FINANCIAL CRISIS: A CALL FOR EUROPE TO ACT AS ONE

SAVING THE BANKS FROM THE PROFITEERS AND THE SPECULATORS

Thus far, the policy response in Europe has been for the European Central Bank (ECB) to inject emergency liquidity and for governments to save particular banks in trouble on a case by case basis.

This is certainly necessary. However, it is not enough. It is not enough because this is not just a simple liquidity crisis hitting a few banks. This is a systemic crisis. Massive asset depreciations have put the solvency of the entire banking system in doubt. Risk aversion is so high that banks are even reluctant to lend to each other. In short, confidence in the overall banking and financial system has simply evaporated.

A systemic crisis calls for a systemic policy response. To restore confidence in the banking sector, a sector so vital for financing productive investments and growth but ravaged by irrational profit-maximising herd behaviour of short-sighted bankers, the public actor needs to re-assert its influence.

ETUC proposes to:

- **Draw up a European Recapitalisation Fund:**
  - We need a Recapitalisation Fund because the alternative of the public sector buying up toxic assets originating from the US means nationalising losses while leaving the sector entirely in the hand of those who have mismanaged and have gained enormous bonuses from it. This is not the way to restore confidence in the banking sector!

    Instead, with a recapitalisation fund buying up preferred banking stock, the financial sector can be brought back to function for the public interest. Bonus payment systems can be reformed, attempts by banks to escape from (re-) regulation by constructing another 'shadow-banking' sector can be prevented from the start. And future potential dividend flows can pay back the public investment made.
  - We need a European Fund and a European level approach:
    - Because banks have become too big to be rescued by individual (small) countries.
    - To avoid a situation in which a national governments leave the rescue of cross-border multinational banking groups to other governments, hence to no one. .

  - To get out from the straightjacket of the Stability Pact. Individual countries' bail out will boost public debts and deficits and will trigger fiscal tightening to respect the Stability Pact.

- **Cut central banks' interests rate now and cut them deeply**. **In return have the central bank steering liquidity.** By refusing to cut policy interest rates, the ECB has squandered away a whole year. During that year, banks have been confronted with short term interest rates actually being 50 to 100 base points higher than long term interest rates. At a time when banks were disparate for profits to strengthen their equity and solvency, the ECB has done exactly the opposite and has squeezed banking profit margins.
  This, however, can not be a blank cheque. In return, the banks need to accept that the ECB, acting under a protocol from the European Parliament, steers liquidity and credit creation. Credits for those types of investment risking to create another speculative bubble need to be tied down. This can be done by a system of 'asset based reserve requirements', in which, for example, banks extending credits to commodities' hedge funds speculating on oil and foodstuff prices, are forced to deposit 50% of the credit extended with the ECB as a non-interest bearing deposit. The cost of speculative credit will rise and the cost of credit for real productive investment will fall as a consequence.

SAVING THE REAL ECONOMY FROM CASINO CAPITALISM AND FROM 'BEGGAR-THY-NEIGHBOUR' POLICIES

European countries mainly export to and import from each other. With such an integrated economy, it is extremely dangerous to leave the policy response to an economic slowdown entirely in the hands of national governments. This will result in 'economic warfare', in Member States trying to get out of the mess at the expense o f each other. However, competitive wage moderation, competitive tax cuts, competitive flexibilisation of labour will only make matters worse. It will simply kill European internal demand.

Instead, the management of demand must be made a matter of common concern for Europe:

- Monetary policy needs to take a forward looking approach and focus on the risks of depression to come and no longer on past inflation rates. The economy, as well as the financial sector, urgently need deep interest rate cuts to be implemented now.

- Fiscal policy needs to put in place a temporary moratorium on contractionary policy, especially given the high costs government now has to carry when bailing out the banks.

- However, to turn the business cycle around and restore economic confidence, more is needed.

Here, the downfall of casino capitalism is also offering an opportunity to be seized. With financial markets being highly risk averse, money is no longer flowing into real economy investments but is looking for safe havens such as short term deposits and government bunds.

ETUC proposes to overcome this deadlock situation by creating a European level Investment Fund aiming to invest in renewable energies, energy savings, innovation and European infrastructure networks, thereby replacing 'bubble' investment with 'green investment' as a new and sustainable driver for European demand growth. The European Fund, operated for example by the European investment bank, would issue AAA rated bonds, backed up by public sector guarantees. It would thereby mop up the excess demand for non-risk asset investments in today's global finance and provide cheap finance for 'green' investments.

SAVING WAGES FROM THE CENTRAL BANKERS AND THE COURTS

The ECB has picked the wrong target. Instead of tackling the financial crisis, it has been using wages as an alibi not to act and even to act in the wrong way by actually raising interest rates in the midst of a deep crisis.

In doing so, it is justifying a policy which has been and still is transferring billions and billions of euros' from wages to profits, as can be seen from the falling share of wages in GDP in many European countries over many years.

It is high time that the ECB comes to realise that robust wage formation and monetary stability do not oppose but complement each other:

- If the ECB wants to avoid 'bubble driven consumption', with asset price booms and households excessively indebting themselves in order to compensate for the lack of wage growth, then it needs to accept that real wages accelerate and at least start growing back in line with productivity.

- If the ECB wants to avoid a situation in which 'money is chasing investment' instead of the other way around, then the ECB also needs to become concerned about the distribution of income since it are excess savings, fuelled by rising income inequalities at the top of the income pyramid, which push financial markets to create new but risky financial techniques promising high returns for the excess savings of the super rich.

- If, at present, the ECB wants to prevent the financial crisis from turning into depression and deflation, it needs to stop with its crusade against wages. Policymakers in general should remember the fact that the Great Depression of the 1930's only took firm ground when employers started to cut wages and the crisis jumped over from the financial market into the goods and services market.

ETUC therefore calls upon:

- ECB and policymakers in general to stop the policy of wage moderation and support instead autonomous and strong collective bargaining practice on wages.

- **The ECB to do a complete overhaul of the model of monetary policymaking**. Inflation can not remain the only needle of the compass. ECB also needs to take into account the mandate of the European Treaty of pursuing economic growth, high employment and social cohesion. To ensure monetary policy is not only focussing on past inflation but also on where the real economy is heading exactly, **a Supervisory Board comprising European Social Partners and the members of the European Central Bank's Executive Board** has to be set up.

- Its affiliates not to engage in this practice of European workers undercutting each other. Instead, they should orientate wage bargaining on the sum of trend productivity and trend inflation.

- The Council and the Parliament to work to attach a Social Progress clause to the Lisbon Treaty in order to preserve the independence of collective bargaining from courts and judges.