# PEOPLE'S NEWS

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## Could the pension savings of Irish workers be expropriated by the state?

Many of our workers' life savings are tied up in pension schemes; there's a lot of money in Ireland's private pensions! At present there is €48 billion in defined-benefit private pensions and €23.7 billion in defined-contribution schemes.

To put that in context, it's about €14 billion short of the EU-IMF bail-out figure. So, it wouldn't be surprising if the Government and the EU and IMF had a long, hard look at it, now that they've successfully raided the National Pension Reserve Fund.

Since 2000, 1 per cent of GNP is paid into the NPRF each year. And now it's all gone to the banks: €15 billion to recapitalise Allied Irish Banks, Bank of Ireland and the Educational Building Society and the remaining €10 billion to buy shares in AIB and Bank of Ireland. You may recall that the raid was specifically called for by the EU and IMF in the memorandum agreeing the bail-out.

There are precedents for a grab of private pension fund savings, when a bankrupt state entirely runs out of money, a recent notable example being that of Argentina. In 2008 the state seized—nationalised—the assets of private pension funds but in a prior move had legislated to compel them to invest in the domestic economy. A number of Portuguese pension schemes have also been "nationalised."

But could it happen here? Could the pension savings of workers be used to pay the odious debt of banks? The answer is Yes; and you have to be aware of this, because this is often the way things end when a state goes broke. We are not at that point yet; but have no doubt that the EU and IMF are merciless in their defence of senior bondholders—primarily French and German banks.

We are continually told by various commentators and ministers that Irish pension funds need a financial injection, as many are suffering from "funding difficulties." Their investments in "blue-chip" bank shares have been wiped out, and their exposure to Irish bonds has also taken a hammering, as the price of these bonds has fallen—though there has recently been a partial recovery.

And then there is the accountancy contrivance of the financial reporting standard FRS17, whereby, since 2005, the value of accrued pension liabilities in defined-benefit schemes must be included in the balance sheet of the firm!

In many cases, however, the scheme's future liabilities might outweigh their ability to pay, so they need either extra capital injections or access to investments that return a risk-free high yield.

Enter Brian Lenihan, of bank-guarantee fame, who in December 2010 introduced a scheme—the Sovereign Annuities Initiative—that seems to provide just such an opportunity for the pension funds to get higher-yielding bonds to recapitalise their funds and for the state to get its hands on more of workers' savings.

Irish ten-year bonds are at about 10 per cent at the moment, and if our pension funds could invest in that government debt at something close to that yield it would go a long way towards covering the potential future losses of those funds. But under present legislation pension funds can invest only in top-rated, low-yielding sovereign debt. This prudent investment vehicle would typically be German bonds, yielding 3.2 per cent on ten-year debt.

But the scheme introduced by Lenihan allows the National Treasury Management Agency to issue new bonds that will be available for Irish pension funds, allowing them to buy new debt paying high interest. On the face of it this seems to provide a very neat solution to the funding problem for Irish pension funds, and no doubt will be couched in terms of "keeping our money at home."

But beware: it is also a new source of funding for the state, which then would not have to rely solely on the EU and IMF. It also provides a vehicle whereby the state can start the process of grabbing your savings and pouring them into the banks. And there is an added inducement for trustees and fund managers, in that the statutory minimum funding standard will be changed to allow pension schemes to reprice their liabilities to pensioners to the extent that they purchase sovereign annuities or bonds.

Consider the facts: if the interest rate on an investment is high, that rate reflects the risk associated with that bond. Higher yield is the natural result of higher risk. So pension funds would be

exposing their members to higher risk—or, more precisely, fund managers would be doing so, and they bought Irish bank shares at the top of the market!

One could claim that their judgement was not the best and could definitely say that they are not accountable for their mistakes, other than through being sacked by the trustees. The managers would also expose Irish workers' savings to the Irish state, which would, most probably, use them to finance the banks.

In the present downturn it is natural that trustees and fund managers would be attracted to high-yielding bonds, particularly if the state guarantees them. But what is this guarantee worth in our present situation, where most commentators are predicting an Irish default during the next few years, unless something is done to restructure the debt? Would the state find it easier to burn the workers than to burn the bondholders?

One thing is certain: the recent economic growth forecast by the International Monetary Fund, at 0.5 per cent, doesn't augur well; and it is a given that reduced economic activity results in reduced earnings for the government, making buying Irish government bonds more risky.

So, what can you do? The scheme has not become fully operational yet, as insurance companies are at present considering what types of sovereign annuities to offer, but it is unlikely that there will be any significant developments in this respect until the NTMA has issued the relevant bonds and details of the proposed changes to the funding standard have been made available.

So there is time to bring this issue to the attention of the trustees of your scheme or your fund manager, letting them know of your misgivings.

