tax revenues having to be used directly to repay debt instead of being invested for the future. States with large deficits are obliged to impose a “budgetary and economic partnership programme” with structural reforms to reduce deficits, subject to approval by the Council and Commission. Whether this produces long-term debt reduction is doubtful, because unilateral cutbacks in spending reduce economic productivity and domestic consumption, which can result in lower GDP and inadequate tax revenues, thus increasing the debt ratio.

In all probability, the Fiscal Pact will lead to cutbacks throughout Europe in public sector spending, especially on education and research, consumer protection, environmental and social protection and in public services of general interest, with the socially disadvantaged suffering the most. If the crisis states want to make use of the fund’s instruments they will have to abide by the stipulations of the Stability and Growth Pact.

3 SHORT-TERM PROBLEM-SOLVING APPROACHES AND MEASURES

3.1 Avoiding future debt crises

According to **USO and CST**, the austerity measures implemented in the crisis states of the eurozone, especially the stringent cuts in wages and social benefits, have contributed to the increase in poverty and inequality in Spain in particular, deepened the recession and increased political instability, and represent a threat to the steps towards integration already taken.

That is why the eurozone needs a reliable institution that lowers the interest rates for government bonds to an economically tolerable level. The only institution that can fill this vacuum and by which the markets are guided is the ECB. As the only lender it can buy up government bonds without limitation, credibly rule out the default risk in the acquisition of government bonds, and so secure the refinancing of public debt. For this reason, the **ECB's decision** to buy up government bonds of countries in crisis to an unlimited amount on the capital market, provided they resort to the ESM euro rescue fund and submit to the associated austerity conditions and/or eliminate structural imbalances and to a reform of the financial sector, is of key importance for the indebted states, especially with regard to their refinancing on the capital markets.

Yet according to the **KAP** seminar, countries with their own central bank have few problems obtaining fresh money. It is only the eurozone states that have massive refinancing problems, as there is no correspondence between democratically decided economic and fiscal policy on the one hand and monetary policy on the other. So in the long term the ECB must be developed into a genuine central bank like, say, the Bank of England or the Bank of Japan, whose first duty is to finance the public sector.⁶

According to the European Commission's proposal in its "*Blueprint for a Deep and Genuine Economic and Monetary Union*", the introduction of **European government bonds** (eurobonds) could enable the member states to finance part of their public debt. This would require a base of 40 to 60 percent of the particular country's GDP. It would not be permissible to finance debts in excess of 60 percent of GDP. The security of the investment and the euro-zone states' joint liability could guarantee low refinancing costs. For debts in excess of the 60-percent-of-BIP mark national securities would have to be issued, whose liabilities would be serviced only with second priority to the eurobonds and whose refinancing costs would be greater. This could achieve greater budgetary discipline and prevent insolvency due to changing market conditions. At the same time, the euro countries should declare their readiness to assume reciprocal liability for their government bonds.

In the view of the workers' organisations involved in the coordinated projects, what is required is an **EU insolvency procedure** for restructuring debt to enable countries that can no longer service their debts because of poor budgetary policy or tough economic circumstances to still have as ultima ratio the opportunity to reduce their indebtedness and return to economic growth. Assistance loans and extended terms of credit are unsuitable in the long term for liberating a country from real overindebtedness, and the social and political costs incurred by national bankruptcy are manifestly higher. An orderly insolvency procedure is therefore preferable to disorderly national bankruptcy, entailing more protracted uncertainty for creditors and the state, and at the same time would send out a stabilizing signal to the market players. Regulation of the financial markets could institutionalise the establishment of an EU insolvency procedure.

6 cf. Wolf-Gero Reichert: Von der Finanz- zur Demokratiekrisis. The European experiment of a single currency without a central bank in the real sense has failed. EZA conference: "The impact of the debt crisis on social security and the labour market", Velehrad/the Czech Republic, 6 October 2012, p. 7.

