European Trade Union Confederation (ETUC)
Confédération européenne des syndicats (CES)

ETUC Resolution on
The Economic Crisis: New Sources of Finance

Adopted at the Executive Committee on 9-10 March 2010

---

1. The European economy is finding itself in an increasingly difficult position. On the one hand, the economic recovery remains fragile and subject to several downwards risks such as job shedding, rising unemployment, wage stagnation and ongoing and continuing deleveraging of high private sector debt positions. On the other hand, with public deficits in Europe twice as high as the Maastricht criterion, economic policymakers are keen to return to the pre crisis approach to cut public deficits and reduce the role of the state, hoping that private sector investment would automatically follow. The Ecfin Council and the European Commission have already decided that fiscal consolidation should start at the latest in 2011 (and even earlier for member states where financial markets set high risk premiums in interest rates) while procedures for breaching the Stability Pact have been opened against a majority of member states. Meanwhile, central banks in Europe, which through their liquidity injections into the banking sector have until now indirectly financed public deficits, are also taking a more conservative attitude and are calling for urgent and ambitious consolidation efforts involving, amongst other things, public sector wage cuts.

2. Pressure to cut deficits is also coming from financial markets. Whereas Central and Eastern European countries have gone through serious financial turmoil in 2009, hedge funds and investment banks are now speculating against countries that are members of the euro area. It is highly likely that several euro area members will be singled out one by one, with financial speculators hoping to cash in big profits during this process. This is highly cynical: If deficits are high and public debt has been soaring, this is mainly because governments were forced to step in to save the financial markets from their own irrational herd behaviour and from the damage they themselves were inflicting on the economy. Blinded by the quest for excessive profitability, financial markets now turn on the very same actor that saved them in the first place. In particular, the role of Wall Street rating agencies, having provided triple A ratings to toxic assets and now downgrading the ratings of sovereign bonds, as well as the role of investment banks like Goldman Sachs, suspected of manipulating Greece's accounts to deceive EU authorities; and now trying to influence financial market opinion by spreading unfounded rumours[1], is now even more questionable than it already was.

[1] Goldman Sachs has been acting as an adviser to the Greek government, using this role to spread rumours on Greece looking for Chinese financial support while at the same time taking speculative positions against Greek sovereign debt.

John Monks, General Secretary
Boulevard du Roi Albert II, 5 • B - 1210 Bruxelles • Tel: +32 2 224 04 11
Fax: +32 2 224 04 54 / 55 • e-mail: etuc@etuc.org • www.etuc.org

3. These three pressures on public finances are already delivering results (see overview table attached). National stability plans, introduced by governments beginning this year, imply consolidation efforts and deficit cuts over the next three years in the order of 5% of GDP for the UK, 3% for Germany, France and Italy and 9 to 10% of GDP for Spain and Greece. A very ambitious and European wide[2] consolidation policy is on its way. This is hardly compatible with the fragility of private sector demand dynamics or with the fact that monetary policy has already hit the zero bound of nominal interest rates.

4. The ETUC argues against both a premature 'fiscal exit' strategy as well as a strategy of 'wait and see what happens'. The former risks to repeat the mistake of the 1930s when governments responded to the crisis by cutting deficits, thereby contributing to create the Great Depression. The latter ('too early to exit so let's do nothing') would tolerate unemployment to rise and to remain high, with the associated risk of persistent unemployment becoming 'structural', for example because employers discriminate against those who have been long term unemployed.

5. Instead of a premature 'deficit cutting' strategy, the ETUC wants an 'entry strategy into growth, investment and jobs'. The only way to get public deficits and public debt down over the medium term is by ensuring an immediate and forceful recovery of the economy and jobs. To do so, and as the ETUC has insisted upon before (October 2009 statement of the ETUC Executive), Europe needs a renewed, stronger and better targeted recovery plan. For the next three years, 1% of GDP should be invested each year in major European investment projects rolling out the necessary infrastructure and networks for the 'greening of the economy'. A key question is how can this be financed?

