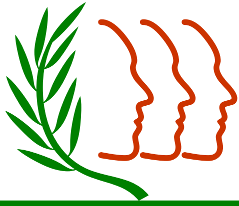

People's News

News Digest of the People's Movement

No. 26 4 June 2010

Leaders reticent regarding Treaty change

Angela Merkel said 'Germany tabled some ideas where a treaty change plays a certain role, but let me tell you we're at the beginning, it's very early days as regards to the working group [a taskforce led by EU Council president Herman Van Rompuy] and there is no agreement yet in the group about what needs to be done'.

Meanwhile, Van Rompuy's euro-zone taskforce, comprising finance ministers and ECB representatives, agreed four main objectives for reform: greater budgetary discipline, reducing different levels of competitiveness between member states, building an effective crisis mechanism to deal with future crises, and strengthening the EU's economic governance. They also discussed sanctions for states that violate the Stability and Growth Pact. The next meeting of the task force will be on June 7.

French finance minister Christine Lagarde played down the debate over treaty change, saying: 'Forget about the treaty ... focus on what we can achieve in the short term. What we are saying today is what are the deliverables we can produce very, very quickly. It is more of a timing issue rather than a treaty change or no treaty change. We are more concerned about being efficient and practical.' German finance minister Wolfgang Schäuble added 'we have all agreed on Mrs Lagarde's proposal to focus on measures we can implement within the existing treaties ... Only during the next stages it will be possible to assess options requiring treaty changes.'

EU finance ministers want agreement on changes to the Stability Pact by October, with an interim report from the taskforce to be ready by June 17. Van Rompuy is quoted as saying: 'we need to stay within the existing treaties', adding 'we won't go again in the adventure of treaty change. We have better things to do.'

French president Nicolas Sarkozy has submitted a proposal for EU economic government which he has described as a 'eurozone council'. French foreign minister Bernard Kouchner, said that Sarkozy wanted vast powers for the council: 'So far the 27 haven't managed to meet often enough. The eurozone council means we would see each other more often', he explained. 'It would have more powers than the European commission or the 27. There would be a secretariat and an agency; that is a proposal of the president.' France is to introduce its own proposals for euro reform by the end of May, according to Christine Lagarde.

Meanwhile, *Le Figaro* questions the EU's entire approach to the debt crisis, arguing that the turmoil 'has not prevented our beloved Eurocrats from carrying out a velvet coup d'état during the last days. They have decided

on the sly that we need "better governance" of the euro ... Have we realised that we are going to leave the keys of our budgetary policy to some Brussels-based Eurocrats who are not accountable to anyone, and who could just keep on making mistakes, as they have been doing with the regularity of a metronome during the last decade? This European coup d'état has been masterly finalised using as its only argument: "if we don't strengthen the rules now, the euro will fall into pieces". Fear can silence people.'

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Comments/articles for consideration should be sent to post@people.ie

ECB foresees further bank write-downs

The European Central Bank has warned that euro-area banks face a further €195 billion in write-downs over this and the coming year, and that contagion from the bloc's sovereign-debt crisis poses a major risk to the financial sector.

In its twice-yearly Financial Stability Review, published on Monday, May 31st, it estimates that banks should anticipate further losses this year of around €90 billion, plus a further €105 billion in 2011. This comes on top of the roughly €238 billion in bad debts already written off by the end of 2009.

Among the challenges facing the region's financial firms include a weakening commercial property market, hundreds of billions of euros in bad loans, economic problems in eastern Europe, and potential competition between government and bank refinancing needs, says the report.

'We are experiencing now a second wave of write downs, which relate to the performance of loans', ECB vice-president Lucas Papademos told reporters while presenting the review. 'This is not unexpected. Although write-downs on loans will decline, they will continue, simply reflecting the overall performance of the economy.'

Despite the measured statements from the outgoing ECB vice-president, analysts are growing increasingly concerned that euro-zone government financing problems could lead to a second banking crisis in the region. The recent bail-out agreements for Greece and other struggling euro-zone administrations have failed to allay market fears that governments may be unable to deal with their rising debt levels.