The interdependence of the dynamics of growth and debt make the crisis states' efforts to consolidate contingent upon the economic policies of the other eurozone states. Greater demand from the other eurozone countries would increase exports from the crisis states and raise growth rates. At the same time a wage rise in the non-crisis states would improve the competitiveness of the crisis states without huge wage cuts. In this way a **cooperative economic policy** of the other eurozone states (with export surpluses) could make a huge contribution to overcoming the crisis. Regulation of trade balance deficits and surpluses in the Fiscal Pact could achieve a better balance between level of wages and economic growth, thus also increasing domestic demand in the surplus states. In this context, the economist Josef Stiglitz proposes the introduction of a tax on a country's surpluses in order to stimulate these countries' imports and fund financial aid for crisis states. In addition the debt cap would also have to be extended to the private sector, as many states have incurred debt through converting private debt into public debt (e.g. bailing out banks).

3.2 Reform of the banking and financial system

When the crisis began, some progress was made at the G20 summits in London, Pittsburgh and Seoul. This included implementing the Basel III norms for banks – stipulations for higher equity capital levels, the introduction of a debt limit and the maintenance of sufficient liquidity for cash drains over a period of one month –, setting up the **European Systemic Risk Board (ESRB)** to monitor the financial system within the EU, and introducing a right to claim back bonuses in the event of poor performance on the management level. Besides the recommendations for action produced by the EZA Financial Crisis Project 2009 / 2010, the following proposals for reform are indispensable for the banking and financial system, according to the conclusion of the **24th KGZE**:

Financial market supervision and crisis management in the banking sector:

Supervisory bodies at European level must be furnished with powers that enable them to wind up failed financial institutions. To minimise the impact of bank failures on the taxpayers, in future banks should pay into a European or national rescue fund. In addition they must present to the supervisory bodies a bail-out plan in the event of an emergency. The national supervisory bodies are given extensive powers to intervene in the business of banks in crisis, can demand that the banks put their recovery plans into action and call in a special administrator. In the event of bank failures, smaller institutes should be closed and major banks split up and reorganised with monies from the rescue fund (insolvency law). In addition, from 2018 in the event of a crisis a bank's shareholders and creditors should contribute to the bail-out costs in accordance with stipulated rules. In particular, in the long term international and globally operating regulatory bodies should be set up with sufficient legitimacy, power and resources to be able to prevent another global crisis in the future.

Regulating existing loopholes: The derivative markets (financial futures transactions), hedge funds and off-exchange equity capital companies must be subject to a public monitoring body and all products must be traded on organised stock exchanges. International efforts must be made to regulate tax havens and financial centres that take advantage of exchange rate differences. At the same time, the equity capital ratios for banks implemented in the framework of Basel 3 must also apply to insurance companies and to a greater extent to investment funds. It would also be useful to create a public licensing body for financial products at the ESRB, which would scrutinise their macroeconomic benefit and prohibit their licensing where appropriate.

Democratising and diversifying the financial sector: The private customer business and the deposit business must be separated from the risky investment business, and risk management must be improved by democratising

the governing boards. At the same time, system-relevant banks and financial institutes should be successively reduced in size or split up so that the insolvency of individual financial institutes does not result in the collapse of entire national economies – as was the case in Spain, for instance. In the long term, the financial sector must repay the money used to overcome the crisis.

Fair taxation: Tax reform is of key importance to budget consolidation, in particular combating tax evasion and introducing a tax on financial transactions that generates extra income and reduces the speed of speculation.

3.3 Fair taxation and an equitable fiscal policy

What is needed to refinance public sector debt is greater coordination of national fiscal policies, especially through a tax policy that contributes to equitable budget consolidation appropriate to the economic situation. Tax revenues are the core element of public financing, and at the same time it is the duty of tax systems to support a fair distribution of income and wealth. The stark increase in great wealth correlates diametrically with the increase in debt - in particular massive public sector debt. In this scenario, a tax system based on solidarity must combat tax evasion effectively and close potential tax loopholes. That is why there must be a study on a European level of what tax measures are necessary to reduce public debt in the long term and in a socially fair way. As today's public sector debt is tomorrow's taxes, it is ultimately a political question who, when and how debts are to be paid: that was the opinion of the delegates at the **24th KGZE**.