## Lenihan admits that bail-out was a "forced loan"

Brian Lenihan has admitted that the European Central Bank compelled Ireland to take a "forced loan" bail-out last November, but he didn't mention that their interests lay in defending the euro and looking after the bondholders—not the people of Ireland. Surprisingly, he offered no sign that he had resisted the ECB, other than a vague assertion that he fought the "good fight," instead merely accused members of the executive of the ECB of briefing against Ireland and of "betrayal."

Lenihan also referred to the visit of the EU Commissioner for Economic and Financial Affairs, Olli Rehn, to Dublin in November, before the first indications emerged publicly that a "forced loan" might be in the offing. He said: *"There was no question of our entering the facility raised by Rehn. In fact, quite the contrary: he suggested it wasn't essential for Ireland to access funds from any European facility."*

However, contrary to his suggestion, both the EU Commission and the ECB continue to insist that they acted in tandem at all times.

Would it be too much to expect that Mr Lenihan might now reveal to us what really happened on that night in September 2009 when he decided to bail out the banks? Could it possibly be that those same ECB interests, of defending the euro and looking after the bondholders, dominated that decision? We are convinced that they did.

## Finnish election result threatens Portuguese "rescue"

Finnish politics has been transformed with the soaring success of the nationalist True Finns in the general election. A staunchly anti-EU and anti-immigration party, the True Finns saw their support skyrocket, from 5 parliamentary seats in the last election to 39, with almost a fifth of the country's voters.

The conservative National Coalition Party obtained the largest number of votes, with 20 per cent. This endorsement gives them the largest number of seats, 44, although the party is down six seats on the last election. They will now have to choose between the True Finns and the second-placed Social Democrats.

With the second and third-biggest parties sharply critical of EU bail-outs of countries, viewed by voters as feckless and indigent, the election puts the recent rescue of Portugal in the balance. The conservatives must choose between a centre-left that wants significant changes to the terms of the bail-out and a right that rejects the idea outright.

Described in some parts of the international press as a "far-right" party, the True Finns party contests the term, and analysts say the ideology of the party is more complicated. While it is strongly opposed to immigration and backs a firm "law and order" agenda, the True Finns also support many

elements of the welfare state and progressive taxation. “We are not extremists, so you can sleep safely,” its leader, Timo Soini, told the BBC. Soini also sits as a member of the European Parliament. It is not clear whether he will keep both positions.

## For the record: Irish MEPs in favour of an EU tax

On 29 March 2007 the European Parliament voted on the Lamassoure Report, which discussed the future of the European Union’s own resources. The report was seen as an important step in convincing member-states of the necessity of direct income for the EU.

Point 29 of the report *“considers that, as stated in the Treaties and in the draft Constitution* [*subsequently the Lisbon Treaty*] *fiscal sovereignty will remain with the Member States who might, however, authorise the Union, for a limited period to be revoked at any time, to benefit directly from a certain share of a tax as is the case in most Member States with regional or local authorities.”*

The following Irish members voted in favour of an EU tax when they voted in favour of point 29 in the Lamassoure Report:

Proinsias de Rossa (Labour Party)
Avril Doyle (Fine Gael)
Marian Harkin (independent)
Jim Higgins (Fine Gael)
Gay Mitchell (Fine Gael)

On 7 May 2009 the Lisbon Treaty was up for debate, and with it the “own resources” of EU incomes. Part of the debate included a report on the financial aspects of the Lisbon Treaty by Catherine Guy-Quint. Point 2 of the report *“criticises the fact that, as regards the Union’s own resources, the Member States have failed to take the opportunity to establish a system of genuine own resources which is fairer, more transparent, more readily understandable to the public and subject to a more democratic decision-making procedure.”*

The vast majority of members of the European Parliament have a federalist view of EU development. In their view, obtaining an independent income for the European Union is a decisive step towards creating the United States of Europe.

The following Irish members voted in favour of an EU tax when they voted in favour of the Guy-Quint report:

Liam Aylward (Fianna Fáil)
Proinsias de Rossa (Labour Party)
Avril Doyle (Fine Gael)
Jim Higgins (Fine Gael)
Gay Mitchell (Fine Gael)
Seán Ó Neachtain (Fianna Fáil)
Eoin Ryan (Fianna Fáil)

## Germany plans for Greek debt restructuring

### *But Irish coalition is useless*

The German government has begun drawing up contingency plans for a Greek debt restructuring—a polite name for a structured default. The plan being discussed is thought to focus on a voluntary debt restructuring, possibly with the European bail-out fund (EFSF) purchasing government bonds, helping to retire some debt and extending debt maturities.

The Deputy Foreign Minister, Werner Hoyer, said that such a restructuring would “not be a disaster” for Greece or for the euro zone, so presumably an Irish one wouldn’t be either!

Hoyer later backtracked, claiming he was “misinterpreted”; but the damage was already done, as the Greek cost of borrowing hit a new record and the euro weakened significantly. Nevertheless, it looks as if Greece is coming to the end of the road: a decision needs to be made, otherwise there could be a chaotic default before 2013, and most commentators believe that Ireland will not be far behind.