New sources of finance for European recovery and jobs

6. Obtaining a stronger recovery plan as well as funding employment policy aimed at avoiding persistent unemployment turning into structural unemployment will be a major challenge. To help member states withstand the triple pressure of financial market speculation, rigid Stability Pact rules and conservative central banks, Europe needs to organise and make available new sources of finance for economic recovery.

A common Euro Bond

7. A common bond, issued by the European Investment Bank, collectively guaranteed by European governments, backed up by national tax revenues as well as by liquidity support from the European Central Bank is urgently necessary. There are several advantages[3]:

[2] With the US intending to cut the deficit by 7% of GDP over the next three years, this is a fiscal contractionary policy that is de facto coordinated throughout the OECD. Japan seems to be the only exception..

[3] Other advantages include, in the longer term, the creation of a market that is even bigger than the market for German bunds, hence improved liquidity and lower liquidity premiums in interest rates for

(i.) **'Fighting fire with fire'.** Issuing a common bond will allow member states to stand together and support each other to face the irrational and self destructive herd behaviour of financial markets. A common bond will make it harder for financial markets of singling out national states and their sovereign debt. Financial players will know that their usual game of trying to cash in on extraordinary profits by taking speculative positions against individual sovereign debt and thereby setting in motion a self fulfilling vicious circle will not work.

(ii.) '**It's the economy stupid?**' A common bond will also shield member states from the 'animal spirits' of financial markets' in other respects. Excessive financial market pessimism and fears of a debt default usually forces countries into a radical and disastrous deflationary policy. However, once the economy goes into a tailspin, financial markets shift their attention to the state of the economy and maintain their position of financial restriction, now fearing a bankruptcy of the economy. Again, this is highly irrational: Countries still end up in being distrusted by financial markets, exactly because they follow up the Wall Street's bidding. A common Euro bond allows member states to break out of this other vicious cycle and set member states free from the irrationality and the stupidity of the global financial marketplace.

(iii.) **'European money for European Investment'.** A common bond should not only be used to fight financial speculation, it should also be used to secure economic recovery as such. The negative demand impact of fiscal consolidation at national level (which will be required in return for access to the financial proceeds of the European bond) can be offset by European financial flows entering the country, investing in infrastructure, networks and innovation, thereby re launching both short term demand and economic activity as well as long term growth potential.

(iv.) **'European wide solidarity'.** The solidarity which the common Euro bond implies should not be limited to the members of the euro area only. Several member states of Central and Eastern Europe have found themselves in a similar position, with their currencies de facto linked to the euro exchange rate while at the same time having to continue high (private sector) debt levels expressed in euro. The policy approach up to now has been up to now to call in the IMF as an alibi[4] by forcing incredibly tough adjustment measures upon several of these countries, resulting in a major depression and a social bloodbath. The common Euro bond should also be used to rectify this approach and end this 'barbaric' structural adjustment.

8. However, let us also be clear. A common bond has the objective of liberating member states from the irrational herd behaviour of financial markets. It is

---

all countries, including Germany. Another advantage is that a common European bund would attract international capital and strengthen the role of the euro as an international reserve currency.

[4] Both the IMF as well as the Commission send in negotiating teams and provide adjustment loans.

certainly not the intention of trying to 'mimic' financial markets by imposing the same (or even worse) type of pro cyclical and anti social policies upon member states. However tempting it may be for some to abuse the euro bond by pushing through a liberal model of deregulation, this will not help the economy and deservedly give Europe a bad name in the minds of workers and citizens. Any conditionality to be attached to the euro bond should respect the need for a strong social dimension, strictly steer away from deflationary wage cuts and wage freezes and be sequenced in time so as to avoid pro cyclical fiscal tightening.