The concern has led investors to punish European banks, conscious that they collectively hold hundreds of billions of euros of public and private debt in countries such as Greece, Spain and Portugal, with much of it linked to depreciating property markets. The substantial stress in the sector has led banks to lodge near-record amounts of deposits at the ECB instead of lending the funds to other institutions, while risk-wary US banks are reducing their exposure to their euro-zone counterparts.

Last month's ECB decision to start buying euro-zone sovereign debt from banks is among the initiatives aimed at unblocking the trade in government bonds, with the Financial Stability Review disclosing purchases of €35 billion to date.

ECB president Jean-Claude Trichet defended the bank's bond buying scheme, telling a conference in Vienna that it did not undermine the ECB's inflation-fighting policy or independent decision making. 'We are not printing money', said Mr Trichet, who has been as pains to stress that the additional liquidity

created through bond purchases will be withdrawn in other areas.

Speaking in neighbouring Germany on the same day however, German central bank governor Axel Weber reiterated his criticism of the ECB programme. 'Monetary policy has taken new paths to fight the crisis that I continue to view critically owing to the risks', said Mr Weber, who is seen as a strong contender to become the next ECB chief in late 2011 when Mr Trichet retires.

Dissent in the camp

EU Commission president Barroso has said Germany's plans to try to change the treaty to enhance economic governance in the euro zone are 'naive', adding that it would not be possible to make changes to the treaty in order to only to tighten euro-zone rules.

'It would also be naive to think one can reform the treaty only in areas Germany considers important. We will not propose treaty modifications even though we are open to good ideas', said the Portuguese politician.

He said that member states were already considering linking the doling out of EU funds to budget discipline while questioning the legality the German plan to punish serial violators of the rules by removing their voting rights. There are already procedures by which states with excessive deficits do not vote. 'Under constitutional law it would be nearly impossible to do more, in my view', he said. 'Germany was until now a big winner from the euro with trade surplus of €134 billion, €115 billion of which comes from trade in the EU?'

How the EU elite got it wrong on the euro

Open Europe has published a collection of promises that the EU elite made to their citizens from the birth of the euro up to the recent crisis entitled 'They said it: how the EU elite got it wrong on the euro'. Politicians, central bankers and opinion formers warned citizens that without the euro their countries would suffer economically, unemployment would rise and growth would stagnate. Citizens were told that differences in economic structure and competitveness weren't a problem, as members states' economies would converge once inside the currency union and that strict rules would ensure budgetary discipline. Meanwhile, they said, the EU treaties guaranteed that taxpayers in one euro-zone country would never be forced to 'bail out' a foreign government.

While this is a reminder that the experts and our elected representatives do get it wrong, more importantly, it is a call for greater honesty and a reminder of the urgent need to find a new model that is both politically and economically sustainable; one that is more in tune with the interests and preferences of citizens.

Open Europe research: 'They said it: how the EU elite got it wrong on the euro'

Public meeting:
7:30 pm, Wednesday, June 16
The Liffey Studio, Main St., Newbridge
(above Johnson's Bar)

Emergency! Is the Health Service in Crisis?

The Irish situation: Marie O'Connor, journalist and author of 'Emergency: Irish hospitals in chaos'.
The developing situation in the EU: Mary Crotty, National Executive, People's Movement.

Mutual defence clause

The euro zone's €440 billion debt guarantee scheme is tantamount to the adoption of a NATO-style mutual defence clause and marks an 'unprecedented' change to the bloc's treaties, according to France's Europe minister.

In an interview with the *Financial Times*, Pierre Lellouche laid bare the French government's conviction that the emergency stabilisation scheme agreed earlier this month amounted to a fundamental revision of the European Union's rules and a leap towards an economic government for the bloc. 'It is an enormous change', Mr Lellouche said. 'It explains some of the reticence. It is expressly forbidden in the treaties by the famous no bail-out clause. De facto, we have changed the treaty', he added.

Mr Lellouche's comments are likely to go down badly in Germany where the government has insisted the debt guarantee scheme to help beleaguered euro-zone members is a temporary mechanism set up on an inter-governmental basis where Berlin retains a veto, and in no way implies a breach of the EU's treaties. Mr Lellouche said Angela Merkel, the German chancellor, was 'right' to say the EU could not be a 'transfer zone' where rich members directly subsidised poorer ones.

