Newsletter - EU Financial Reforms

Issue 25 - 1 July 2014

This newsletter is published by SOMO and WEED.

Subscribe to the EU Financial Reforms newsletter here >

Summary – The mess is increasing

By Peter Wahl, WEED

The elections to the European Parliament mark the end of a legislature period that saw the emergence of the deepest crisis of the EU ever. On top of the 'old' problems of the crisis, new challenges of an economic, social and political crisis have emerged, such as the rise of right wing populist forces and calls to leave the EU. The outcome of the power struggles that erupted after the elections will impact on how solutions for the financial and economic crisis and new financial reforms will be dealt with.

For the full detailed article see below

In this newsletter:

Contact us:

visit the SOMO website
m.vander.stichele@somo.nl
+31 (0)20 639 12 91

visit the WEED website
peter.wahl@weed-online.org
+49 (0)30 2758 2616

Full article

The mess is increasing

By Peter Wahl, WEED

Photo by Rock Cohen CC

The elections to the European Parliament (EP) at the end of May 2014 marked the end of a political cycle in the EU. The previous legislature period saw the emergence of the deepest crisis of the EU ever. The 2008 financial crash was not only a particularly heavy financial and economic blow to the EU, but its transformation into a crisis of public finance in several countries of the Euro-zone served as a catalyst to reveal deep rooted structural problems of the integration process, in particular in the Euro-zone and of the Single Market in financial services. The EU ran into a multiple crisis – economically, socially and politically – which still remains unsolved after the elections. With the results of the elections new problems come on top of the unresolved old ones.

The EU's political crisis was clearly exposed by the fact that the majority of EU-citizens, 56.1 per cent, did not participate in the EP elections. The meagre participation is a sign that people don't believe in the EP as a substantial player in decision-making from which citizens can benefit. This was also reflected in the spectacular outcome of the success of right wing populist parties, which are at the same time euro sceptic or advocate the exit of their country and/or the dismantling of the EU. In three countries – France, UK and Denmark – these forces became the strongest party. In particular the French and UK results were a heavy shock. President Hollande's socialist party and Prime Ministers' Cameron Tories only came at third rank. In several other countries, such as Austria, Belgium, Finland, Greece, Hungary, Latvia and the Netherlands right populist parties were voted the second or third largest. With the Hungarian Jobbik and the Greek Chrysi Avgi, openly fascist parties have entered the EP. In Germany, for the first time, a conservative and moderately euro-sceptic party, the Alternative für Deutschland – AfD (Alternative for Germany) could enter the EP with 7 per cent. In the EP it has joined the group of the British Tories - to the dismay of Angela Merkel.

The right wing parties cannot be lumped together and their future voting behaviour on issues of financial reform, Euro and economic crises, fiscal policies and austerity is not really predictable. Nevertheless, the common denominator is that their success is the tip of an iceberg of protest, which goes far beyond the right wing forces. It reflects a general dissatisfaction with the EU and its economic and social policies. Unemployment and job insecurity, dismantling of the welfare state, social polarisation from the increasing gap between rich and poor, and the middle classes losing their status is feeding the populists. Further progress of these parties can only be stopped if there is a change in EU policies, which dries up the political and social breeding grounds on which these parties are growing.

At the same time the big mainstream parties have been weakened. Both the Christian Democrats (EPP) and the Social Democrats (S&D) have lost (minus 29 per cent and minus 25 per cent of seats). Also the group of liberal parties has lost (minus 7.9

per cent of seats) as well as the Greens (minus 7.2 per cent of seats). It is already known that the Social Democrats will get the chair of the committee that deals with financial reforms and monetary affairs (ECON) and the EEP will have the first vice-chairman seat.

The parties left of the Social Democrats have improved their score. Instead of 35 seats, they now have 52, which is an increase of almost by half. Syriza became strongest party in Greece. In Spain, a new left party which had been established only some months ago out of the anti-crisis movement, Podemos, reached eight percent, while the Spanish alliance of the United Left doubled its score to ten percent. In the EP both will join the group of the European United Left/Nordic Green Left (GUEN/NGL). However, with the exceptions of Greece and Spain the left is not making substantial progress. Obviously they are not capable to pick up the sentiments of dissatisfaction and protest among people. Hence, the left wing influence on solutions for the crises remains very restricted.

