OCTOBER PLENARY MEETING OF THE NEWLY-MANDATED EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

On October 21, the first plenary session of the European Economic and Social Committee under its new mandate ratified a number of Own-initiative Opinions, two of which are of particular interest to trade unionists. As these Opinions had already been formulated and processed through the respective Sections of the outgoing Committee, they were only amenable to further amendments proposed by members of that outgoing Committee.

The first Opinion of interest had been drafted by a Study Group on Employee Financial Participation (EFP) in Europe, whose German rapporteur, Alexander Graf von Schwerin, was a member of the EESC's Workers' Group. Its wording had carefully emphasised: "EFP must be voluntary. It is in addition to existing remuneration schemes and not a substitute, while not impeding collective bargaining"; and "Where collective bargaining is practised, EFP should also be the subject of collective agreements".

An Austrian employer member of the Study Group, however, proposed an amendment which stated: "EFP must be voluntary – and no collective agreement can determine otherwise". At an eve-of-plenary meeting of the Workers' Group on October 20 it was resolved to oppose this amendment. In my own first intervention at the Plenary meeting on the following day, I proceeded to point out that this proposed amendment posed a serious threat to collective bargaining itself. If an individual Austrian employer had a problem with representation by the Austrian employers' confederation, this was not an issue that should be used to undermine collective bargaining on a European-wide basis. I noted that IBEC – regrettably! – would never impose any such agreement against the will of any of its constituent members, which is why whatever statements IBEC had made on financial participation provided so many opt-outs as to render them ineffective. As it happened, the Austrian amendment was withdrawn and the final text actually strengthened the commitment to collective bargaining still further, which now read: "The introduction of EFB must be voluntary. It is in addition to existing remuneration systems"; and "Where collective bargaining is practised, the conditions for EFP should also be the subject of collective agreements."

The other significant Opinion adopted was on the implications of the sovereign debt crisis for EU governance. The rapporteur for this opinion was from the UK "General Interest" Group, Michael Smyth of the University of Ulster, who is also an economic adviser to the Northern Ireland Assembly. The Opinion put the blame for the crisis on a combination of irresponsible fiscal policies, imprudent bank lending that fuelled construction and asset bubbles, and huge taxpayer-funded bail-outs in some member states, but an amendment adopted on the proposal of Italian trade union member Carmelo Cedrone also added the imprudent behaviour of credit agencies to the list of factors aggravating the crisis. The Opinion further emphasised that debt reduction programmes should be implemented "in a way that is compatible with the economic recovery and

employment objectives set out in the Commission's Communication Europe 2020".

Of particular note in that EESC Opinion, however, is the following paragraph, included on the initiative of an Italian trade union member of the Study Group, Stefano Palmieri:

"It is argued that any policy or institutional response to the sovereign debt crisis should deal with the issues of debt reduction without endangering the aims of the European Economic Recovery Programme. One possible way of achieving this might be to combine a debt reduction process with an expansion of investments to counter the deflationary effects of the debt reduction. This proposal is based on the Delors 1993 White Paper on 'Growth, Competitiveness and Employment' and has a debt transfer option as its centrepiece. Thus a proportion of each member state's sovereign debt would be transferred to European Union bonds. The transfer would still oblige the member states to service their shares of their debt now in euro bonds. It would therefore not be a debt write-off nor would it increase the borrowing of member states faced with debt difficulties; rather it would lower the service costs of the portion transferred. Supporters of this proposal argue that it could be accommodated within existing Treaty guidelines. In tandem with the debt transfer, it is also proposed that European Investment Bank (EIB) and national financial institutions borrowing be expanded to finance the European Economic Recovery programme and to mitigate a contraction of employment income and trade resulting from aggressive debt reduction."

These proposals had been developed by Professor Stuart Holland of the Faculty of Economics in the Portuguese University of Coimbra – see HYPERLINK "http://www.insightweb.it/web/node/136" www.insightweb.it/web/node/136 - who had been an adviser on European affairs in previous periods to British Prime Minister Harold Wilson, EU Commissioner Jacques Delors and Portuguese Prime Minister Antonio Guttieres. On October 18, on the eve of the EESC Plenary, I also attended a meeting of the ETUC Economic and Employment Committee, at which Professor Holland presented an updated version of his proposals. He further elaborated:

"The EU is nominally committed to a European Economic Recovery Programme. But this will be savaged if the current intent of governments to halve deficits by 2013 is not countered by a broad wave of EU financed investments. What is needed to 'cut the Gordian knot' on debt is a radical shift and a recognition that while EU member states are deep in debt, the EU itself has next to none. It had none at all until May this year when the European Central Bank began to buy up tranches of some member states' national debt which by September 2010 it had done to some €60 billion, or some half of one per cent of EU GDP. If the EU were to issue Union Bonds to finance a New Deal style economic recovery it would be starting from a lower base than the Roosevelt administration in the 1930s."

