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Dear readers,

The year 2012 with dramatic crises moments and NGO campaigns to stop food speculation is coming to an end. This special issue endeavours to take stock of what EU financial reforms were achieved, or not, this year.

In spite of the not very promising perspectives we wish you some relaxing days over Christmas and wish you a happy new year.

Hoping that you will be among readers in 2013,

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2012 was a dramatic year for the EU. The crisis could not be brought under control. It was just like with the Hydra in Greek mythology: once that one of the monster’s heads had been decollated, another one was growing again. After Greece, it became obvious that the Spanish banking crisis is a time bomb, while the Italian economy continues to stagnate as well as those of Portugal and Ireland with their severe austerity programmes. For 2013 an EU wide recession is looming. Before the 13-14 December 2012 summit, expectations emerged that muddling through might end and a grand solution was in the making. However, the discussion over ambitiously prepared blueprints and roadmaps for a Genuine Economic and Monetary Union has been postponed to summer 2013. Apparently, the EU is not Heracles. It seems that the complex governance and the fragmentation through national interests and corporate capture make this unique mixture of nation-states within the common market as well as some elements of supranational statehood structurally incapable of solving the crisis.

When the EU received the Peace Nobel Price in December 2012, three representatives were at the podium in Oslo: Mr Barroso for the Commission, Mr Van Rompuy for the Council and Mr Schulz for the Parliament. They had negotiated beforehand all details: Barroso and Van Rompuy each read out half of the acceptance speech, while Schulz received the medal around his neck but was not allowed to speak. The show was highly symbolic: three institutions jealous at each other, painting the crisis in rose, quarrelling over marginal issues but maintaining the hierarchy between them and a silenced parliament.

The same week of December, the statistical service of the EU had published the recent figures on poverty in the EU: 24,2% of EU citizens – these are 119,6 million people or almost a quarter of the entire population - was threatened by poverty or social exclusion in 2011. The number is increasing. In 2009 it was 23,5%. 17% of EU citizens live already under the poverty line; in Spain 22% and in Greece 21%. As for unemployment, the official rate went up from 10,4% in October 2011 to 11,7% in October 2012. In Greece and Spain youth unemployment has reached 49,3% rsp. 48,9%.

The forecasts predict a further worsening of the situation in 2013. It is simply faith healing if under such circumstances some EU representatives try now to make believe that the worst of the crisis would be over. However, these developments are not surprising, as the present crisis management with its one-sided focus on austerity is contributing to a deepening of the crisis. As one can already see in the crisis countries (Greece, Portugal, Ireland), the structural adjustment policies of the Troika (EU-Commission, ECB, IMF), including cutting
back public expenditure, reducing wages and dismantling social welfare, are weakening domestic demand. Hence, no economic growth will arise from the debt trap. A stimulus programme for growth, which had been announced by French president Hollande during and just after his electoral campaign, remained rhetoric. In practice nothing has happened. More over, although unable to substantially regulate the financial markets to which the Euro and governments have become hostage, one of the few things the EU could achieve in 2012, was the so-called Fiscal Compact: austerity should become the general rule not only in Greece and Portugal but everywhere.

The Fiscal Compact – austerity for all member states

The tool for generalisation of austerity is the so-called Fiscal Compact. It is a multilateral treaty outside the EU legislation, as the UK and the Czech Republic have refused to agree. Its core is an automatic ceiling for public debt. Neo-liberal spin doctors have launched the notion “golden rule” for it. In the German discourse the more sober expression “debt brake” makes clear what is meant: the signatories must accept an automatic programme of “fiscal discipline” in case that their debt stock exceeds 60% of GDP or a 3% increase of annual new public debt. In other words, a ‘fiscal cliff’ that might lead to frantic discussions in affected countries in order to avoid it as in the US.

Unlike in the Maastricht Treaty, which had already foreseen the same thresholds that were later violated by, among other countries, Germany and France, there is now a complete package of enforcement behind the measure:

- the rule has to be anchored in the constitution of the signatory country,
- there is an automatic adjustment which is supported by a monitoring procedure through the Commission (European semester),
- in case of violation, the European Court can decide on sanctions (payments),
- only signatories of the agreement have access to the European Stability Mechanism (ESM: a bail-out mechanism which like the IMF, serves as lender of last resort in case of sovereign bankruptcy).