Two-thirds of the new parliament will consist of newcomers, so many will have to get acquainted with the financial and economic reforms issues and it is not clear how much attention they will pay to further reforms. By end of June 2014, it was not yet decided which MEPs would be sitting in ECON whose first meeting is scheduled for 14 July 2014.

Triggering a constitutional crisis

Immediately after the elections the Parliament nominated the candidate of the strongest party, Jean-Claude Juncker (Luxembourg) from the Christian Democrats, as president of the Commission, thus triggering a constitutional crisis. Because according to the Lisbon treaty it is the prerogative of the Council, i.e. the body of the governments, to nominate a candidate. Only in the next step the EP should enter the stage and has to approve the proposal – or to disapprove. In the latter case the Council has to nominate a new candidate and the procedure starts from the beginning. The treaty is very clear about the sequencing: 'Taking into account the elections to the European Parliament and after having held the appropriate consultations, the European Council, acting by a qualified majority, shall propose to the European Parliament a candidate for President of the Commission.' (Title III, Article 9D/7 p. 306/21)

The conflict is not only about the internal power architecture. Underlying are different and competing approaches to the integration process: the Council is representing the nation states and their sovereignty, the parliament stands for the supranational element. The conflict shows – not for the first time – that breaking the rules is an option, which is considered legitimate by large circles of the political class. However, the coup might backfire, as it broadens the gap between the UK and the continent and may serve as a catalyst for London to exit the EU.

Battle over the orientation of the crisis management

The unconstitutional move of the EP led to a power struggle between both institutions and huge political bargaining behind closed doors. The qualified majority for Juncker only comes with the condition that the Social Democrats get a certain loosening of the grip of the fiscal pact (see newsletter issue 16, December 2012) and that more space to manoeuvre is granted for France, Italy and others to meet the requirements of the pact. The Italian head of government, Renzi, who was the only social democrat to have scored substantial gains in the elections, has taken the lead to tie the support for Juncker to some changes in the crisis management. They are not putting the fiscal pact as a whole into question, but want an easing of the conditions and more flexibility for the time frame. For instance they suggest that investments into reforms are not counted as part of public debt. In return, they promise to fulfil the final goals of the fiscal pact.

This is obviously an attack against the core of the dominant strategy of crisis management with fiscal discipline and austerity and might reverse some of the harsh economic and social measures.

What is particularly interesting here is that for the first time a coalition against the German dominance is built up openly. Besides Renzi, Hollande, the Austrian chancellor, Faymann, and the Danish head of government, Thorning-Schmidt, the German vice chancellor in the Grand Coalition, Sigmar Gabriel, has also joined the alliance. This is challenging the Merkel camp on the one hand, but it is also limiting the scope of the anti-German front. Because Gabriel will, of course, not take the risk of breaking-up the coalition in Berlin. So the revolt against Merkel has a built-in backstop, and is – in the end – again very much determined by the German interests.

However, if the manoeuvre is successful it might serve as a model for further attempts to push back the German orthodoxy, which also at other fronts is on the retreat. Merkel had started a discussion in the EU about a competitiveness pact after a series of new treaties of budget and economic neo-liberal disciplines (the 'two-pack', 'six-pack' and fiscal compact) which failed to overcome the crisis. Indeed, social indicators are still worsening with Spain, for instance, reaching an unemployment rate of 25.9 per cent and a youth unemployment of 55.5 per cent in the first trimester of 2014. Although 'competitiveness' is at the centre of the EU growth strategy, the discussions about a competitiveness pact stalled. The proposals would result in contracts in which EU member states, especially those in financial problems, agree with the European commission on particular reforms, in the same way as the Greece and other countries had to accept the socially and economically hurtful Troika conditions. Financial assistance, the so-called solidarity mechanism, would be dependent on progress of the reforms. The issue might again be on the agenda in October 2014.

The 'old' problems unresolved

Another step back from German orthodoxy came in early June 2014 when the ECB lowered the general interest rate down to 0.15 per cent and for bank deposits at the ECB the rate was even set to -0.1 per cent. At the same time, the ECB offered 400 billion Euro long-term credits for banks. This time, the German Bundesbank did not even protest any more. In the meantime Draghi announced that the programme will be maintained until 2016, given that the 'euro zone recovery was still weak, uneven and vulnerable.' These unorthodox measures of the ECB remind us, that the 'old problems' have not disappeared.