But he said the scheme institutionalised solidarity between states. 'The €440 billion mechanism is nothing less than the importation of NATO's article 5 mutual defence clause applied to the euro zone. When one member is under attack the others are obliged to come to its defence.'

Mr Lellouche rejected suggestions that the Franco-German relationship had broken down because of tensions over the Greek and euro-zone bail-out plans. But he conceded that it required a lot of effort to make the relationship work, likening the challenge to postwar reconciliation between the two countries: 'To hold out our hands and offer a partnership of equals with Germany required a lot of vision. That's a bit what it is like today.'

France accepted as 'normal' that Germany now asserted its own national interests, Mr Lellouche said: 'Twenty years after reunification, there is a new generation, there is globalisation, there is demographic pressure, you have a Germany that like everyone claims its national interests.'

Spanish austerity package approved by one vote

The lower house of the Spanish parliament voted in favour of Zapatero's plans to cut an additional €15 billion in spending by 169 votes to 168. The measures are aimed at reducing the country's 11 per cent deficit to six per cent of GDP by next year, says the *Irish Times*. According to the paper, the knife-edge vote needed the abstentions of 13 regional deputies before being passed. This, it adds, has weakened Zapatero's position, with the Socialist prime minister blamed for the financial crisis and several parties calling for his resignation.

The *Financial Times* reports that Zapatero – whose country holds the rotating EU presidency – came under attack during the debate from right-wing, left-wing and regional parties for his handling of the crisis. He now faces the threat of losing a vote on the 2011 budget this year, and could see the 2012 elections pushed forward, it adds.

Europe’s unions flex muscles against austerity plans

Trade unions in southern Europe have ramped up their efforts to block deficit cutting austerity plans, as Spain saw its sovereign debt rating cut on May 28, causing markets to tumble according to Reuters.

Italy’s six-million strong CGIL union announced a nationwide stoppage on June 25 to be preceded by protest rallies around the country two weeks earlier, while Greece’s private sector union GSEE said it would strike next month against pension reform.

While Portugal’s largest labour group prepared for a mass protest through the streets of Lisbon, Spain’s unions kept up their threat of a general strike as talks with the socialist government over labour reform remained deadlocked.

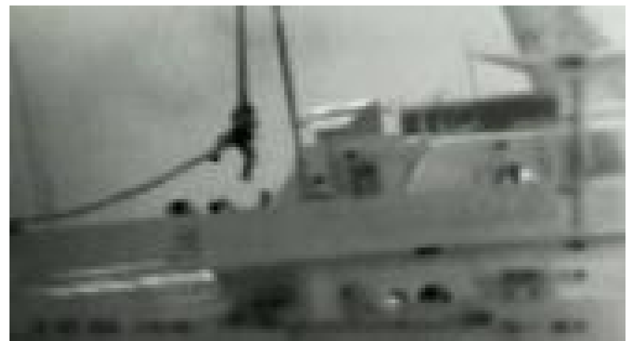
Pressure on Madrid to push ahead with the reforms grew last week after ratings agency Fitch cut Spain’s credit rating to AA-plus from AAA on Friday, saying it expects a very slow economic recovery in the next few years as a result of fiscal austerity measures. The unions have already promised a public sector strike over pay cuts.

As workers in all four nations resist government attempts to push through painful budget cuts, the leader of Greece’s GCEE said he would lobby counterparts around Europe to take joint action, a call quickly supported by Italy’s CGIL.

‘In this moment we need initiatives at a European level’, said CGIL leader Guglielmo Epifani, adding this will be his union’s position at a meeting of European unions in Brussels on June 1. Portugal’s CGTP union confederation said its rally was only the first step in protest at an austerity plan including tax hikes and a freeze on civil servants’ pay. ‘It’s a stage of a continuous struggle that will intensify’, said Armenio Carlos, a member of the CGTP’s national leadership committee. ‘We’re leaving all options open, including calling a national general strike.’

An increasing number of European countries are announcing austerity measures. Spain, Portugal, Britain, Italy, Holland and France all announced new steps in recent weeks.

