Facing the crisis together: The case for a strong European Economic Union

The European Union is facing an elementary test: The crises affecting Greece, Ireland and the euro will be successfully overcome only by legally binding steps towards a strong European Economic Union. Germany's contribution will be decisive in this connection. The Federal Government is nevertheless wavering between defiant denial and selfish activism. It is even antagonising experienced allies such as the Luxembourg Prime Minister, Claude Juncker. Its favourite method is *octroi*. Thus the Federal Government is not only hindering efforts to overcome the crisis, it is causing endless trouble all over Europe. In these economically turbulent times, the Greens are presenting their proposals for Europe's future course. We offer a Community alternative to the Federal Government's political seesaw: Europe needs a strong European Economic Union that will learn the lessons of the euro crisis and introduce common rules and coordinated controls to complete the common market.

The Federal Government seesaw

During the Greek crisis last year, the Federal Government, prompted by national economic considerations and electoral tactics, was slow to offer support, causing further unrest in the markets and ultimately driving up the cost of rescuing Greece. True, the Chancellor prevented the euro zone breaking up during the Greek crisis, but she was inconsistent and even encouraged Europe's reluctance to act by constantly alternating between dogmatic statement and forced compromise. Her policy also increased the cost of the Irish crisis. Throughout 2010, Germany's European partners became increasingly doubtful as to whether the Federal Government was still willing to make the German contribution required to overcome the crisis.

Since the beginning of 2011, the Federal Government has clearly changed course. Instead of continuing categorically to reject the idea of a European economic government, it has changed its tune and is now attempting with missionary zeal to press clearly German interests on its European partners.

In return for German consent to the necessary extension of the euro rescue fund, the Federal Government called for a 'competitiveness pact' within the framework of a European economic government. And it has now introduced the pact, with France, under the new title 'A Pact for the Euro'. The coordination of economic policy is now to extend to areas in which national governments previously lacked the political will to act. This approach would be welcome if the form and content of the Berlin proposals were not so self-centred. As to form, the pact was presented to the French and German press first, not to the European partners. This is no way to win confidence. As to content, the pact is blind on the German side. It has plenty to say about the partner countries' weaknesses but nothing at all about the problems in Germany.

While countries with excessive pay rises are to resort to free collective bargaining, measures against years of low pay and a growing state-sponsored low-pay sector are taboo. While all states are to be required to cut expenditure, the measures for effective taxation of investment income and against tax evasion are inadequate. By introducing these biased measures, the Federal Government is preventing a viable solution. A state that antagonises its partners, proposes biased measures and consistently protects its own clientele, cannot claim to be European. The only truly European economic policy initiatives are initiatives that look fairly and squarely at all forms of economic nationalism that are damaging to the Community – and take appropriate measures against them.

In presenting the proposals for the competitiveness pact, the Federal Government also infringed the rights of the Bundestag and the European Parliament to exercise parliamentary scrutiny. In the aftermath of the euro crisis, the Federal Government largely disregarded the German Bundestag's rights to participate. It frequently acted in breach of Article 23(2) of the Basic Law (Grundgesetz, GG) and failed to fulfil its obligations to notify and report under the Act on Cooperation between the Federal Government and the German Bundestag in matters concerning the European Union (EU-Beteiligungsgesetz, EUZBBG). However necessary the extraordinarily wide-ranging decisions to secure the euro may be, parliamentary participation in accordance with the Basic Law and the EUZBBG is essential to legitimise government actions. Saving the euro must not be accompanied by a domestic democratic deficit. It must be clear, in future: a government cannot act, at home or in Brussels, without parliament's cooperation. The EUZBBG must be amended and the Bundestag's rights to participate in the Federal Government's action in the Euro Group and the Economic and Financial Committee in particular, must be extended.

The Federal Government is equally unconcerned about the rights of the European Parliament. On the basis of six European Commission proposals for regulations, Parliament is deliberating on matters very similar to those contained in the 'Pact for the Euro', which is nevertheless to be essentially an intergovernmental pact. The public debates on the Commission proposals are undermined by Council discussions behind closed doors. This is contrary to the democratic European Community procedure, under which the European Parliament and Council decide on the basis of proposals from the Commission.