To reduce debt, the German Institute for Economic Research (DIW) proposes imposing a one-off levy on very wealthy people and those with a large income to be repaid successively. According to the DIW study, the levy would

apply to everyone with individual assets⁷ of at least 250,000 euros, i.e. the richest 8 per cent of the German population. The duties would come from monetary, business and property assets. A levy of 10 per cent for instance could mobilise about 9 per cent of gross domestic product – about 230 billion euros. In this way considerable revenues could also be achieved in the crisis countries of the eurozone.

3.4 Strengthening self-responsibility in the crisis states

Reforming the uncompetitive economy in the crisis states and developing a specialisation are vital to the recovery of these states. This specialisation can be developed by creating new, high-quality, competitive products such as high-quality foods as well as by investing in sustainable tourism or renewable energies.

The example of Greece demonstrates that the dictating of reforms by the troika⁸ has not yet produced the desired success, which is hardly surprising given experiences with this approach in development aid cooperation and in the transformation of the Eastern European States. Dictating reforms from outside is doomed to fail if the society concerned views the intervention as punitive measures imposed by other states. The aim must therefore be to develop and put into effect self-elaborated macroeconomic concepts and strategies to increase the competitiveness of companies. From a develop-

7 In Germany 75 percent of the wealth is in the hands of the richest 10 percent of the population. In the past 15 years high incomes and wealth have been taxed less and consumption tax has increased. At the same time, only high incomes have gone up and wealth has increased, whereas mass incomes have stagnated and low wages have fallen.

8 The troika consists of the IMF, the European Commission and the ECB. Despite the Greek haircut of 100 billion euros, the troika's proposals, limited to job cuts in public service, comprehensive privatisation measures and cutbacks in pensions, salaries and insurance benefits, fall short of the mark.

ment policy viewpoint, a new economic concept for Greece and the other states in crisis must be self-developed and implemented to herald in structural change.

The Greeks must themselves tackle the question of why since 1981 their country has failed to offer competitive products and services. One reason is the fact that up until 2001 the Exchange Rate Mechanism allowed Greece to offset a lack of competitiveness with a devaluation of its currency and so was not forced to ask itself why its own products and services were not competitive enough in themselves. A wide public debate about medium-term economic development is therefore of pressing necessity. A key role in this will have to be played by the **commitment of local political, economic and societal forces.**

One possible approach would for instance be to set up “modernisation zones”⁹ on a local level. These zones would feature tax exemptions and targeted assistance in reforms and modernisation projects. This would also include an administrative territorial reform to ensure tax collection, legal certainty and the combating of corruption, and assistance with investment planning in education and infrastructure development. Moreover, the local authorities would also give advice on applying for structural funding and for development bank loans, and would have to explain their requirements for staff and experts. The local political leaders would be responsible for implementing the project. New companies could be helped with contacting potential investors, or people could be encouraged to set up cooperatives.¹⁰

9 Daniela Schwarzer: Neuer Anlauf in und für Griechenland, in SWP-Aktuell No. 15 / 2012.

10 c.f. *ibid.*

3.5 The potential of cooperatives

At the **ÖZA and KAP** events, the debate on alternative models of economy or entrepreneurship, besides the ecosocial market economy, also focused on the cooperative model and its potential. Since the start of the financial crisis, start-ups organised as cooperatives and jointly run have flourished. The United Nations made 2012 the International Year of Cooperatives and are calling on every member state to give greater encouragement to these economic associations. Cooperatives are bound to give economic assistance to their members.¹¹

In questions of securing social prosperity, in terms of the state's ability to act and the social security systems' ability to function, cooperatives can open up new prospects that should also be given greater consideration by workers' organisations. Especially in the crisis states with high youth unemployment figures, they can open up prospects for young people and make it easier for them to start up a business.