During the electoral campaign the spin-doctors had tried to give the impression that the crisis was over. But also the IMF's assessment of the situation in the Euro area came to the conclusion on 20 June 2014 that in spite of financial markets being calm at the moment, this is the consequence of 'the recent ECB measures.'Even Jens Weidemann, head of the German Bundesbank, speaks of a 'deceiving calm' at the markets (Süddeutsche Zeitung, 24.6.2014, p. 2). In other words, it is the life belt of the ECB, and not self-sustained stability, that prevents financial markets from drowning and speculating against Euro countries with budget deficits. It will be interesting to see how the outcome of the stress tests for 124 large banks in the Euro-zone, to be carried out in October 2014 under the guidance of the ECB as the new supervisory body, will keep the markets calm. An old problem is that some of the European banks have still too much debt and have become 'zombie' banks, which lend too little to the economy. Real economy activity and investment have not reached pre-crisis levels and 'Inflation is worryingly low, including in the core countries.' In other words the spectre of deflation and a long lasting Japanese type of stagnation is not yet banished.

New financial reforms waiting

Although outgoing Commissioner Michel Barnier has boosted that he initiated 42 reform projects in the last five years, this impressing number does not reflect substantial reforms that effectively tackled the deepest crisis since the Great Depression. The finance lobby managed to water down meaningful proposals. The resulting reforms are full of exemptions, that make it easy to circumvent measures, and are in several cases inefficient and too fragmented to deal with the systemic character of the crisis. In other words, a lot of reform work still needs to be done, that goes beyond what is already on the new MEPs agenda as explained in the previous May 2014 Newsletter.

It is still unclear who would be the successor of Michel Barnier and what his or her financial reform orientation would be: reformist through regulatory intervention like Barnier or with neo-liberal trust in self-regulating markets as Barnier's predecessor, Charlie McCreevy.

With Juncker as president of the Commission, who also has decision-making power on financial reform proposals, there might not be a strong move to stricter regulation. Juncker has been chair of the Euro Group of Finance Ministers from 2005 to end 2012, including during the first phase of the Euro crisis that was dealt with in a messy undemocratic process. He has also been the head of the government of Luxembourg. Although the country has a population not larger than cities like, Bradford, Duisburg or Nabereschnyie Tschelny – it is the most important fiscal haven and offshore banking centre in the Euro-zone. According to the 2014 UNCTAD World Investment Report (WIR, Box Table I.1.1. (PDF: 9MB)) the country serves as a real bridge head of transit flows for Special Purpose Entities of TNCs. Out of USD 367 bn. inflows only 8 per cent serve real economy purposes and 6 per cent of the 364 bn. outflows. Also, Luxembourg has, together with the UK, blocked many reform initiatives, among others the Savings Tax Directive and Financial Transaction Tax.

To conclude: The next five years will not be easier than the past five ones. The 'old' problems are not solved but new ones have popped up. This looks like a growing mess.

Brief Update: TTIP – United States still oppose financial market regulation talks

Photo by Downing Street CC

During the latest negotiations on the Transatlantic Trade and Investment Partnership (for an overview see the February Newsletter) between the EU and the United States, the latter still opposed any talks about 'cooperation' on financial regulation in TTIP. However, trying to win over the US by toning down its ambitions, the EU is still pushing for these talks and has redrafted the proposals on what regulatory cooperation and a mutual recognition of financial regulation should look like. To put pressure on the United States to include this cooperation mechanism, Mr Barnier, the EU's commissioner dealing with financial markets, has now even refused to make any proposal on more market access for the US financial services on EU markets as leaked documents have shown.

Brief Update: Trade in Services Agreement (TiSA) leak reveals liberalisation agenda

The negotiations of 22 countries and the EU on a new services agreement alongside the existing WTO agreement (GATS) proceeded with the latest negotiation round on 23-27 June 2014 in Geneva. After a long period in which these negotiations took place in secrecy, a leak by Wikileaks on the financial services chapter revealed that TiSA will clearly go beyond the existing general GATS rules, for example with rules that require not to change any existing liberalisation and regulation ('standstill') and strengthening rules against financial services' monopolies, calling on the parties to 'endeavor to eliminate them or reduce their scope'. The countries also shall commit to 'endeavor not to limit or restrict the present degree of market opportunities, nor the benefits already enjoyed by financial service suppliers of another Party'. In other words, the TISA should integrate the current financial market openness in the agreement so that reversing liberalisation would become very difficult and costly in the future. It is also intended that all foreign (financial) service companies have to be treated equally (or better) except for those services sectors that have been explicitly excluded. This contrasts with other parts of the agreement, in which rules, e.g. 'market access' rules, are described that only apply to those sectors that are explicitly listed.