Combining solidarity with soundness: We are in favour of a sustainable budget policy. Future generations have a right to sound public money. Excessive levels of debt must be corrected and reduced everywhere in Europe. If public finances are not sound, the euro will not be stable and the public will not rally behind European solidarity. At the same time, it is true that Europe is a community based on solidarity. People in many of our partner countries are suffering considerable hardships as a result of the necessary economic adjustments. Indifference or the nightmare of a transfer union are no answer for 40% youth unemployment in Spain or economic migration from Latvia and Estonia. On the contrary, we know Europe can only work together. Our neighbours' problems are therefore a call for us to seek European solutions that will make the burdens bearable.

Tackling expenditure and income: The necessary steps to establish sound public finances must address expenditure as well as income. Europe, with the large public budgets of its Member States, certainly cannot afford environmentally damaging subsidies, ambitious and wasteful concrete projects, high defence budgets and inefficient education systems. The Greens are in favour of an efficient society that will be the innovative driving force for a Green New Deal. The role of the state will also have to be examined. Europe cannot afford income tax competition any more than it can afford irresponsible spending.

Expenditure must be controlled, and European tax loopholes must also be closed and low-tax havens shut down systematically.

A challenge for strong and weak alike: Economic imbalances in the euro zone present a threat to the value of the currency. Countries with competition problems must address them systematically. Conversely, however, there is also a pressing need for action in the case of countries like Germany, where demand has been systematically curbed by the growing low-pay sector and the lack of public investment in education, health and ecological reconstruction. We are therefore in favour of symmetrical adjustments. Countries with surpluses and countries with deficits must both act.

Guaranteeing commitment and democratic involvement: The Greens are in favour of deeper European democracy and binding European rules. Wherever possible under the EU Treaty, we want to employ the European Community procedure, under which the European Parliament and the Council decide jointly on a proposal from the Commission. We refuse to accept the Federal Government's move to reject the Community procedure in favour of secret government deals. In the long term, we want to see increased participation and a stronger role for the European Parliament, so, for example, we are calling for Parliament to have the right to introduce legislation.

The steps towards Economic Union

Extending the rescue fund: To enable effective help to be given where necessary to other Member States with liquidity problems, such as Portugal or Spain, and to protect them against speculation, the rescue fund (the European Financial Stability Facility, EFSF) now quite rightly has more effective short-term capital at its disposal. This is a clear signal to the markets that Europe is not prepared to leave its Member States to the tender mercies of speculation. However, creditors and shareholders should share the costs of overcoming the crisis, for example through collective action clauses in EU-state loan agreements. At the same time, we recommend reducing interest to a level close to the cost of financing the European fund. Partner countries in serious economic difficulties should not be subjected to the additional pressure of punitive interest rates. Conditions must be introduced and duly monitored, to avoid the temptation to exploit European solidarity. This arrangement is already succeeding in Greece, although the measures are socially unbalanced. We support the Irish Government in its insistence that Irish bank creditors share the losses. The European Union has so far refused to take this course.

Solving the problem of Greek debt: Despite these efforts, Greece needs further support in addition to the current measures. Researchers from the Breugel think-tank calculated that, in the case of Greece, depending on the rate of economic growth, a primary income surplus of between 8.4% and 14.5% of GDP would be needed to bring the country's debts down to a level of 60% of gross domestic product within 20 years. At the same time, Norway is the only OECD country to have achieved a primary budget surplus of more than 6% in the past 50 years. It follows that Greece, in addition to funding the budget, needs lower interest rates to service the public debt, and that action will have to be taken with participation by creditors. The effects of the restructuring measures are already unbearable for the most vulnerable sections of the population, but the IMF and the EU are not pressing nearly hard enough for the wealthy to play a real part in funding the costs of the crisis.