11 The members of a co-operative are both owners and customers. The focus is therefore on co-operative funding and not the payment of a return. Decisions on whether returns are paid out or monies set aside to reserves are taken at the members' General Meeting. At the General Meeting, each member has only one vote, regardless of his/her capital investment, and each member is liable only with his co-operative share. Regular auditing by a statutory auditing association protects the business associates and members from financial loss and advises them on business management, legal and tax matters. The aim is to give the members a long-term economic benefit through joint entrepreneurship. The regional organisation and anchoring of co-operatives follows the sustainability concept of handing down to the next generation, because the focus is not on short-term participation followed by abdication of responsibility but on the permanent pursuit of a project.

4 LONG-TERM MEASURES

4.1 The introduction of dual training structures¹² on a European level

In many European states, particularly in those with high unemployment among young people, there is an increasing discrepancy evident between learning and training content on the one hand and the requirements and qualifications in the job markets on the other, as confirmed by the seminars run by the Spanish member centres **USO and CST**. This gap could be partially reduced by developing dual structures appropriate to the national circumstances. The advantages of a dual vocational training system are that the practical part of the training takes place in the companies and not in apprentice workshops, that the states save costs by the payment/training being in the companies, that the training content is coordinated and complementary, that close links can be established between school and firm, that it is possible to apply material from lessons immediately in the company, that the routine in the company is not seriously disrupted by the school attendance, that the pupils' motivation is boosted by the constant switching between school and company, and that it guarantees clear and plain vocational profiles as well as a standardised level of training. This proposal could be taken up by workers' organisations from the countries in crisis and discussed with the state institutions and employers. Current examples from the crisis states of dual structures in vocational training can serve as a starting point and be made public by workers' organisations.

12 What is meant by a dual training system is that the training of young people in a recognised vocational profession takes place at two places of learning, i.e. two institutions are involved in the training. The one is the vocational school and the other the training company. Both institutions are mutually independent partners. The practical part in the company accounts for about two thirds of the training time and the theoretical part at the vocational school about one third of the training time. This system is practised in Germany, Austria and Switzerland.

4.2 The creation of a banking and fiscal union

The EU member states and the European Parliament have agreed on a joint banking supervisory body for the eurozone. The supervisory body is to be set up step by step at the European Central Bank by March 2014. After that a follow-up step can be joint bank capitalisation. The long-term aim is to create a banking union, i.e. close interlinkage of national banking systems with integrated supervision and a common European Deposit Guarantee Scheme. At the same time the fiscal union is essential for the communitisation of bail-outs. Only by relocating member state responsibilities in budgetary, economic and foreign policy – in the view of some experts at the KAP seminar – can the eurozone function and continue to exist in the long run.

4.3 The reform of tax systems under the EU Employment Pact

The creation of a common fiscal policy requires tax systems to be harmonised and common principles of an EU tax policy to be defined. In its **EU Employment Pact** under the Europe 2020 Strategy, the European Commission takes account of a tax system reform with its proposal to generate greater demand by reducing taxes on work and by levying heavier taxes on environmental resources.

Taxes play a central incentive role in terms of how individuals and companies act, and were a key topic discussed at the **24th KGZE**. Every current political discussion on austerity schemes, debt repayment, growth, employment and fair distribution has to do with taxes. Taxes must be designed in such a way that they are seen as being fair - this calls for clear rules with few exceptions. The fact that a top earner regards the top rate of tax as unfair is no

argument for lowering it. It is the state's duty to inform people of the concepts of justice and solidarity that underpin its tax system. If taxes are seen as unfair, this has a direct impact on payment habits¹³ and social solidarity, and fuels tax evasion and corruption.

A functioning tax system on the other hand produces stable tax revenues, which both form the basis of the welfare systems and create trust in the financial markets. It is important that taxes are levied transparently, and that public resources are managed and used transparently with integrity, because tax policy and its implementation are an expression both of a political principle and a social solidarity duty. The redistribution of resources by the tax system must abide by the principles of solidarity, equality and tax relief for low earners and families as well as being forward-looking.