The Fiscal Compact has met a broad consensus among EU elites, including the social-democratic parties and many Green parties. But it was also heavily criticised by heterodox economists, trade unions and social movements. Their main arguments are:

- one of the most important rights of national parliaments, i.e. the right to decide on the budget is curtailed,
- the neo-liberal concept on how public finance should be organised is cemented as a constitutional principle, which makes the Fiscal Compact irreversible if majorities in elections are changing,
- a neo-liberal approach to cutting public expenditure will mainly result in social costs for working people and vulnerable groups,
- the macro-economic effects will brake economic growth and hence increase unemployment and poverty,
- no commitment is made to fully curtail financial markets speculation against the Euro, with bonds, credit...
default swaps (CDS), securitised debt, etc.

The Compact is still in the process of ratification, but will probably implemented in 2013.

Bank reform deadline missed and new bank reforms in the doldrums

The reason why different countries had to incur more debt than allowed under the Maastricht Treaty is because they had to bail out the banks with tax payers’ money. In fact, before 2008, the Irish (25% of GDP) and Spanish (36% of GDP) governments had borrowed less than Belgium (85%), France (65%), Germany (65%) and the UK (44%). The Portuguese had borrowed as much as the Germans. Indeed, Greece and Italy admittedly had borrowed at more than 100% of their GDP. Now austerity and new loans serve to repay their bonds to banks and other debtors. An important lesson from the crisis is that the dependency of public finance on loans from the private financial market must be reduced. Bank reforms are a crucial factor in avoiding deficits.

However, the process of bank reforms in the EU is more than sluggish. It was not ambitious enough from the beginning, it is often inefficient as the example of the new supervisory structure shows, which did not detect neither the situation of Spanish banks nor the LIBOR scandal, and it is watered down by the finance lobby. Finally, reforms are extremely slow and come late. A recent and typical example is the failure of the Council of Ministers and the European Parliament to agree in a last minute effort on 17 December 2012 on the final text of the new capital requirements directive and regulation (CRD IV/CRR : see previous newsletters). This new EU major bank reform was supposed to start the implementation of the international Basel III standards on 1 January 2013, as agreed at the G-20.

The continuous disagreements relate to important issues that make banks less vulnerable to financial crises such as:

- How much easily available capital and cash liquidity (liquidity) should banks hold;
- How much are banks allowed to borrow themselves (leverage);
- What is the quality and crisis-resistance of the capital buffers so that they can be used in adverse times;
- How many fixed and variable components should remuneration (salary, bonuses, etc.) in the banking sector include: the European Parliament wants strict limits.

In addition, there is a power fight going on – notwithstanding the banking union proposals – about what powers are being transferred to the European Banking Authority while many national supervisors want to keep supervisory powers.

At the same time, discussions about much needed deeper reforms of banks, and their supervision (e.g. banking union), did not result in (draft) legislation for more substantial bank reform, for instance regarding:

- Proposals to avoid bank bail-outs by separating basic banking functions from speculative activities of banks, as made in the Liikanen report;
- Concerns about the huge shadow banking sector;
- An overhaul of the risk assessment and financial market activities by the
banks as currently discussed by the Basel Committee on Banking Supervision.

Lack of banking reforms is not only problematic for EU citizens, who remain at risk of having to bail out risky bank activities and banks that become more and more indebted as is the case in Spain. Also developing countries, where EU-based banks are operating or expanding to, can easily be affected if problems occur.

Trepidating regulators fail to control financial markets and restrict food price speculation (MiFID-II/MiFIR)

2012 has clearly shown how the Euro-zone governments were hostage of the financial markets. Many of the emergency measures taken by Summits and the ECB to manage the Euro crisis and the debt-crisis were intended to calm the markets and speculators, and the ECB succeeded for the time being. However, the EU failed to swiftly and forcefully act on reforms of the financial markets, e.g. on UCITS and credit rating agencies, or had to wait until implementation. For example, the directive somewhat regulating hedge funds and private equity, the AIFMD, will not come into place until July 2013. Only the partial regulation of OTC derivatives markets (EMIR) became operational in August 2012.

The major reform of the investment and derivatives markets, also dubbed the financial ‘casino,’ was also postponed. Notwithstanding 23 meetings since October 2011, the experts of Finance Ministries were not able to finalise the negotiations on MiFID and MiFIR (see the October newsletter) for approval by their excellencies. Council negotiations will resume mid-January 2013 based on the report by the Cyprus presidency. Ministers will attempt to agree on a general approach at their meeting on 4 March 2013. After that, behind-the-doors discussions (‘trilogue’) will take place to come to a final compromise text by the Council, the European Parliament (EP) and the European Commission.