Systematically consolidating budgets, ending political horse-trading in the context of the Stability and Growth Pact: Full confidence in the common currency will be restored only when public budget deficits are once more within reasonable bounds. To that end, both deficits and excessive debts must be reduced. The deficit procedure within the framework of the Stability and Growth Pact has proved not to be effective enough in this connection. Above all, it is too open to political influence in the Council. The old saying 'birds of a feather flock together' is not a good guide to sustainable budget policy. We therefore support the view that a Council majority against is needed to amend proposals in the deficit procedure. More time will be needed to bring the level of debt in all Member States back to less than 60% of GDP. We support the Commission proposal of a 20-year adjustment period. However, arrangements for the repayment of debts must also take the economic cycle into account.

Exploiting the 'European Semester': In the past, Member States' budget policy regularly failed to meet the agreed European targets. Debt was not reduced sufficiently when times were good, and there was not enough investment in education, action on climate change, measures to reduce poverty, and research and development. We need more commitment to meeting agreed European targets, and we need national parliaments and the European Parliament to be more effectively involved in setting targets and deciding measures. The European Semester provides precisely this additional democratic participation in deciding on national reform programmes and implementing them in national budgets. The European Semester also coordinates the national economic and budget policies of all 27 EU Member States. Close coordination between the euro states is certainly important, but non-euro states must also be involved. This is essential to support them on their way into the euro zone. Unfortunately, the Commission marked the start of this new process with a biased 'Annual growth survey'. Instead of balanced proposals, the survey produces the same old radical market solutions that concentrated on cutting the cost of employing men and women, and that would further exacerbate social inequalities. The Greens support the 'European Semester', but call for systematic attention to the social and ecological aims of the EU Treaty and not an obsession with liberal economic growth at any price.

Action against economic imbalances in the euro zone: Against the background of the common currency, action by the Member States is urgently needed to correct macroeconomic imbalances in the euro zone, especially in the balance of payments. In order to secure stability in the euro zone, action must not be confined exclusively to public budgets. Excessive lending in the private sector and a sharp rise in property prices and rates of pay were partly responsible for the deep crisis in Spain, Portugal, Ireland and Greece. An early warning system is consequently needed, so that the Council (of Finance Ministers) can issue warnings or recommendations if Member States cause substantial imbalances. The indicators of this system should not be confined to the cost of labour but must include, in particular, features such as resource productivity, the technology content of exports, and the development of the tax base. In working on existing imbalances, Germany must address the problem of low domestic demand and, in so doing, make a contribution to the problem of national economic imbalances within the EU, as the European Commission proposes.

A common European tax policy: Virtually unfettered tax competition between EU countries is as unacceptable in a single market as customs duties or border controls. Europe needs a common, consolidated tax base for company taxation, to put an end to tax dodging in low-pay areas. The Federal Government must abandon its opposition to consolidation in this context. At the same time, we need medium-term European minimum tax rates with 25% corporation tax, to ensure that the competition over the tax base does not extend to tax rates. Ireland, currently experiencing the solidarity of European Member States, must support steps in this direction, especially if it expects further concessions from the European states. We also need effective European rules on the taxation of private investment income. The European principle of automatic exchange of tax information is the most effective weapon against international tax avoidance, enabling the Member States to resume progressive taxation of investment income. Federal Finance Minister Schäuble does this concern a disservice, with his bilateral talks with Switzerland on the protection of Swiss banking confidentiality, together with a tax amnesty and low rates of tax at source. If Schäuble abandons European progress against tax avoidance to please Switzerland, it will enable EU tax havens like Luxembourg and Austria to continue to block a common European tax policy. Systematic European measures against tax competition, tax avoidance and tax evasion would help all Member States to achieve fair taxation and a sustainable budget policy. We welcome the European Parliament's and the European Council's intervention on the introduction of a tax on financial transactions in Europe. The Commission will now have to stop blocking it. The Federal Government cannot afford to let the matter slide. Citizens are rightly insisting that short-term speculation should pay a higher price and should help to cover the costs of the financial crisis.