Many people feel that the current tax systems are unfair, lacking in solidarity and equal opportunities because of unfair taxation, the unclear distribution effect and some special benefits. As taxation on labour is high and taxation on capital and the consumption of resources is low, and as there are so many exemptions for individual groups – with no specific steering effects – most tax systems are inefficient and not at all geared to sustainability. On top of that, there is the complexity of the existing systems, the high administrative costs and a great lack of transparency, since the assessment bases are often totally unclear and the distribution effect is not plain to see.

So, according to the conclusion of the **24th KGZE** the aims of a structural tax reform must be to create transparency, simplify and standardise the tax system, distribute the tax burden fairly on earned income and unearned income (interest rate profit, speculation, letting out property, etc.), and adjust all limit values in the tax system to inflation. At the same time, a

13 In Greece tax evasion amounts to 20 billion euros a year; in Spain about 90 billion.

structural reform should introduce and guarantee in the long term steering effects to spare resources (environment & energy tax), and introduce European and international regulations to boost fair distribution, e.g. with a tax on financial transactions. Work - employed, self-employed and entrepreneurial work - should be taxed less, and this would also create incentives for companies to invest. Resources, on the other hand, should be taxed more heavily by introducing higher energy and environment taxes, as should capital, with higher taxation on capital income - not on ownership - which in the long term will also guarantee the funding of the social security systems. This could also be accompanied by the introduction of a progressive value added tax system that levies either little or no tax on basic consumer goods and services, but levies very high taxes on luxury goods and polluting goods and services. The European Commission realises that in the long run tax systems must be harmonised on a European level, especially in the relation between taxation on work and on environmental resources.

4.4 The creation of a European future fund

In the view of the workers' organisations involved, what is needed to overcome the crisis apart from creating a fair fiscal union is to adopt a future programme for overcoming crises. The aim must be to invest in sustainable industries and services, to support education and ecological modernisation¹⁴ and to accelerate social¹⁵ and economic integration by eliminating differences in development. This could reduce unemployment and discrepancies in trade balances, and boost domestic demand through higher incomes and public investments.

14 Investments in low-energy building redevelopment, renewables, energy-saving machinery and the development throughout Europe of environmentally friendly infrastructure projects and mobility concepts.

15 Nationwide social services, the expansion of nurseries, schools, higher education and research institutes, and integration projects.

Education must be seen here as a core concept for preventing and overcoming crises, particularly in view of the high youth unemployment rates in the crisis states. Such a programme could be financed by creating a European future fund. To capitalise the fund, the **European Investment Bank (EIB)** would place a future loan on the European capital market, which the fund would need equity capital to secure. The risk capital would be managed by the EIB, guaranteeing the solvency of the fund and the quality of the future loans and contributing to the low interest rates on the loans.¹⁶

4.5 The creation of quality work as a long-term solution

The upshot of the results of the EZA study on the 75 per cent employment target of the EU 2020 Strategy is that there is no empirical correlation between cutting labour costs and increasing the employment rate in the EU member states. On the contrary, countries with the highest labour costs and the highest quality of work have the highest employment rates. So because of the structural differences in the level of labour costs, scarcely any competitive advantages can be gained by cutting them. For that reason, workers'

16 cf. Dr. Mehrdad Payandeh / Claudia Falk, in: DGB Bundesvorstand. Abteilung Wirtschafts-, Finanz- und Steuerpolitik (Publ.): Zur Krise in der Eurozone. Europa neu justieren. Wachstum fördern, Beschäftigung sichern, Euro stabilisieren, Berlin 2011, accessible at https://www.dgb-bestellservice.de/besys_dgb/pdf/DGB20012.pdf
The Confederation of German Trade Unions (DGB) proposes two models for financing the future fund: in the first, the equity capital is financed by a one-off interest-free loan – of three percent with a term of 10 years – by persons with assets of at least 500,000 euros. The loan is repaid after 10 years. If repayment is waived, the “donation” is offset with the tax burden incurred. In the second, the equity capital is financed by a one-off, three percent wealth tax levied on individual assets of at least 500,000 euros. Both models could provide a stable capital stock of three-digit billions for the European common good. However, as a precondition for such a future programme, the member states would have to renounce tax, social and environmental dumping to improve their competitive position.

organisations should actively stress the economic and social benefits accruing to employers and workers by the introduction of policies to promote quality work. The positive outcomes of “high quality work” include a happy and healthy workforce, a low absenteeism rate, low staff turnover rates, low recruitment costs, a higher level of education and training, fair wages, access to welfare benefits, an attractive company and higher productivity.

