

Does the financial crisis

Financial turmoil is just about to drag the world's economy, and therefore Europe's too, along in its wake. What must Europe do? What can it do?

the current EU Presidency can certainly not be accused of doing nothing. The flurry of meetings, international consultations and conferences convened in all four corners of the globe is enough to make anybody's head spin. The topics on their agendas present a mass of very short term concerns - damage limitation for the financial system - and prospects for regulation of the system in the medium term. The medley of thorny problems reduces the clarity of the different solutions proposed.

Right now, the most important actions taken by the EU are, first, the holding of a meeting of the G-20 scheduled for November, which might possibly have a systemic effect, and, secondly, the Member States' acceptance of the general principles of the rescue plan, even though this will still be controlled by each government at national level. This demonstrates just how limited and fragile Europe's banking and financial worlds really are, even without this crisis. When it comes to recapitalisation and providing guarantees to the banking system, the European Union has drawn its inspiration from the British plan. This was deemed more appropriate than the American plan, the details of which have still not been published. The plan provides for a major injection of public funds and the extension of a guarantee which, although capped, still amounts to many thousands of billions of euros. While these astronomical figures only apply to the guarantees and not to the immediate cash injection, such a plan still runs the risk of jeopardising the public finances of the main EU countries in the medium term. All the same, the very cornerstone of the whole euro edifice is budgetary discipline.

And so, paradoxically, throughout their somewhat frenzied rush of meetings during the past few weeks, the Presidents of the Union and of the Commission have been seeking to contain the growing risk of paralysis of some of the 27's institutions. Even before the crisis, the criteria for budgetary discipline had already been seriously messed about. Now, over the next few years they will be given an even rougher ride by the largest Member States. Yet budgetary discipline constitutes the sole foundation of the single currency! So, the national financial rescue plans could be in the process of stealthily undermining the foundations of the euro. When

certain countries overstep the Maastricht criteria, they put a burden on those Eurozone partners who have not abandoned budgetary discipline. This fuels the tensions at the heart of the zone and rekindles the debate on the relationship between a supra-national currency and national interests. The single currency could then suddenly find itself in a difficult institutional situation. The markets are probably aware of this, as they are anticipating the situation by currently weakening the euro against the dollar.

The current President of the Union, more than anyone else, has fully understood that the situation of the euro and the European Central Bank is precarious and, in the long run, even untenable. This has prompted him to table a proposal for an economic government for the Eurozone. According to the principle of "You have to keep running to avoid falling behind", France has chosen not to wait any longer but to press for European reforms to obtain the earliest possible strengthening of the institutional foundations of the euro. An economic government for the Eurozone, empowered with certain competencies for taxation and budgetary matters, would enjoy a double advantage. Firstly, it would reinforce the euro by conferring on it a political legitimacy complementing its present, solely economic, legitimacy. Secondly, such a government with its budgetary powers would act as a counterweight to the ECB, which remains imprisoned in its straitjacket of monetarism, a principle carved in stone in its statutes, which frustrates the countries that have no respect for the Maastricht rules.

The financial crisis, and the basically national reactions that have carried the day, could therefore soon be pushing the Eurozone - and the European Union with it - up against the wall. The choice must be made between a genuine integration of economic policy levers and the risk of internal collapse. However, even if the idea of an economic government were to take off, it would pose another serious problem for the European institutions. The Eurozone would become the true heart of the Union, even more than it is today, with 11 satellites whose combined economies represent less than a quarter of the whole Union. As for the United Kingdom, its role as referee would only be reinforced.

pose a danger for the euro?