Regarding position limits on commodity derivatives, which should stop derivatives’ speculation on food prices, the ongoing negotiations did not change much the Council’s draft compromise text on MiFID-II/MiFIR since the latest newsletter. As a result, there are quite some differences between the position of the EP and the Council, such as:

- The EP wants position limits to be set at EU level in contrast to the Council who leaves the final decision up to national authorities.
- Only the draft Council text provides for position limits on OTC derivatives (which are mostly speculative).
- How much commodity derivatives’ contracts will be subject to mandatory position limits and during which period of the contract is not the same.

Apart from these differences that mask loopholes, there are still technical loopholes that could make the rules, implementation and reporting (to the public) weak, as reported in previous newsletters.

Without forceful measures to stop the financial markets and banks to dominate economies and fiscal policies, and thereby whole societies, the solution of the crisis will be illusory.
Waiting for Godot
The character, the depth and the range of the Euro crisis require an adequate solution, i.e. deep-going and far reaching reforms beyond the one-sided and simple-minded strategy of austerity. However, it seems that this is not possible and leaders are still caught in the neo-liberal framework. An instructive example is the recent December 2012 summit.

In advance of the meeting, expectations were stirred that there might an attempt for a “big solution.” The Commission had launched a “Blueprint for a deep and genuine Economic and Monetary Union.” Based on this, Council President Van Rompuy had prepared a “Roadmap” suggesting that implementation of such a union should start in 2013. The package advocated a qualitative step towards supranational integration.

Its components were:

- a banking union, i.e. a common supervision for the largest banks in the Euro-zone, attached to the ECB,
- a recovery and resolution mechanism to deal with troubled or bankrupt banks, including a resolution fund and a common deposit insurance scheme,
- at medium term a Euro-zone fiscal capacity, i.e. a special budget for the Euro-zone that could ‘absorb shocks’,
- the money from this “budget” would be earmarked for structural adjustment reforms in countries, i.e. transfers from the supranational level to member states under certain conditions,
- at long term a supranational fiscal authority, i.e. a kind of European finance minister.

Although the proposal was fully in the spirit of neo-liberalism and claiming to increase competitiveness, using the carrot-and–stick method for structural adjustment, and giving the European Parliament only the right to be consulted and not to decide, it was due to the underlying leap towards supranational economic governance that the proposal was rejected by several heads of state, first and foremost by Chancellor Merkel.

The December summit declared that Van Rompuy should present a new proposal by June 2013, but this time in cooperation with the member states. At first glance, it looks as if the German elections (to be held in autumn 2013) would paralyse any substantial decisions for the next year. While there might be some truth in this, there are nevertheless some more and deeper factors for the failure of the Blueprint and its Roadmap:

- First, it shows again that the real power in the EU lies with national governments, and in particular with the big ones. The informal hegemonial structures of the EU become more and more visible. And it seems that the relative strength of the German economy is more and more dominating the further course of the Euro-zone.
- Second, the centrifugal trends in the EU-27 are getting stronger. The fact that the Fiscal Compact as well as the European Stability Mechanism (ESM) are outside the EU legislation, the use of the method of the “Enhanced Cooperation” for the implementation of a financial transaction tax, the UK’s attempt to
‘repatriate’ some of its powers that were transferred to the EU, and the many differences in the other policy areas (e.g. foreign policy) indicate the growing gap between Euro-zone and non Euro-zone. But also inside the Euro-zone the gap between what is typically called “periphery” and “centre” is growing, not to speak of the growing distance between the UK and the continent.

Third, the acceptance of the EU among citizens is at the lowest rate ever as all opinion polls show. The critical attitude has two main sources. On the one hand the victims of the crisis and of the austerity policies feel that the European values, in particular the welfare state is dismantled. Many of them prefer a moratorium in the integration process – not to go back to the nineteenth century nation state system – to further integration in the spirit of neo-liberal austerity. On the other hand those, who are not yet severely affected by the crisis, such as the Germans, Dutch, Austrians and Finns, are afraid to pay for others. Overall, the structural problems are not exposed and discussed.

Fourth, the crisis has put the question on the agenda what the final goal of the European integration process could and should be. The trend goes towards a closer economic and monetary cooperation, but excludes a “transfer union” or solidarity, and excluding a political, social and sustainable union as long term perspective. There will be no United States of Europe in the foreseeable future.

What would be needed in this historically exceptional situation would be an open debate in all member countries about the final vision on the future of the EU. A debate without pressure from the crisis and the ‘financial markets’, or dictated by some Troika. At the end each country should decide - in referenda - what its citizens want. Because the EU has only a future, if it is fully democratic. Any other concept will fail – and it deserves it.
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This newsletter is produced by SOMO and WEED and is intended for wide circulation to interested parties. We appreciate receiving feedback as well as announcements of research reports, campaign actions, and meetings, which can be sent to m.vander.stichele@somo.nl.