

Conclusions of the 24th KGZE at Brno / Czech Republic, 2012

The 24th Conference on Trade Union Cooperation (KGZE) was held from 21 to 24 June 2012 in the Czech city of Brno.

58 participants – delegates of trade unions and employee organizations from **15 European countries** – discussed the following issues:

24th KGZE: Europe in debt – How does sovereign debt affect the social security systems and the employment market? How can new “tax systems” create manoeuvring spaces for intelligent policies?

Based on lively discussions and exchanges, the 24th KGZE arrived at the following conclusions.

I. About the current crisis

At the start of the 21st century, the global economy – following decades of globalization – has become a network of tightly interlaced dependencies. During the G20 summit in June 2012, Manuel Barroso blamed the “*unorthodox practices*” of US banks not only for the bankruptcy of major financial institutions (such as Lehman Brothers) but also for igniting the global crisis back in 2008. Many European countries have been forced to rescue their banking sectors, and the many hundreds of billions of Euro required for these rescue missions have since increased the levels of sovereign debt to a point where only very few Euro countries are managing to comply with the Maastricht criteria. The 27 countries of the EU and the inner core of 17 Euro countries are currently implementing a wide range of austerity policies to consolidate government finances and to return to stable economic conditions so they will no longer be at the mercy of sovereign debt speculations that have driven the interest rates for some EU countries to 7 % and higher. For this purpose, the countries of the EU – with the exceptions of the UK and the Czech Republic – agreed to pool some of their powers under the European Fiscal Compact which was duly signed on 2 March 2012.

II. Effects of the sovereign debt crisis

The sovereign debt crisis has become a fight for the EU’s survival. Some states (Greece, Ireland and Portugal) failed to meet their payment obligations and had to call for outside help. Italy and Spain also have (albeit relatively smaller) problems to raise funds on the global capital markets which is why they are also counted among the “crisis countries”. In all of the five countries most dramatically affected by the crisis, governments changed hands in 2011. In Ireland, Portugal and Spain, early elections were called, while Italy and Greece saw the formation of “governments of technocrats” for a period of transition – Greece has since re-established a democratically elected government, having gone to the polls twice within a few weeks. One typical feature of the crisis is that economic activity is drastically reduced

following which the unemployment rate shoots up. In some countries, roughly half of all young people (between the ages of 15 and 24) are out of work, with long term consequences for the opportunities of these young men and women – who are often highly qualified, sometimes even with university degrees – on the employment market and for their later careers. Austerity programmes have subjected some social protection systems – in Greece, for example – to such strain that large sections of the population are tumbling toward the poverty threshold. Increasing numbers of people are losing all trust in the ability of politicians to solve their problems – while companies are cutting down their investments, aggravating the recessionary tendencies of the overall economy. This is what the picture looks like in short: a loss of trust, a declining economic performance and correspondingly increasing unemployment, recession.

III. Construction flaws have been revealed

Some states within the EU have been using a common currency since 2002: the Euro. The current crisis, however, has mercilessly revealed the economic imbalances within the Euro zone. Countries with a “hard currency” tradition and the economic policies to go with them (such as Germany) have suddenly found themselves in the same currency boat with countries that had traditionally been willing to tolerate higher rates of inflation, compensating for their lack of competitiveness with regular depreciations. In effect, the launch of the Euro has meant that a key buffer space between hard currency countries and soft currency countries was lost. It also did not help that the “Maastricht criteria” of the EU treaties (a maximum budget deficit of 3 % and an overall debt ceiling equivalent to 60 % of the annual BNP) were more honoured in the breach than in observance, continuously violated – without sanctions – or, as far as some countries went, never reached or even approximated. Encouraged by the low levels of interest in the Euro area, some private consumers and some governments could not resist the temptation of massively overreaching themselves. Initially, this led to an artificial (i.e. credit-financed) boom, and the ensuing explosion of prices and salaries created an economic climate in which poor economic decision-making was rife (q.v. the construction boom in Spain, for example). Productivity is a key aspect of competition in a market economy, and the flow of goods from productive to less productive countries eventually causes the low-productivity countries to lose much of their spending power. When the economic bubble burst, the entire European Monetary Union felt the earth shake.

