PSE

Socialist Group in the
European Parliament

European Parliament
Rue Wiertz 60
B-1047 Bruxelles
T +32 2 284 2111
F +32 2 230 6664
www.socialistgroup.eu

Financial Market Failure

Time to rebuild and reshape, time for politics to prove its worth

Meeting in Manchester, which played such a central role both in the development of the capitalist system and in the emergence of an organised working class, it is symbolic and fitting that the PES Group of the European Parliament today adopts a set of principles which should guide the far-reaching reforms now needed of our economic and financial system, following the catastrophic failure of the freebooting financial capitalism of recent years. The five principles set out below rest on the declaration adopted on 5 November 2008 by European socialist and social democratic Prime Ministers and party leaders, under the chairmanship of PËS President Poul Nyrup Rasmussen.

1. Lifebelts are not just for bankers

- **So now it's clear for all to see**: sometimes the market is the problem and government is the solution.

- A few weeks ago, the spectacular failure of our financial markets brought Europe and the world to the brink of economic catastrophe. At the eleventh hour coordinated government intervention in Europe and elsewhere rescued the financial sector from meltdown. Now our leaders must do the same for the rest of us.

- We face the deepest economic crisis in 80 years. And it is in the midst of crisis that the value of our institutions, the value of democratic government, the value of Europe, are tested – can our leaders rise to the challenge? Will they act together to safeguard jobs and prosperity? Get it right, and they can build not just an economic recovery but also a better, more stable economic governance, a healthier democracy and a more progressive society.

- Where markets have failed, only strong, coordinated government action can restore confidence, fill order books, boost demand from both business and consumers. European Governments should increase public spending, encourage entrepreneurship and facilitate SME creation and growth. The more coordinated such actions are, the more effective they will be.

- To make all that happen, there are 4 key steps the EU can quickly take:

    1. Spell out the scale of stimulus needed, Europe-wide, in order to set a framework for Member State actions - and insist that all Member States must contribute to the recovery package, on the basis of what their fiscal positions will allow.

    2. Provide support for Member States experiencing financial difficulties, whose power to act alone is very limited. Outside the Euro zone, some have seen their currencies come under speculative attack and been forced to raise interest rates when they should be cutting them. The Euro has safeguarded its

members from currency crises, but even for some of them, the cost of financing public debt has soared. Europe has a vital role to play in raising and channelling capital - for example through insuring public debt, through Eurobonds or through increased European Investment Bank lending for SMEs and green investment.

3. Use Europe's established mechanisms - like the Lisbon Strategy Report, and the Economic and Employment Guidelines, due for publication soon - to send a clear message on what is needed. The priorities must be solutions that i) work fast and ii) strengthen and modernise the European economy.
4. For fast results, Member States must be asked to target help on those who need it most - and in particular on small firms and vulnerable households - a European lifebelt for those most at risk.

2. The banks which took our money have to deliver

- Governments didn't cough up trillions of Euros of taxpayers' money because they love banks, but because when the banks fail, companies can't get the credit they need, people can't get mortgages, businesses go bust, house values fall, jobs are lost.
- The banks took the money, now we demand results:
    - levels of lending to households and businesses, especially SMEs, must be rapidly restored; lending practices must become subject to much closer scrutiny through a Financial Ombudsman, with the task of ensuring that public money is used for the public good and not for private enrichment.
    - interest rate reductions must be passed on rapidly and in full.
    - no more mega-bonuses or golden parachutes.
    - no compulsory redundancies.
- Governments should make clear that they are prepared to take whatever additional powers are necessary to ensure that jobs, businesses and homes are protected.
- We demand far more transparency from governments themselves on their stewardship of our money. They must spell out clearly and publicly what they want from the banks as regards lending policies, governance and remuneration structures, and what action they will take to curb financial speculators.

3. Now is the time to save the planet

- Recession is the world's most immediate challenge, but by far the <u>biggest</u> challenge of coming years is climate change. Our only hope of avoiding eco-catastrophe is to shift rapidly towards a low-emissions, low-energy economy - but until now the scale of investment needed has been daunting.
- Now, we know also that the European economy needs a massive boost to investment to help avoid a deep and lasting recession. We call for a European Green Investment Package - a silver bullet that hits both targets.

- Europe is a world leader in rapidly growing sectors such as eco-technology, environmental goods and renewable power generation technology. European social democrats have set out an action programme to create **10 million new jobs by 2020 through green growth**. But to achieve these goals and meet Europe's climate change commitments will require massive investment**.** We call on Europe's leaders to rise to this challenge, with a package of smart green investment that puts Europe back to work and brings us closer to meeting our climate and energy goals.

4. Cooperation and solidarity - more than ever, it's in our interest too

- World wide, just as in Europe, it is the most vulnerable who bear the brunt of the financial crisis. The ILO has estimated that 150 million jobs will disappear next year throughout the developing world, as a result of the rich world's credit crunch. Much-needed capital is flooding out of less developed countries as the financial institutions search for safe havens for their money.

- Europe rightly prides itself on being by far the world's biggest aid donor. Yet we have no hope of achieving the Millennium Development Goals until the underlying rules of the global finance and trade systems are re-established on a more stable and progressive basis.

- Moreover, so long as our trading partners are in recession, it will be hard for European countries to get out of recession. Apart from our moral commitment to the MDGs, we need strong markets to buy Europe's goods and services - what helps developing countries, helps us.

- The lesson from the financial meltdown is clear: coordinated European action succeeded where national efforts had failed. In the real economy too, coordinated action - at both European and global level - will be far more powerful than purely national solutions. We join the call for a new Bretton Woods to create a new, more accountable, more stable and fairer global financial governance.

- In the short term, the G20 recovery plan must ensure that the IMF, together with central banks and governments in the developed world and the cash-rich SWF's, makes enough credit available to developing and emerging countries to fight off recession. And the Doha trade round must be brought swiftly to a successful and development-friendly conclusion.

5. Economists back to school please (and politicians too)

- In just a few weeks in 2008, the world of economics turned upside down. Ideas which had ruled the world for nearly thirty years, which had set boundaries to what was politically possible, which had dominated political and economic discourse, turned out to be false.
- With equal suddenness, old truths - long banished from the political mainstream - have been rediscovered. Without strong regulation and public supervision, markets - especially financial markets - are inherently unstable. Government has to be the ultimate guarantor both of the soundness of the financial sector and of the level of economic activity.
- Demand management is once again a core government responsibility. And now, with monetary instruments in poor shape, the most powerful anti-recession instrument is fiscal policy.

- We have also learned the hard way the dangers posed by the breakneck growth of the financial sector, driven by relentless financial innovation in search of ever more complex market-based solutions to cope with risks - such as exchange rate volatility - which were once the function of government.
- Each great failure of the governing economic model leads to profound changes in the way economics is taught and in the way we are governed:
    - the 1930s Great Depression led to three decades of Keynesian "welfare capitalism";
    - the stagflation of the 1970s led to the monetarist counter-revolution which has governed us since then.
- Now the failure of the market-worshipping, greed is good philosophy of the last 30 years must lead to fundamental self-examination by both economists and politicians. Economists have to rediscover a wider vision of how their profession can contribute to building a better society. And politicians must learn to think long and hard before contracting out their responsibilities to the magic of the market.

Manchester, 12 November 2008