Stuart Holland proposed the following parallel twin strategies:

A ‘Tranche Transfer’ Debt Solution: The EU could cut the Gordian knot of the debt crisis if it transferred a tranche of the sovereign debt of member states to EU bonds.

A ‘New Deal’ style Recovery Programme: A social investment led recovery programme funded, like the US New Deal, by ‘borrowing to invest’ both through EU bonds and by the EIB and national public credit institutions.

He continued:

“In 1989 Jacques Delors requested my assistance to devise instruments and policies to make a reality of the commitment of the Single European Act to economic and social cohesion. In interim and final reports I proposed EU or Union Bonds and he included them in his ‘full employment’ White Paper of December 1993. The key parallel was US Treasury bonds which do not count against the debt of American states such as California or Delaware. Therefore, union bonds need not count on the debt of EU member states.”

“But the New Deal parallel was not made in the White Paper which meant the major legitimation of the case for the bonds was lost. The proposal therefore lacked resonance with a wider public. To many people ‘Union Bonds’ just seemed another arcane European financial instrument. It then transpired that Helmut Kohl thought that a bond was something paid for by German taxpayers, which is among the reasons why he initially opposed them...”

“The way to cut the Gordian knot on national debt is to transfer the major share of it to the EU in a European bond... Eurozone national debt of up to 60% of GDP – the SGP national limit – should be transferred to the EU. A tranche transfer is not buying up national debt as the ECB has been doing since May. but which is not working, since spreads on national bonds still are widening. Such a tranche transfer to a European bond would be costless and could be near overnight. It would
Reduce the default risk for the most exposed member states
Lower borrowing costs for all of them
Signal to financial markets that Europe has a strategic proactive response to the current crisis.”

“But granted the scale of the crisis, management of the tranche transfer should be by the European Central Bank. The European Investment Bank has declined to issue the bonds which are sensible since there is a difference between bonds as instruments of debt stabilisation and bonds for investment in recovery. EU bonds issued by the ECB – or € bonds as markets could quickly dub them – would be purchased by central banks of surplus economies and sovereign wealth funds. The BRICs [Brazil, Russia, India and China] have made plain that they want to diversify out of the dollar. These surpluses need to be recycled if there is to be a balanced recovery of the world economy, which is

one of the central aims of the G20."

"With ECB managed EU bonds, the euro thereby would become a global reserve currency, taking the strain off the dollar. Both the US and the trade surplus economies would gain if this is part of a European recovery programme, whereas contraction of the European economy as an outcome of debt stabilisation without a recovery programme would reduce their exports, risking also a double-dip global recession."

"As underlined earlier, a tranche transfer is not debt write-off. The member states whose 60% of GDP tranche of bonds would be held by the ECB would be responsible for servicing them. But those whose sovereign debt is being serially downgraded by the rating agencies would be doing so at much lower rates of interest. The criteria for such a tranche transfer would be a ratio of remaining national debt to GDP at the time of the transfer. Thus, if an investor holds a billion € in Greek government bonds and Greek debt is 120% of GDP, half a billion for each bond of whatever maturity is transferred to the ECB. The investor gets a lower interest rate but a more secure investment. Hedge funds and speculators could be disconcerted. But their risk management to date has caused the current debt crisis."

"One argument likely to be made against a tranche transfer is that it would weaken the Stability and Growth Pact and especially the incentive to reduce what remained as national debt. But it could be more effective than fines – which would worsen national debt – if it were agreed by Ecofin that a member state not making progress on an agreed tranche of debt reduction would have its transferred debt to the ECB reduced by an equivalent tranche."

"Debt stabilisation through a 'tranche transfer' could create the conditions to make a reality of the commitment of the EU to a European Economic Recovery Programme. But there should be a clear distinction between a tranche transfer to the ECB to stabilise debt and net bond issues to finance an investment-led recovery programme.
The principle institution to make a reality of the EERP should not be the ECB, which could need an amendment of its constitution and anyway would mean a conflict of roles, but the European Investment Bank."

"The bonds already issued by the European Investment Bank are its liability rather than those of EU member states. This is why most of them, including the major ones, do not count borrowing from it on their national debt. None of the major Eurozone member states counts EIB borrowing against national debt."

These proposals are certainly worthy of serious – and, indeed, urgent – consideration by the European trade union movement.

Manus O'Riordan
Workers' Group
European Economic and Social Committee