Among the more general proposals put forward by the EU Presidency is a suggestion for convening a conference in the United States this November to lay the foundations of a new international economic order. There is already talk of a new Bretton Woods. The call for a "new order" while monetary and financial disorder has ruled for over 30 years (since 1971) should not conceal the fact that the 1944 Bretton Woods agreement was based on a clear vision of priorities. Monetary order was vital for removing uncertainty from international payments, but this was not an end in itself, just a means to ensure the harmonious development of trade - that was the real priority of the Bretton Woods system. International trade was viewed at that time as the keystone capable of bringing a shared prosperity to all peoples worldwide. However grave and serious the current financial crisis is for Northern countries, it is obvious that the re-establishment of a world order today cannot proceed without making explicit the hierarchy of values on which it has to be based. If the European Union wishes to remain credible in the eyes of the rest of the world, it must put the scandal of the non-development or flawed development of entire continents at the heart of any plans for the new Bretton Woods.

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Translated from the original French

For a Financial System that Serves the Common Good

The current financial turbulence is systemic in nature. It is a symptom of steadily increasing pressure that year after year is undermining the material, social, and intellectual foundations and ethics of the socio-economic system based on political and economic freedom. In a recent report (*'Finance: Servant or Deceiver? Financialisation at the Crossroads'*, Paul H Dembinski, Palgrave Macmillan, 2008), the *'Observatoire de la Finance'* carried out an extensive analysis of this transformation which, unless it is defined and then defused, is likely in the short term to deflect the market economy from its principal vocation, that of promoting the dignity and well-being of mankind.

For the last thirty years (since the end of the "glorious Thirties"), finance has constantly increased not only its share of economic activity but also its hold on the outlook and the aspirations of political, economic and social actors. "Financialisation" is our term for the increased practical and conceptual role of finance. Financialisation has transformed our contemporary economies and also our societies by increasingly organising them around the search for financial efficiency. Today, pushed to its extremes, this tendency is approaching its breaking point.

The fundamental values of free will, responsibility and solidarity - which form part of the common good, and without which a free and humane society cannot exist - are in danger. The *Observatoire de la Finance* proposes three lines of action:

- ▶ Carry out a critique - in the positive sense of the term - of both the social realities and the moral premises that underpin the world vision (*Weltanschauung*) as promoted by contemporary economic and financial theories, in which the mantra of efficiency has overcome nearly all moral resistance and has imposed itself as the ultimate criterion for making judgments. This should lead to challenging the dogmatic pre-eminence of a preoccupation with economic and financial efficiency, and also to the reinstatement of ethical concerns, especially those linked to the common good.
- ▶ Encourage the development of long-term commitments in all aspects of economic and financial life. Such commitments would slow down or even reverse the destruction of relationships due to the current focus on extracting surplus profit through ill-considered transactions. Modern finance has triumphed because it has raised to a frenzied level the quest for a "capital gain" and that of immediate exit, realised instantaneously in the transaction. This would be a huge undertaking with implications in every field: finance, taxation, remuneration, local development, etc.
- ▶ Find ways and means to loosen the stranglehold with which the unrealistic promise of retirement benefits (such as hoarding money in savings plans) is currently restricting productive activity. This will require political courage and a high degree of professional integrity, seeing that the professional interests of financial intermediaries could be at stake. But the work is urgent and must be undertaken and show results before it becomes obvious that the financial promises linked to savings and pensions systems can never be kept.

Today we are facing a serious threat to the economic and political freedoms we treasure. This threat is the result of having succumbed to the illusion that private greed could genuinely contribute to the common good. While private greed may give the impression of increasing economic efficiency, this is achieved at the cost of destroying deep down the very foundations of society: trust, respect and solidarity. Today it is vital, while there is still time, that we take our future into our hands - walking out of the gilded prison of financial promises and slamming the door, freeing mankind of the illusions of "financialisation", and setting it to work for the betterment and dignity of us all.

The publication 'Finance & the Common Good'/Bien Commun, and also the 'Observatoire de la Finance's website, are now available to you for the purpose of research and for the discussion of these ideas, proposed in our Manifesto for a Financial System that Serves the Common Good. (Please send in your views to manifeste@obsfin.ch).