9. The ETUC urges a move forward on the idea of a common euro bond issue. Postponing or even rejecting a common bond will prove the speculators right, reward them and allow one country after the other to be subjected to speculative attacks. In the absence of European solidarity to face the speculators, there will also be enormous pressure to cut wages in major parts of the euro area, internal market demand dynamics will be destroyed (who to export to if a major part of Europe is mired in depression and deflation?) while surplus savings countries will import a renewed banking crisis[5].

10. In short, a single currency and a single market need a common bond.

Financial Transaction Taxes

11. **S**tudies [6]show that a carefully designed tax – not necessarily at a high rate - on particular financial transactions would make them more expensive and so less attractive, helping to stabilise the prices of shares, commodities and exchange rates. Speculative trading would be hardest hit, with short- term investors paying higher taxes due to their higher transaction frequency. Debates on the advantages of a general tax on financial transactions are also taking place beyond the frontiers of Europe and are being actively pursued by the International Trade Union Council and TUAC with the G20 and the IMF. But the European Union is an independent economic entity, able to introduce such a tax on its own for purposes of international development, environmental improvement and anti crisis measures. The revenues from this tax could be allocated entirely or partially to the European budget .From a public-finance perspective , a FTT should essentially be collected for either of two reasons: to collect revenues for public expenditures and to discourage activities that are deemed to have negative side effects not properly taken into account by market participants (the so called Pigou taxes)

12. The European Commission, following questions raised at the meeting between the Economic and Monetary Affairs Committee and the Commissioner responsible for taxation on 6 October 2009 is currently working on ideas for

[5] 80 to 90% of the debt of the savings deficit countries (Spain,Greece,Portugal,Italy) is in the hands of banks from Germany, France as well as the UK.

[6] A general Financial Transaction Tax ; Motives, Revenues, Feasibility and Effects by S. Schulmeister, M. Schratzenstaller and O. Picek (Osterreichisches Institut für Wirtschaftsforschung.

"innovative financing" in the context of global challenges, including financial transaction taxes in order to put forward proposals at an appropriate time. The IMF is currently seeking views from the public on the matter of financial sector taxation as part of the request made by the G-20 at the Pittsburgh Summit of 24 and 25 September 2009. In fact, taxes and levies on financial transactions exist in different forms in the Member States; but these national taxes and duties usually cover only transactions of selected assets – Belgium and France have adopted legislation on a currency transaction tax at national level, but will only put it in effect if implemented at EU level.

13. There has been a huge and rapid increase in the past decade of the volume of financial transactions as compared to the volume of trade in goods and services, which can be explained, amongst other things, by the fast-growing derivatives market. G-20 leaders have a collective responsibility to mitigate the social impact of the crisis, both in their member states and in developing countries, which have been hard hit by indirect effects of the crisis, whereas financial transaction tax would contribute towards covering the costs generated by the crisis.

14. The European Union should agree on a common position in the international framework of G-20 meetings as regards the options as to how the financial sector should make a fair and substantial contribution toward paying for any burden which it has caused to the real economy or which is associated with government interventions to stabilise the banking system. We also take the view that the EU, in parallel and consistent with the G-20 work, should develop its own strategy with regard to the range of possible options for action.

15. The Commission should elaborate, sufficiently in advance of the next G-20 summit, an impact assessment of a global and European financial transaction tax, exploring its advantages as well as drawbacks.

Balance sheet levies, moral hazard and the banks

16. The financial crisis has in fact assured the market that governments in practice do bail out the financial sector and that there is little risk of being allowed to fail. Public support for the banks, both in terms of capital injections, government guarantees and central bank money at almost zero cost for the banks has been and still is massive (3 trillion Euros in Europe). Moreover, this huge public bail out has come with few strings attached. The single 'conditionality' attached was to force banks to pay interest premiums on government provided loans and guarantees. In this way, banks are motivated to repay public support and get the public actor out of the banks as soon as possible.

17. However, the latter implies that banks having restored liquidity and in the process have paid back public support in order to save on the interest premiums and fees required by it. That is not necessarily so. Banks continue to have an implicit but strong guarantee on a public sector bail out but at the same time do not have to pay any fee for this.

