“Anti-speculation” measures sharpen euro crisis

Stefan Steinberg
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On Tuesday May 18, the euro dropped to a 4-year low of 1.21 US dollars in Asia as markets gave a negative verdict on measures taken by the European Union and Germany aimed at reining in particular forms of finance speculation. On the same day, EU finance ministers had agreed to guidelines aimed at restraining some of the activities of hedge funds and private equity funds operating in Europe. The EU paper was adopted in the face of opposition from both the United Kingdom and the United States.

The US Treasury Secretary Tim Geithner had previously written to European Union officials complaining that the new draft rules constituted protectionism, while British Finance Minister George Osborne, attending an EU meeting for the first time since his recent appointment, made clear he opposed the EU directive. Currently, 80 percent of Europe’s hedge fund industry is located in London.

In a further development, the German regulatory agency Bafin introduced a ban Tuesday on “naked short selling”, the practice of short selling a bond or share without borrowing the security or ensuring that the security can be borrowed. Parallel to the slump in the value of the euro, European stock markets also fell heavily on Wednesday, particularly in reaction to the German ban.

The recommendations agreed by EU finance ministers Tuesday, the unilateral German ban on “naked short selling”, and an all party consensus in Germany for a transaction tax on financial transactions had been preceded by a series of statements by leading European politicians criticising the role played by hedge funds and other forms of speculative activity in the growing crisis of the Greek economy which, in the space of weeks, has developed into a crisis of the entire European Union.

On May 6 German Chancellor Angela Merkel had declared that it was a “scandal” that hedge funds had not been regulated. “In some ways, it’s a battle of the politicians against the markets”, she fulminated, which “I’m determined to win.” A few days later the Swedish finance minister compared investment companies speculating on a fall in the value of the euro in relation to the Greek crisis as “a pack of wolves”, while the head of Bafin, Jochen Sanio, recently told the German parliament’s budget committee that Europe confronted a “war of aggression by the speculators, against the euro zone”.

The German and other European governments are now seeking to present the measures introduced at the start of this week as important steps towards the regulation of the finance markets. Nothing could be further from the case. Such posturing is largely politically motivated and utterly hypocritical. Throughout the current crisis, the German government and all other European administrations have unwaveringly followed the diktats of the financial markets and are determined to defend the interests of their own banking elites.

This remains the case following the latest EU and German proposals. Making this point clear the EU MEP Jean-Paul Gauzes reported on the EU finance minister proposals Tuesday: “This position will ensure better transparency and better investor protection while at the same time being on the side of the financial industry when it is working for the real economy”.

The slump in the value of the euro and European stocks this week has little to do with market worries that the latest German and European proposals would have any real effect on speculative forms of investment. Market insiders were agreed that, irrespective of any new European legislation, hedge funds would be able to

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continue their activities—albeit possibly from new locations. Finance analysts were equally dismissive of the German ban on “naked short selling”. The majority of such trading takes place in the US and the UK with very little trading in such contracts in Germany. Under conditions of a globalised finance world a German ban would have virtually no consequences. The country’s biggest bank, Deutsche Bank, conducts its own “naked short selling” from its branch in London and remains unaffected by the ban.

The real reason for the negative market reaction to the latest European and German measures is international investors’ fears that the German and other European governments are seeking to pander to growing public hostility to the banks and are insufficiently determined to carry out the policies of “fiscal consolidation” demanded by finance capital, i.e. the imposition of draconian austerity programs throughout Europe similar to those already imposed in Greece, Hungary, Romania and Latvia. At the same time investors are concerned over the increasing disarray in European governments’ attempts to develop a common financial and budgetary strategy. The German ban on “naked short selling” was carried out unilaterally by Germany, i.e., without consulting its European partners and immediately drew criticism from its closest neighbours, France and Austria.

The dilemma for the German and other European governments is that they must now implement drastic cuts in their own budgets in order to pay for the massive bailout of the banks and the consequences of the 2008 financial crash. They are attempting to give the impression they are undertaking some punitive measures against speculators, but their agenda remains that dictated by the banks.

This was made clear in the debate in the German parliament Wednesday on the massive one trillion dollar EU-IMF rescue package for Greece. On Friday German parliamentarians are to vote on Germany’s €123 billion slice of the eurozone package.

In the debate, the German chancellor underscored the urgency of the crisis, arguing that the very future of Europe was at stake. “The current crisis facing the euro is the biggest test Europe has faced in decades. It is an existential test and it must be overcome ... if the euro fails, then Europe fails”, she said.

In order to tackle this crisis, Merkel stressed, Europe needed “a comprehensive reform of the stability and growth pact, with tougher rules of the game aiming to achieve one thing in particular: that member states bear the responsibility for a solid budget management.” This is precisely the agenda demanded by the banks and international finance. Merkel went on to declare that the German government would propose measures for a “debt brake” for European countries at an EU special meeting on Friday. A similar “debt brake”, which strictly limits the amount of debt a country can acquire thereby enforcing governments to impose strict spending programs, was introduced in Germany last year by the former grand coalition government.

Details of the German government’s proposals for the EU were leaked to the German business daily, *Handelsblatt* earlier this week. According to a confidential finance ministry document, Berlin intends to demand “a rigorous and independent examination” of stability programmes in eurozone countries by the ECB or by a “select group of research institutes.” The document goes on to advocate punitive measures against countries which fail to carry out austerity measures, including the suspension of structural funding for eurozone countries and/or a 12-month suspension of European Council voting rights. As a last resort, the document even includes a provision for member-state bankruptcy which would transform a defaulting country into “a protectorate of the European Commission.”

These thoroughly undemocratic proposals were hailed by Germany’s leading business daily as a “much needed economic model.” The paper went on to stress that “Europe has everything to gain if it continues in this direction. Germany should stick to its guns.”

Behind all the smoke and mirrors of its “fight against speculators”, the government in Berlin is intent on introducing semi-dictatorial powers and implementing austerity measures on behalf of the banks in Germany and throughout Europe on a scale unknown since the Brüning government of the 1930s.

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