

Sonja Steßl

State Secretary  
Federal Ministry of Finance



## Opening Address

Dear Governor,  
Ladies and gentlemen,

It is a pleasure to welcome you in Vienna as State Secretary of Finance, also on behalf of Federal Chancellor Faymann, who sends his greetings. I am glad to speak today at this conference on the European banking union, a topic of major importance not only for central bankers but also for us in the ministry of finance.

Since the start of the EU's common market we have seen significant progress in European financial integration, enhanced by regulatory reforms targeted towards the creation of an ever deeper union. The increasing volume of cross border banking was one of the signs of this deeper integration. From the very beginning, it was clear that deeper financial integration has many advantages, but also bears some risks. And whereas the advantages like more efficient capital allocation have been emphasized many times, the risks were often neglected.

A substantial risk has materialized in the crisis when negative developments in one country lead to major problems in others. Bursting housing bubbles in some peripheral Member States all of a sudden created financial tensions in the hubs of the European financial system. One might ask whether the financing of a housing bubble in Spain or Ireland was really the most efficient use for German or French capital. The unguided financial integration seemed to contain the seed of its own destruction.

The EU has reacted to the crisis by establishing a banking union. Let me just briefly mention some features of the banking union which I consider especially important from a Ministry of Finance point of view:

- The independence of supervision which enhances crisis prevention:

once the Single Supervisory Mechanism (SSM) has effectively taken over the supervision of banks in the euro area, there will be much less scope for interventions at the national level and banks in distress and their owners will be held responsible at an earlier stage, which should diminish the risk of a banking crisis in the first place.

- Even more important is the breaking of the vicious cycle between banks and sovereigns that some have called even a “doom loop“ for the euro area. Until recently, states were forced to bail-out failing, but only systemically relevant banks in the interest of financial stability; the very definition of systemic relevance seemed to be a moving target at times. Under the banking union, newly founded bail-in instruments and backstops funded by the banking sector itself should prevent future involvement of governments in rescue operations when a bank fails.



During the recent crisis, these instruments were not available, and bank bail-outs and other support measures have increased the public debt in almost all EU Member States and thereby imposed a heavy burden on taxpayers; according to the European Commission the EU Member States provided

EUR 590 billion of capital support to the financial sector up to end-2012. These funds have been invested to safeguard financial stability and to stabilize investors' confidence; thus preventing the crisis from spreading across the whole banking sector. Therefore, I think it is justified that the banks will



contribute to the reduction of our debt stock for the foreseeable future. We in Austria expect revenues of about EUR 3 billion over the current legislative period from the bank fee.

Another sensible approach to reduce the heightened debt level is a shift in the tax burden. A reduction of taxes on labour, especially for persons with lower earnings who have a high propensity to consume, would help to boost demand and growth. Such a growth stimulating measure could be financed by higher taxes on property and inheritance, in particular in Austria, where taxes on these items are among the lowest within the EU and the OECD. This is exactly in line with the EU's country specific recommendations which stated last year that Austria

should “reduce the effective tax and social security burden on labour for low-income earners in a budget-neutral way by relying more on other sources of taxation less detrimental to growth, such as recurrent property taxes.” The IMF and the OECD have recently also published research findings that emphasize the appropriateness of wealth taxes in the current setting. Unfortunately, there is still political opposition against these proposals in Austria but we only started the discussion and the topic will remain on top of the list as the government agreed on implementing a tax reform commission.

I would like to add that a shift in taxation from low income earners to wealthy households would also introduce an additional degree of fairness in our economies because the distribution of wealth has become more and more uneven over the last decades as was shown impressively in the recently published book by Thomas Piketty<sup>1</sup>. It is important to emphasize that the laws of capital accumulation that he refers to in his book are not laws of nature, but are man-made and therefore can also be changed by men or women.

Enhancing fairness and raising additional revenues are also the aims of our activities to curb tax evasion and profit shifting. Some corporations have abused the tax arbitrage opportunities under the existing legal framework within the EU and thereby eroded the tax base in all Member States. We are determined to punish tax fraud in Austria more severely in order to increase the incentives for all citizens to pay their due share; these measures should also increase public revenues significantly.

Another source of additional funding to recoup partially the cost of the crisis could be the Financial Transac-

<sup>1</sup> Piketty, T. 2014. *Capital in the twenty-first century*. Harvard University Press.

tion Tax (FTT). The very low tax rates of the FTT would not harm the real economy but could have a positive incentive effect by reducing the profitability of merely speculative trading and hence contribute positively to financial stability. In its currently proposed form the FTT would mostly target stocks and some derivatives, but I am positive that within reasonable time we can broaden the base of the tax and I also hope that we can increase the number of countries which are willing to introduce the FTT.

Let me conclude by stressing that these measures in combination with a strong and credible banking union provide the right policy mix to counter the negative effects of the last crisis and help to prevent the occurrence of the next. The banking union is a fundamental ingredient in our economic strategy forward and is featured prominently in our government's work agenda. I would like to thank the OeNB for hosting this timely and topical conference and wish you all two days of inspiring presentations and lively debates.