5 CONCLUSIONS AND RECOMMENDATIONS FOR ACTION

5.1 The seminars' conclusions

The Experts Conference of the University of Leuven's Research Institute for Work and Society (HIVA) produced the following conclusions:

1. A re-organisation of the relationship between European social policy and fiscal policy is the precondition for overcoming the crisis.

The social impact of the economic and debt crisis makes a discussion of the social and ethical importance of money and the economic benefit of speculation and global financial transactions a matter of urgent necessity. To reduce debt and consolidate budgets, the reforms in the public sector are primarily being shouldered by low-earners, the unemployed and the socially vulnerable, whereas the vaunted reforms in the financial sector are being considered and implemented to much too small an extent.

2. The transformation of social security and pension systems represents one of the major challenges of the future.

In future this sector will be of particular importance because of the demographic shift. Besides raising the statutory retirement age, it will also be necessary to reduce general working hours in order to achieve a higher employment rate and to bring growth down to a sustainable level. To finance the future social security and pension systems, it is necessary to introduce a fairer tax system that eases the burden on low and medium incomes. The curtailment of the social security systems in the context of the crisis underscores the great need for action in this area.

3. Workers' organisations must prioritise the interest of society as a whole more in their work.

Workers' organisations are perceived, especially in many crisis states, as part of the established institutional system and are just as much affected by increasing social individualisation and the increasing loss of trust in systemic institutions as political institutions are. For that reason the call for corporate social responsibility and the creation of decent working conditions and production methods are highly relevant to the interest of society as a whole and the standing of workers' organisations, as corporate self-regulation is practised only very selectively and then inadequately.

4. The European Central Bank should have more influence on the development of inflation and employment

The role of the ECB is key to the refinancing of states that are in debt. At the same time, it has the possibility to influence the development of employment in the individual states. In parallel it is necessary to adjust the unequal relation between the size and resources of national regulatory bodies and individual banks by regulating the banking sector.

The conclusions of the Spanish trade union confederation **USO's** seminar can be summarised as follows:

5. In the struggle for the sustainability of the welfare state in the context of the economic crisis, workers' organisations must develop a joint position.

The different realities of European social protection systems and the austerity policy applied by the EU itself and its member states make it necessary on the European level for the social organisations and trade unions to develop a joint, coordinated strategy to defend welfare and workers' rights.

6. The majority of the austerity measures in the context of the crisis are part of a political and economic agenda that was already decided on before the crisis.

Many cutbacks by companies must be seen not just as a reaction to the crisis but as part of an agenda that could not be used during the upturn and that triggered off a smaller scale of social conflict because of the current economic situation. Job insecurity, the curtailing of welfare rights, the relaxing of protection against unfair dismissal and the worsening of working conditions have resulted in increasing social polarisation with a negative impact on the democratic cohesion of the European societies.

These conclusions can be supplemented by the results of the 24th KGZE organised by ÖZA as follows:

7. In individual states, especially in Greece, the cutbacks have hit the social systems so severely that there is widespread impoverishment in large parts of the population.

So, more and more sections of the population are losing confidence in the politicians' ability to come up with solutions, as clearly shown by the change of government in Italy, Spain, Portugal, Greece and Ireland. At the same time, a decrease in economic performance, a rise in unemployment figures and a decline in economic investments, leading to a recession in many crisis states, are the features of the crisis in the European states.