MEPs denounce Gaza flotilla killings



MEPs denounced the killing of nine people after Israeli commandos boarded a flotilla of ships carrying aid to the blockaded Gaza strip. ‘The state of Israel is acting like a common terrorist. The international community cannot let this go on anymore’, Luxembourg MEP Robert Goebbels, previously the country’s economy minister for 10 years, said. Speaking as part of a cross-party group of socialist, social democrat, liberal and Green MEPs who had visited the Gaza strip as part of a parliamentary delegation in January. ‘It is a case for the

International Criminal Court. The ICC has to look at this act of piracy in international waters', he added. He went on to describe the Israeli blockade of the Gaza strip as 'a kind of gulag'.

Niccolo Rinaldi, a vice-president of the Liberal group in the parliament and an Italian MEP, called the events 'morally obscene. It is absolutely unprecedented. I don't think there has ever been any similar case to the one that took place yesterday', he said, adding that the lack of sanction against Tel Aviv by the international community has 'led Israel to think it can do whatever it wants to peaceful people'. The MEPs called on the EU to suspend the bloc's Association Agreement with Israel and for the OECD to pause its talks with the country over its accession to the international organisation.

Brussels proposes raising retirement age

EUObserver reports that the European Commission is proposing that the retirement age in member states should be raised regularly so that on average across the EU not more than one third of adult life is spent in retirement. Workers should work longer hours and retire later otherwise they risk a 'painful combination of smaller payouts and higher contributions'.

The commission paper, to be presented before the summer, notes that the real retirement age in the European Union is an average of just over 60 years, lower than the average retirement age of industrialised countries belonging to the OECD, which is 63.5 for men and 62.3 for women.

It suggests that by 2060, Europeans will live on average seven years longer. This would mean extending working life to almost 70 years of age in order to maintain the balance of not spending more than a third of adult life (over 18 years) in retirement. This is four years and eight months longer than the 65 years that is the current target for EU member states.

In a sign of the fight to come, around 400,000 demonstrators took to the streets across France recently to protest at plans to raise the retirement age. The government is planning to finalise its pension reform plans in July, according to French papers, and put them before parliament in September.

First use of 'enhanced cooperation'

EU justice ministers are expected to approve eleven member states setting common rules for divorce law under enhanced cooperation measures in the Lisbon Treaty at a meeting on June 4. It will mark the first time that the enhanced cooperation procedure introduced under Lisbon has been used.

TEAM AGM in Stockholm

The European Alliance of EU-critical Movements (TEAM), to which the People's Movement is affiliated, held its AGM in Stockholm over the weekend of May 8-9. Several delegations attended the meeting from Britain, Denmark, Ireland, Sweden, Germany, France, Norway and Iceland. The weekend was hosted by the Swedish People's Movement.

A public meeting was held on the Saturday with several speakers. Patricia McKenna from the People's Movement made clear that the current crisis over the euro was the first opportunity for a long time to raise opposition to the plans for deeper integration of the European Union. Although the EU was in a crisis it didn't mean the political elite wouldn't turn it to their advantage. Those critical of the EU must not miss the opportunity to take action. The contribution by a Swedish independent professor of economics was the highlight speech of the meeting in which he suggested the only rational and immediate solution to the euro-zone crisis was for Germany to withdraw from the euro. He forecast that within a short while one or more member states would drop out of the euro zone as the Stability Pact, however amended, is not sustainable.

Hallgrimur Amasson from the Isa-fold organisation in Iceland stated that the overwhelming majority of the people of Iceland were opposed to EU membership despite the fact that most members of the Icelandic parliament were in favour of joining. A referendum on EU membership is in the offing but may be put off due to the euro-zone crisis which would help assure a 'No' vote. Tomas Larsson from Sweden spoke about the different possible arrangements outside the EU for the Scandinavian countries.

The formal part of the AGM took place on the Sunday. This included reports from all the countries attending and showed both the diverse and common problems faced because of EU membership or the threat of it. Patricia McKenna representing the People's Movement was elected TEAM coordinator. It was agreed that the new TEAM Board would need to recruit organisations in the south of the continent especially those in Greece, Spain, Italy and Portugal. In particular it was important to make contact with labour movement organisations and trade unions to link them into the TEAM network.

