EU summit in Brussels

European heads of government bow to banks

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For over a year leading European politicians promised to regulate financial markets and rein in the activities of speculators in order to prevent a repetition of the international financial crisis. Now finally the mountain has moved and given birth to a mouse. The regulations agreed by the European heads of state and government at their conference a week ago in Brussels are even weaker than the noncommittal regulations adopted by the US.

A “European Systemic Risk Board (ESRB)” is planned, that publishes warnings and recommendations, but neither makes nor enforces decisions. In addition, existing authorities and committees are to be more closely linked with one another. Responsibility for the daily business of the European and globally active banks is to remain in the hands of national supervisory authorities.

The regulations for the activities of banks and hedge funds are to be intensified slightly, but in common with the US, Europe will continue to permit the reckless and obscure speculation that unleashed the worldwide financial crisis. Banks will be able to continue their trade in credit derivatives, high risk credit default swaps, and other thoroughly speculative finance packages. There will no authority to decide on precisely what sort of financial activity should be allowed.

Banks may continue to outsource credit packages from their balance sheets and transfer them to tax havens, which are largely free of any oversight. This means that banks can hide away billions that do not appear in their official balance sheets. Such practices have already resulted in losses amounting to tens, or even hundreds of billions—most notably in Germany in the case of several state banks and Hypo Real Estate.

“There will be no real break with the partly obscure business practices of the financial institutions” was the conclusion drawn by the *Süddeutsche Zeitung* in a commentary titled “The Unbridled Monster”. “As a result the next crisis, the next crash is pre-programmed.”

At the beginning of June the German chancellor Angela Merkel had fiercely criticised the American government for pumping trillions of dollars into the US financial institutions and assisting them to re-establish their grip on financial markets prior to the imposition of new regulations for international financial markets. Now, however, it is clear that also in Europe it is financial interests and lobbies that determine the rules when it comes to their future business prospects and profits.

Above all the British government, which is anxious to preserve the status of the City of London as Europe’s biggest financial centre, was opposed to any meaningful new regulation. But the German and French governments were also unwilling to confront the financial oligarchies in their own countries. Both governments have awarded hundreds of billions in taxpayer money to help the banks out of the crisis without taking action against a single financial player responsible for the disaster.

Now they regard any extensive regulation as a “competitive disadvantage” and are trying to solve the crisis at the expense of their rivals. The result is increasing tensions within Europe. One member of the board of the European Central Bank, Lorenzo Bini Smaghi, recently warned at a conference in Milan on the regulation of the financial markets, “there is a risk the sense of urgency for reform fades away and nationalistic tendencies and institutional jealousies re-emerge”.

In the course of this dispute the European Union and its institutions are openly acting as the executive arm of Europe’s most powerful financial interests and in the process are making a mockery of existing democratic conventions. Both tendencies characterised the summit in Brussels. While specialists on the fifth floor of the EU council headquarters negotiated regulations for the financial markets, which will become law as early as this autumn, the heads of government were arguing two floors above over how to push ahead with the Lisbon Treaty despite the fact that it has been voted down by the Irish electorate.

While hostility to the European Union on the part of the European population grows and becomes more open, EU governments seek ever more unscrupulously to enforce their will against any opposition.

Only ten days before the Brussels summit the level of participation in the European election reached a historic low of just 43 percent. Anti-EU parties—mainly of a right-wing character—were able to register increased support in a number of countries. The election result was generally interpreted as a sign of broad opposition to the European Union and its probusiness orientation. However, instead of discussing the causes of this opposition and adapting to the wishes of the electorate, the heads of government spent hours debating new legal wangles to outfox voters.

The Lisbon Treaty had been worked out as a replacement for the European Constitution, which had been voted down in referenda held in France and the Netherlands. Then, to the dismay of EU politicians, the Irish electorate voted down the Lisbon Treaty one year ago. In most other countries the governments have not allowed a vote—fearful of just such rejection. However the treaty cannot become law without the agreement of all 27 EU member countries. Alongside Ireland, Poland and the Czech Republic have not ratified the treaty, and in Germany the issue is to be decided in June when the country's Constitutional Court meets to deliver its judgement on an appeal against the treaty.

In Ireland a second referendum on the Lisbon Treaty will now be held at the beginning of October. In order to prevent a second failure, the Brussels summit agreed a number of concessions aimed at appeasing in particular right-wing opponents of the EU. The summit agreed that the EU would not seek to challenge Ireland's strict laws prohibiting abortion. Nor would it intervene in Irish tax policy (Ireland has been able to attract a number of dubious banks due to its low taxes) and would accept the neutral military status of the country.

These concessions, however, are not to be written into the Lisbon Treaty because this would necessitate recommencing the entire ratification procedure—which would very likely lead to its failure. Instead the concessions are included in a supplementary protocol, the legality of which will be decided at a later point. Experts have also pointed out that the concessions are "to a large extent of a symbolic nature" and "only affirm what is already existing law in the Union". (*Neue Zürcher Zeitung*)

In other words, the entire exercise is a blatant manoeuvre aimed at duping Irish voters under conditions where no significant alteration is made to the Lisbon Treaty.

A further topic to dominate the Brussels summit was the extension for a further five years of the term of office of EU Commission President José Manuel Barroso. The horse-trading over this issue is characteristic for the functioning of the European Union.

Prior to the summit German Chancellor Angela Merkel and French President Nicolas Sarkozy had agreed to extend Barroso's existing term of office, which is due to end this autumn. Behind the scenes they then succeeded in bringing all the other heads of government into line. "From the communists in Cyprus to Berlusconi in Italy" all 27 leaders had expressed their support for Barroso, one participant reported.

What makes Barroso so attractive is his "remarkable adaptability", the German *FAZ* newspaper notes. The former Maoist, now a leading conservative politician, is renowned for his ability to adapt to the interests of the strongest business or finance lobby.

The *FAZ* describes his boundless opportunism as follows: "Under his direction the commission was the engine of the Single Market in the days when liberalisation was still the rage in Europe. Later, when globalisation began to show its less attractive side he discovered social legislation, even though the EU only has a limited competency to intervene on such issues. Then when the job was to save banks and support automobile companies in the financial crisis, the officials of his commission did not want to look like spoilsports."

The extension of Barroso's term of office has run into difficulties because the European parliament is also demanding a say. Both the chairman of the social-democratic parliamentary group, Martin Schulz, and the chairman of the Green parliamentary group, Daniel Cohn Bendit, have expressed their opposition to any premature nomination of Barroso. They want to shift the decision to the autumn when the Lisbon Treaty is expected to come into force. Then the European parliament has a right to participate in the nomination of the commission president and not just vote on the candidate.

In fact neither the Social Democrats nor the Greens have any genuine objections to Barroso. "The opposition to Mr Barroso appears driven to a large extent by a desire to extract concessions from him when he considers appointments to his new Commission and draws up the policy programme for his second term", was the comment by the British *Financial Times*. In other words, the main issue for Schulz and Cohn Bendit is the disposition of posts and influence rather than any fundamental disagreements about policy.