Regulating and restructuring the European banking sector: The European banking system is still vulnerable and is not in a position to contribute to the economic recovery without assistance from the European Central Bank. Most citizens are quite rightly furious that there is still no sign of the radical restructuring of the banking system that had been announced. The banking sector has not yet made any contribution to financing the costs of the crisis for which it is largely responsible. Instead, many banks are able to keep going only with the help of state subsidies and low ECB interest rates. Record salaries and bonuses are nevertheless already being paid again, and considerable efforts are being made to annul the new European rules on salaries in the financial sector. The big banks are still able to force the state to rescue them when they are in trouble. The EU is the right level to end these abuses. The Commission will present its proposals for new capital charges to the banking sector in the summer, and a proposal to wind up big banks has also been announced. The Greens want the banking sector to be broken up, to reduce the risk of problems spreading from bank to bank in the event of a crisis. We recommend that all system-related financial institutions be required to contribute to a European rescue fund. We also want the capital charges paid by big banks to be substantially higher than the charges paid by small and medium-sized banks. Lastly, we very much fear that further measures to the detriment of cooperative banks, regional savings banks and building societies may be introduced under cover of EU regulation of the financial markets.

The European Monetary Fund and Eurobonds: Extending the rescue fund is not a lasting solution. The EFSF/ESM mechanism should be replaced by a European Monetary Fund. In that way, it could be established in accordance with the European Community procedure and the European Parliament could acquire full democratic scrutiny. This Fund should also be responsible for issuing Eurobonds. Eurobonds are the right instrument to enable the Member States to raise capital on favourable conditions, and provide strong incentives to save. The low rates of interest on securities will give Member States more breathing space to budget for sustainable investments. Capping Eurobonds at 60% of GDP will create incentives to consolidate budgets, because the interest rates on debts exceeding that limit will be substantially higher than the present rates. This level would not apply to Eurobonds initially, but would be reached gradually. Thus, Eurobond holders will have a strong incentive to cut their debts back to 60% of GDP or thereabouts.

Strengthening the European budget: Own resources: We are in favour of strengthening the EU's own resources. This will improve the EU's negotiating position. Given the disparities in regional development in the EU and the increasing coordination required in the common economic area, the European budget will certainly not have less work to do. We therefore reject the intention expressed by various Member States to cut the EU budget. On the contrary, the Greens support the proposal to increase the EU's own financial resources. These include revenue from European taxes on energy and resources, an air traffic charge, and a European tax on financial transactions.

Common financing instruments for a Green New Deal: We welcome the European Commission proposal for a Eurobond project investment campaign. This is important, to facilitate investments in deficit countries. However, investments must be systematically devoted to a campaign for investment in education, research and ecological reconstruction, and the conditions must be carefully monitored in each case. There must be no ambitious and pointless projects that are not cost-effective or that involve public liability for private risks.

On the way to European social union:
Common social rules, like a common economic policy, are an inherent feature of a single European market. The social aspect is currently somewhat neglected. We want a Europe where no-one is left behind, where everyone has a chance to better themselves, and where there is less social inequality. For this, we need common social framework conditions and minimum standards. Common minimum social security rates and common minimum wages should accordingly apply in the EU, with variations depending on the relative prosperity of the countries concerned. In this way, in accordance with the principle of subsidiarity, the various forms of welfare state can be reconciled with our social aims for Europe.

Paving the way for wide-ranging democratic discussion on a European Economic Union:
Wide-ranging democratic discussion is needed on the many measures required to overcome the financial crisis and establish closer coordination and collaboration in economic policy. Confidence in European economic policy will not be restored simply by discussions at Council summit meetings and debates in the European Parliament. In normal circumstances, the best way to achieve the next level in the process of extending the European project would be through the regular procedure of amending the treaties. However, there is not enough time now for a

European convention. The euro crisis demands a rapid response. Nevertheless, a public democratic discussion is needed on the extension of economic policy in the European Union and the euro zone, as provided for in the European treaties. We are therefore in favour of embarking immediately on the measures to establish a strong European Economic Union. At the same time, a 'European Economic Assembly' should be convened, to operate on convention lines. This assembly should set out clearly the specific alternatives for development of the Economic Union and encourage European public debate on the subject.

ALLIANCE '90/THE GREENS Council decision
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