The EU intends to use the European Fiscal Compact – or the *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union* as it is officially called – to fight the crisis. Eventually, the objective is to have one common budget, one common fiscal policy and a guarantee underwritten by all EU member states for the sovereign debt of all the others. The fiscal compact would, in close conjunction with the European Economic and Monetary Union, complete the creation of a joint European economy. The political price for this objective is the surrender of national sovereignty.

IV. The financial and banking sectors must be more tightly controlled.

Continuously pumping money into certain sectors of the economy is not enough. If systems are flawed, these flaws must be addressed and corrected, otherwise the patient will never recover. The business activities of the banking sector and the financial services industry must be tightly controlled and restricted, putting an end to excessive speculations and dubious practices once and for all. The current policy of saving the banks is without a viable alternative, but the same is true for the policy of restructuring the banking sector. The following policies must be implemented with immediate effect:

1. High-street banking and investment banking must be separated. Risks must be clearly identified and controlled if necessary.
2. Accounting standards must be made more transparent and rigorous.
3. We need sensible insolvency regulations for banks. It must be possible to let banks file for insolvency without bringing entire countries to the brink of bankruptcy.
4. In the long run, the financial sector must repay the money that was required to overcome the crisis.
5. If banks receive support, the national governments or communities who have come up with the cash must be given ownership rights in return.
6. Balance sheet totals must be capped. They must no longer be allowed to exceed certain proportions of the GNP.

These are the key demands for new regulations to ensure that the banking and finance sector will return to its original function, which is setting up an exchange between people with savings and people in need of loans.

V. Taxes as instruments for social engineering

If we want the EU member countries to harmonize their tax systems and to embark on the long-term journey towards a common fiscal policy, we must also clarify on what foundations such a common fiscal policy should rest. For Christian trade unionists, the answer should be clear: on the social doctrines of the church. Dr. Lieselotte Wohlgenannt from the Catholic Social Academy of Austria demands that "Taxes must be used as instruments for social engineering" and continues: *„It is not only important how we spend our taxes but also how and where we impose them. Taxes influence the actions of all the players in the economy: individuals and households, businesses and executives of large corporations all make important decisions by taking into account the tax obligations that may ensue. Taxes can promote or prevent investments into innovative technologies, facilitate or complicate the creation of new jobs, encourage research and education to stimulate the continuous development and structural change of the economy. The system of taxes and duties must appear to be (reasonably) fair, which means: it must have clear rules and few exceptions. If a social climate develops where taxes are seen as fundamentally unfair and where tax evasion is considered a minor and pardonable offence, corruption is never far away, and the roots of social solidarity are beginning to rot."* Christian social doctrine holds that "public spending is directed to the common good when certain fundamental principles are observed": The payment of taxes is "part of the duty to solidarity". Taxes must be imposed with "reasonable and fair application". Public funds must be managed and spent with "precision and integrity". Public spending must observe the "principles of solidarity, equality and making use of talents, while paying greater attention to families, designating an

adequate amount of resources for this purpose". (Compendium of the Social Doctrine of the Church, p. 355).

VI. Causes of the crisis

Quite apart from the technical aspects of the economic and financial crisis, we may have to ask whether our entire "way of life" is unsustainable and wrong. Back in 1998, the American social philosopher Richard Sennett asked some interesting questions about the true depth of our existential crisis in his book "The Corrosion of Character": *How can long-term goals be pursued in an economy devoted to the short term? How can mutual loyalties and commitments be sustained in institutions which are constantly breaking apart or continually being redesigned? How do we decide what is of lasting value in ourselves in a society which is impatient, which focuses on the immediate moment?* These questions indicate that the current "crisis" may be much more than a mere dent in the curve of economic growth after which we will continue pretty much in the same way as before. Perhaps the start of the 21st century is facing a similarly profound challenge as the late 18th century with its demands for "liberty, equality and fraternity". In his latest social encyclical "Caritas in veritate" (On integral human development in love and truth), Pope Benedict describes the paradox phenomenon of globalization as an "explosion of worldwide interdependence". We say "paradox" because globalization has produced an unparalleled richness of opportunities, but also an increasing number of – mainly young – people who appear to have lost all belief in our ability to determine the conditions of our lives and to fundamentally alter human society.