8. The implementation of the European Fiscal Pact will bring about greater European integration.

The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union is intended to overcome the structural crisis of the EU and

make it crisis-proof in the future. The aim is a common budget, a common tax policy and a common guarantee for the public debts of the EU member states. Together with the European Economic and Monetary Union, the Fiscal Pact would increase European integration.

9. Clear and comprehensible limits must be set for the financial and banking sector to put a permanent stop to excessive speculation and dubious practices.

It is of urgent necessity to resize the banking sector. This includes separating commercial banks and investment banks, introducing an insolvency act for banks enabling banks to be wound up without state loans, repaying public rescue loans, transferring owner rights in the event of public bail-out loans, increasing the equity capital ratio of banks decided on under Basel III, and capping balance sheet totals in relation to GDP. These measures would restore the original function of the financial and banking system in savings and loans.

10. The harmonisation of tax systems within the EU and the development towards a common fiscal policy require the elaboration of common tax policy principles.

The aims of structural tax reform must be to create transparency, simplify and standardise the tax system, and distribute the tax burden fairly on earned and unearned income. Work – employed, self-employed and entrepreneurial work – should be taxed less; this would also create incentives for companies to invest. Resources, on the other hand, should be taxed more heavily by introducing higher energy and environment taxes, as should capital, with higher taxation on capital income – not on ownership – which in the long term will also guarantee the funding of the social security systems. In addition, there should be either little or no tax on basic consumer goods

and services, but very high taxes on luxury goods and polluting goods and services.

11. The crisis underscores the necessity to develop a new “European Life and Economic Model” involving every member state and following the model of an “ecosocial market economy”.

Whereas in the free market economy, economic interests prevail and in the capitalist market economy the emphasis is on maximising return on equity, the aim of the ecosocial market economy is to achieve a balance between a performance-friendly economy, social solidarity and protection of the environment on the basis of the polluter pays principle and true cost. The characteristic of ecosocial products and services is that in their production or provision social, ecological and economic criteria are given equal consideration. The focus is on the principle of sustainability.

These conclusions can be supplemented by the results of the **KAP** seminar as follows:

12. Ethical and moral conduct in social and economic respects is of key importance for coexistence in Europe and European integration.

The existing economic systems can only partially solve many social problems, and even then inadequately. The reason for this is people’s lack of confidence in the measures adopted for economic recovery and investors’ lack of confidence in various financial markets. Confidence is essential for a political, economic and social system to function. The build-up of confidence is key, and should no longer be undermined by unethical, reckless and egoistic economic practices and behaviour.

13. Tax reforms in the European member states are indispensable.

Measures that should be implemented in tax reform are: reducing taxation on work, lowering social security contributions for families with children, reducing social security and health insurance contributions for people with the lowest income, and cutting value added tax rates on basic needs products. The government budget can also generate extra revenue through progressive taxation, an increase in wealth taxes (especially property tax) and by systematically combating tax evasion.

14. The euro crisis changed the relationship between the financial industry and democratic governments, resulting in a crisis of democracy in the countries affected the most.

The countries in debt, whose increase in debt is due to the costs of bailing out the financial system, are forced to gear their consolidation measures to the markets. These countries only receive new capital if they generate growth and simultaneously reduce their debt, which is barely possible to do at the same time. Although new cutbacks may increase the probability of a recession and result in a massive decrease in tax revenues, this is the policy creditors are calling for. Belief in the legitimacy of this policy is dwindling among the populations affected, as the majority are vocally against a strict austerity policy and no longer feel that they are represented. At the same time, although the banks are being rescued by ECB subsidies with an interest rate of 0.75%, they are lending money to the states in crisis with higher interest rates of six to seven percent. This means that the ones that caused the financial crisis are dictating the conditions by which the states that financed the bail-out of the banks can finance themselves, and what economic and finance policy conditions have to be met. That is why the EU faces the challenge of implementing democratic legitimisation mechanisms to enable it to coordinate financial, economic, tax and monetary policies throughout Europe.

These conclusions can be supplemented by the results of the **CST** and **USO** seminar as follows:

15. The serious consequences of the debt crisis for workers call for cooperation between the various social, political and economic players.