Calendar of official events

For background to the official agenda of European institutions, see the following websites:

- The European Commission (EC)
- The Economic and Financial Affairs Council (ECOFIN)
- The European Council
- The Economics and Monetary Affairs Committee (ECON) of the European Parliament
- The Financial Stability Board

The links below give the website with updates and overviews of documents and dates related to the EU decision making process

July

- **1-3, EP (Strasbourg):** First plenary session, election of the President of EP
- **6, Commission (Brussels):** Deadline of Consultation on Investor-State Dispute Settlement in the TTIP
- **7 Eurogroup (Brussels):** Meeting
- **7/8, ESMA (Paris):** Hearing on MiFIDII and MiFIR
- **8 ECOFIN (Brussels):** Meeting
- **14, ESA (Brussels):** Deadline Consultation on Risks from non-cleared OTC derivatives contracts
- **14-16, EP (Strasbourg):** Plenary, scheduled vote on the Councils candidate for president of the Commission
- **14-18, TTIP (Brussels):** 6th round of negotiations
- **17 EC (Brussels):** Consultation on the financing of resolution funds
- **22, ECON (Brussels):** Meeting

August

- **1,ESMA (Paris):** Deadline of Consultation on MiFID II / MiFIR
- **19, EBA (London):** Deadline of Consultation on benchmarking portfolios
- **19-23, Attac (Paris):** Summer Academy

September

- **3-4, ECON (Brussels):** Meeting
- **12, EBA (London):** Deadline of Consultation on Advanced Measurement Approaches for operational risk
- **13, EBA (London):** Deadline of Consultation on materiality, proprietary and confidentiality and on disclosure frequency
- **15-17, EP (Strasbourg):** Plenary
- **18 Eurogroup (Brussels):** Meeting
- **18-21, G20 (Cairns, Australia):** [Finance and Central Bank Deputies meeting https://www.g20.org/]
- **19 ECOFIN (Brussels):** Informal Meeting
- **22-23, ECON (Brussels):** Meeting
- **26, EBA (London):** Deadline of Consultation on permanent and temporary uses of the IRB approach
- **30, ECON (Brussels):** Meeting

October

- **?, EBA (London):** Stress test results for 124 major EU banks will be released
- **7, ECON (Brussels):** Meeting
- **9-10, G7 (Washington):** Finance Deputies, Ministers meetings
- **13, ECON (Brussels):** Meeting
- **13, Eurogroup (Brussels):** Meeting (tbc)
- **14, ECOFIN (Brussels):** Meeting (tbc)
- **21-23, EP (Strasbourg):** Plenary
- **23-24, European Council (Brussels):** Meeting

November

- **3-4, ECON (Brussels):** Meeting
- **9, Eurogroup (Brussels):** Meeting
- **10, ECOFIN (Brussels):** Meeting
- **11, ECON (Brussels):** Meeting
- **13-15, G20 (Brisbane, Australia):** Possible Deputy Finance Ministers and Central Banks communiqué drafting
- **15-16, G20 (Brisbane, Australia):** Heads of State Summit
- **17, ECON (Brussels):** Meeting
- **24-27, EP (Strasbourg):** Plenary

December

- **1-2, ECON (Brussels):** Meeting
- **8, ECON (Brussels):** Meeting
- **13, Eurogroup (Brussels):** Meeting
- **14, ECOFIN (Brussels):** Meeting
- **15-18, EP (Strasbourg):** Plenary
- **18-19, European Council (Brussels):** Meeting

Banner photo credits:
money: http://www.flickr.com/photos/kiki99/ / CC BY-NC-ND 2.0; the griffin: John Christensen;

FORDFOUNDATION
Working with Visionaries on the Frontlines of Social Change Worldwide

This newsletter has been produced with the financial assistance of the Ford Foundation. The contents of this newsletter are the sole responsibility of SOMO and WEED and can under no circumstances be regarded as reflecting the position of the Ford Foundation.

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.

SOMO weed