The financial and economic crisis has not occurred totally by chance. It should be used as an incentive to challenge and question the way in which we live and manage our economies – and to develop a European Model to which all EU member states can subscribe and which may serve as a beacon of orientation for countries all over the world. Implementing the principles of Christian social doctrine in politics means to extend the social market economy to an "ecosocial market economy" with a global scope.

VII. Ecosocial market economy

Whereas the free market economy is dominated by the economic interests of all players and the capitalist market economy is designed to increase the return on capital, the ecosocial market economy aims to create and maintain an equilibrium between **business activities with rewards for strong economic performances, social solidarity** and **environmental protection** based on the "polluter pays" and "true cost" principles.

The Christian Trade Unionists from Austria have started an ecosocial pilot project. Ecosocial products and services are characterized by the balance between the social, ecological and economical aspects of their production and provision: all three receive equal attention. The principle of sustainability in particular is of key importance. Under a pilot project – sponsored by the EU and the regional government of Lower

Austria – the group of Christian Trade Unionists has created an “ecosocial market place”. With the help of a cross-border programme, an evaluation scheme was developed to help companies put more emphasis on ecological considerations and social responsibility – and to support companies that have already made these steps in the past. Many companies in the project region already manage their businesses in compliance with “ecosocial criteria”. These companies present themselves on a dedicated website, offering their services to potential customers on both sides of the Austrian border. The project gives companies, non-profit organizations and agricultural businesses the possibility to exploit new marketing potentials and to enlarge their networks. Consumers can use the “ecosocial market place” to make more informed local purchase decisions and to align their consumer behaviour with the principle of sustainability.

Ecosocial business management – The public

Companies, agricultural businesses and non-profit organizations in the project's target areas of Austria and the Czech Republic that produce ecosocial products and provide ecosocial services have the possibility of approaching potential customers directly on a (bilingual) home page. The ecosocial market place aims to create and improve the consumer awareness for sustainable products and services.

Ecosocial business management – Benefits for the individual businesses

- Sustainable business policies in production and development create competitive advantages.
- Sustainable PR campaigns create stronger customer loyalty.
- A corporate culture of sustainability creates a climate of trust between the business and its suppliers, business partners and customers and improves the image externally as well as internally, increasing job satisfaction and motivation of the workforce.

Ecosocial business management – Practical examples

- Concentration on sustainable ecological product development
- Use of organic and regional food ingredients
- Family-friendly and women-friendly internal policies (corporate creche, e.g.)
- Vocational education and training for the employees, special training for older employees, apprenticeships and traineeships, “diversity drives” etc.
- Environmentally friendly production processes (organic food etc.) including agricultural animal rearing methods that are suited to the species
- Waste avoidance and environmentally friendly disposal methods etc.

Ecosocial business management – Benefits for the entire region

- The use of regional raw materials ensures short transport distances and protects the environment
- Creation of jobs in the region
- Any “added value” stays within the region

For further information, see the home page: www.oekosozialer-marktplatz.at

The Lisbon strategy with its concerns for social affairs and jobs and the Gothenburg strategy for sustainability have already introduced key elements of the ecosocial market economy into EU policy. Under the pressure of a globalization without a framework of fair regulations, however, our social systems in Europe are increasingly on the defensive. Unbridled competition and free trade between countries that do

not operate on a level playing field have a destructive effect, lead to growing poverty and higher unemployment. The time after the crisis will require new solutions!

These conclusions from the 24th KGZE at Brno are meant to demonstrate that there are ways out of the crisis and that all of us have a responsibility to actively search for new political options, inspired by Christian social doctrine.