Rising unemployment and the impoverishment of broad sections of the population are some of the main consequences of the austerity policies. At the same time, an increase in the tax burden, wage cuts, cuts in welfare spending and a drop in consumption are evident, concurrent with higher interest rates for the procurement of capital for public financing. The seminar, which all the Spanish member centres of EZA co-organised for the first time, demonstrated the particularly explosive nature of the Spanish reality. The co-organisers besides CST and USO were the Humanism and Democracy Foundation (H+D), the International Platform for Cooperation and Migration (IPCM) and the Union of Mediterranean Study Centres (UCEM).

16. Reforms in education and training are of crucial importance.

The institutional reforms in Spain focus on education and training. The aim of an employment plan for young people is to improve the quality of training and gear the content of higher education and vocational training more to the requirements of the labour market.

5.2 Recommendations for action for workers' organisations

In consideration of the questions and issues on which the seminars were based here are the recommendations for action for workers' organisations that may help overcome the crisis:

1. Workers' organisations should channel large sections of the population's **loss of confidence** into their own opportunities to exert political influence and open up for them prospects of involvement and collaboration. In this way they could make the interests of society as a whole a greater priority in their work and counter the increasing individualisation and loss of trust in systemic institutions.
2. The **political control** of the economic and financial system is a country's key task in order to protect the common good in political, legal and ethical terms. The workers' organisations must actively demand this control function of their respective governments on a national and European level.
3. Workers' organisations should draw attention to the fact that once implemented, with its procyclical effect and because of its clear austerity orientation, the current **Fiscal Pact** will result in cutbacks throughout Europe in public spending, especially on education, social protection and public services, and will exacerbate the precarious situation of many workers even further. Workers' organisations should also draw attention to the fact that cutbacks in these sectors would not have to be the only way out of the crisis if, for instance, unpaid taxes were systematically collected.

4. Workers' organisations should continue to demand a radical **reform of the banking and financial system** and draw attention to the fact that the surge in public sector debts between 2007 and 2010 is due to the huge costs of bank bail-outs. To overcome the massive public debts of many euro-states caused by the failed business policy of private-sector financial institutions, radical reforms are needed such as splitting up banks, repaying public sector rescue loans and developing the ECB into a genuine central bank.
5. Workers' organisations must emphasise that the political regulation of the markets, the **creation of central, European institutions** in economic, tax and fiscal policy, and a centralised banking system within the eurozone are an urgent necessity to put a long-term stop to tax, wage and social dumping in the European internal market. For only by increasing responsibilities in budgetary, economic and foreign policy on the European level can the EU function and continue to exist in the long run.
6. Workers' organisations should bring a fundamental **reform of the tax systems** and of the social security systems more into the political debate, because only by easing the burden on work and increasing the burden on resources and capital could the creation of more employment and the maintenance of the social security systems be guaranteed and the European Commission's proposals under the Employment Pact be implemented.
7. Workers' organisations should actively demand the added value of **quality growth and quality employment** – such as a happy and healthy workforce, a lower absenteeism rate, lower staff turnover rates, lower recruitment costs, a higher level of education and

training, fair wages, access to welfare benefits, an attractive company and higher productivity – , put forward concrete proposals for implementation in the dialogue with employers, and stress the potential of a quality growth strategy to overcome the crisis in the dialogue with politicians. Only in this way can a sustainable foundation be laid for stable tax revenues and a consolidation of public budgets appropriate to the economic situation whilst considering national priorities.

8. In the crisis states and particularly in their respective sectors and companies, in addition to broad corporate structures workers' organisations must work at developing a specialisation for products and services. Only this objective combined with labour market reforms and investments in sustainable areas to create competitive products can provide a way out of the crisis in the long run.
9. Workers' organisations should actively help young people set up **cooperatives**, especially in the crisis states, and show them prospects which can, despite tough conditions in the labour markets, create jobs and success.
10. Workers' organisations should work more closely together, particularly on a national level as well as on a European level, and present **concerted positions** to the outside world to increase the success rate of their demands.

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