TEAM, Campaign against Euro-federalism (Britain)

Poland should not rush to sign up to the euro

Poland has had a relatively good crisis. Last year, we were the only country in the European Union to register economic growth. Poland's real gross domestic product expansion of 1.7 per cent contrasted with an average EU decline of 4.2 per cent and contractions of roughly 5 per cent in Germany, Britain and Italy. This year, when Europe has been plagued by concern over excessive Greek debt, the Polish economy is projected to grow 2.7 per cent, accelerating to 3 per cent in 2011, according to the International Monetary Fund. The one-time problem state of central Europe stands out as a success story in a worrisome European landscape.

One important reason for this is that, as a non-member of the euro, Poland has been able to profit from flexibility of the zloty exchange rate in a way that has helped growth and lowered the current account deficit without importing inflation. Poland is committed eventually to entering the single currency. But recent experience – both the problems in the euro zone and our own generally positive circumstances outside it – make us question whether we should submit quickly to a rigid exchange rate regime as a pre-condition for entry.

The decade-long story of peripheral euro members drastically losing competitiveness has been a salutary lesson. Another conclusion from the Greek imbroglio is that there is no

substitute for countries' own efforts to improve competitiveness, boost fiscal discipline and increase labour and product market flexibility – whether or not they are in the euro zone. Hard work brings its own reward. Interest rates on 10-year government debt issued in zloty are now 5.6 per cent – compared with about 7 per cent on 10-year Greek debt.

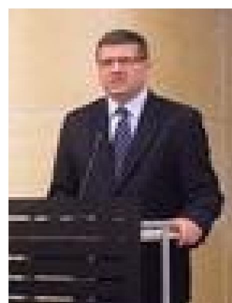
In the immediate aftermath of the 2007 sub-prime mortgage upheaval, Poland – like other central and eastern European countries – was hit by capital flight and fears of economic depredation. The period 2007-2008 was tough. But a combination of a propitious domestic economic structure and appropriate fiscal and monetary measures has yielded a surprisingly favourable escape route. With 38 million people, Poland gained from having a relatively large and self-sufficient economy and a financial system that is well-capitalised, profitable and resisted the temptation to diversify into exotic products.

Because Poland's currency is not bound by the Exchange Rate Mechanism II, we have been able to adjust the value of the zloty in line with domestic requirements. Between 2008 and 2009, Poland's real effective exchange rate, allowing for differences in unit labour costs, fell by nearly 20 per cent – a significant factor behind the narrowing of the current account deficit. During this process, we brought about a significant catch-up in GDP per capita, now at 60 per cent of the EU average compared with 49 per cent in 2004 when Poland joined the EU.

In the recent turbulence it has been widely recognised that a strong and independent central bank is in the best interests of the economy. We increased the scale and lowered the cost of central bank lending. Foreign exchange reserves rose to more than $85 billion, from a low of $65.7 billion in 2007, underlining foreign confidence.

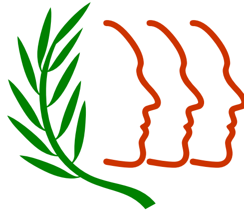
The government last year rightly decided to relax fiscal policy and allow the automatic stabilisers to function, with tax income falling and social security payments rising during the economic slowdown. But fiscal expansion has now gone too far. Given the relative buoyancy of the economy, the public deficit (7 per cent of GDP this year, up from 2 per cent in 2007) is now far too high.

The necessary structural reforms will, over the longer term, improve Poland's ability to meet euro entry criteria. But we must temper the wish to adopt the euro with necessary prudence. We should not tie ourselves to timetables that may prove counter-productive. Solid economic growth and sensible policies on debt and deficits are possible both within and outside the euro zone. Nations in a hurry to join the euro may end up missing their overriding objectives. Those such as Poland that do their homework and take their time may end up with a more sustainable economic structure that will make them better equipped for the euro in the long run.



By Sławomir Skrzypek (left), late president of the National Bank of Poland, who died in the Smolensk air crash. Source: BizPoland.

Visit the website of the People's Movement at:
www.people.ie



Where are the Lisbon jobs now?

Demonstration
Saturday, June 12th

Begins: Leinster House, 12:30

Labour Party HQ, Ely Place, 13:00

Fine Gael HQ, Upper Mount St., 13:30

Fianna Fáil HQ, Lower Mount St., 14:00

Ends: 14:30