18. A balance sheet levy on banks' liabilities (excluding deposits since these are covered by an explicit deposit scheme guarantee with a fee to be paid) is therefore a logical and fair measure: The 'bail out' guarantee banks enjoy would no longer be 'free' and banks would contribute at the same time in the general costs of the crisis they have inflicted on the economy.

19. Moreover, the ETUC insists on additional advantages of such a balance sheet tax: By modulating the tax rate in function of the size of balance sheets, governments can increase the levy on big banks, thereby addressing the additional problem of banks becoming so big that they are 'too big to fail'.

A tax on banks' bonuses, dividends and stock options

20. There are strong reasons for tax policy to intervene in financial sector remuneration policy. France and the UK have taxed bonuses for one year but this is not enough. Bonus payment structures as well as stock option systems have not aligned CEO and traders' interests with long term shareholder value as they were supposed to do but have instead promoted speculative behaviour, short termism and excessive risk taking. Taxing bonuses will flatten the pay structure and take away some of the incentive and reward of risk taking. It is also clear that the financial sector is now maintaining or, in some cases even increasing its profits[7], not because of 'good management' practice but simply because of government and central bank support. Banks can not continue to pay out bonuses and dividends, coming from public money support while at the same time the entire economy, governments included, has to pay the price of a crisis which was caused by the banks in the first place. Social welfare is not to be replaced by 'welfare for the banking sector'.

'Unconventional' Fiscal Policy

21. Household savings rates have increased massively because of fears of rising unemployment, troubled capitalisation pension systems and destruction of financial and housing wealth. Moreover, the pressure to cut public deficits with which public opinion has become entrenched makes households anticipate tax hikes as well as major cuts in social protection (including raising the retirement age) and public services. Households will most likely react to this by maintaining or even increasing high savings rates. This will work to drag a possible recovery further down.

22. At the same time, high savings rates also present an opportunity. Mobilising high savings by transforming them into productive investment strengthens economic recovery as well as economic growth potential. This can be done by a 'smart' fiscal policy which increases the tax pressure on high savings while using the receipts from it to increase public sector led investment. In this way, demand dynamics are strengthened without the deficit increasing (or even with deficits falling).

---

[7] See graph in attachment 2.

23. The ETUC therefore urges the Commission, the Ecfin council and the European Council to explore this avenue and develop a coordinated tax policy targeting high savings rates and connected income flows. This concerns taxes on business profits, on income from capital (dividends, interest rates), on capital gains and on big fortunes. We note that the US is taking this direction: In the US 'stabilisation plan' (which by the way is using a ten year horizon, unlike in Europe where a three year adjustment period is planned), measures like hiking marginal tax rates on high revenues, increasing the tax rate on capital gains and dividends and raising taxes on business profits, amount to 1,6 trillion dollars over the next ten years.

24. These proposals are even more justified with regard to tax evasion, which has reached a very high level in several Member States.

    The current crisis makes this situation even more unacceptable because workers are in a situation where they have to foot the bill not only for the impact of the crisis on jobs and wages, but also because they are the ones reliably bearing the tax burden.

    That is why the ETUC is calling on the European and national political institutions to develop tougher measures for fighting tax evasion, to step up audits and penalties and, more generally, to pursue a progressive tax policy as opposed to a flat-rate tax policy.

Attachment I: Overview of deficit objectives of national governments

	2009	2010	2011	2012	2013
UK	12,6	12	9,1	7,3	5,7
GE	3	6	5	4	3
FR	7,9	8,2	7	6	5
IT	5,3	5	3,9	2,7	2,2
ES	11,4			3	
GR	12,7	8,7	5,3	2,8	2
IR	11,7	11,6	10	7,2	4,9
US	9,9	10,6	8,3	5,1	4,2
JP	7	7,2	7,1		

Source: Natixis, Flash 2010 64

Attachment II: Profits of the financial sector (in % of GDP)