Wouldn’t it be much better if we planned for it?

Maybe our timid Government that has not delivered on any of its promises might pluck up sufficient courage to mention it, now that “the appetite for burning the bondholders” seems to be manifesting itself. At least we should be talking to the other peripheral countries in the firing line, as it is reported that IMF officials have told EU leaders that a debt restructuring must be considered.

Meanwhile, protests against austerity continue in Greece, with many protesters calling for Greece to default on or restructure its debt; so isn’t it high time we took to the streets, as it seems to pay dividends, no matter how slim? Is there any chance that Mícheál Martin might follow the former Greek Prime Minister Kóstas Simítis, who has said that “the longer it delays, the greater the debt that cannot be restructured?” Hardly!

Even though Olli Rehn warned that he does not see “debt restructuring as an option,” as it would set off a “chain reaction” in the banking industry, every effort should be made to add to the momentum.

## Plans for Europe-wide political parties advance

A new bill sponsored by a British member of the European Parliament, Andrew Duff, could see voters throughout the European Union picking 751 constituency members in national contests and 25 "super-MEPs" from an EU-wide list of candidates.

Elsewhere, the proposal includes a plan for a "pan-European" constituency. This would be created by giving citizens two votes: one for their domestic MEP and one from the transnational list. It would then be up to the European political parties to select their candidates for the "EU-wide constituency."

The 25 transnationally elected MEPs would join the 751 chosen from national lists, boosting the number to 776, and, according to Duff, would turn EU parties into a "real campaigning organisations." The proposal is expected to go to a second vote of the Parliament in June.

## Turf-cutters reject "compensation culture"

*"The Turf-Cutters' and Contractors' Association exists to defend the right of small-scale domestic turf-cutters to cut their own turf for their own use,"* the association said in a statement this week. *"In its submission to the Government's Working Group in July 2009 the TCCA demonstrated that small-scale domestic turf-cutting and active raised-bog habitat conservation can co-exist. Small-scale domestic turf-cutting is a sustainable use of a local natural resource, which also provides significant rural employment at a time of great need.*

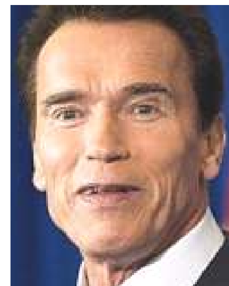
*"Our submission also demonstrated that the state already owns approximately 90 per cent of the raised bogs in question and that no turf whatsoever was cut on those bogs where active raised-bog habitat suffered its greatest decline,"* the statement continued. The submission also identified several bogs where active raised-bog habitat increased in the presence of active domestic turf-cutting.

*"The Habitats Directive was enacted to conserve habitat, flora and fauna. Attempts by the Government and the EU to extend the Habitats Directive into the areas of carbon accounting, carbon emissions and carbon trading amount to a perversion of the directive aimed at ending all private turf cutting on all bogs in Ireland."*

The association is one of the few groups in Ireland standing up to the EU at the present time. Its spokesperson, Ming Flanagan TD, stated that the TCCA does not endorse the Government's compensation package and has no interest in the "compensation culture."

## Oh, no!

### *Schwarzenegger advised to run for president of EU*



According to *Newsweek,* Arnold Schwarzenegger, former governor of California, is being advised by associates to run for the presidency of the EU. "In the next few years the EU will be looking for a much more high-profile president—somebody who can unify Europe," said Schwarzenegger's chief of staff. "The French won't want a German, and the Germans won't want an Italian. How about a European-born person who went off to America and could return to be the Washington or Jefferson of a new unified Europe?" he said.

Hasta la vista, baby!

## Iceland shows the way

### *Have we the guts to follow?*

In the years leading up to the financial crisis, Iceland's banks were hugely irresponsible, attracting foreign depositors with high interest rates and putting the money into risky loans. When Iceland's big banks went under in 2008, the banks had debts equal to ten times Iceland's €10 billion GDP.

But, unlike the Irish Government, which was under the influence of the European Central Bank, the independent government of Iceland refused to bail out its banks, forcing creditors to take losses and share in the pain.

This move holds a lesson for Ireland as Iceland's economy begins to recover; and the European Union and International Monetary Fund should now realise that Irish taxpayers cannot bear the entire cost of the banks' misdeeds.

The government of Iceland simply couldn't afford to bail out its banks, so it let them fail. It transferred domestic deposits and loans, at a discount, to new banks, with some €1.8 billion coming from taxpayers. But, most importantly, it left the banks' foreign assets and foreign debts behind, leaving

some foreign creditors with as little as 27 cents on the euro. Now that's burning the bondholders!

This happened quite simply because Iceland's government believed that it was sovereign and made a decision in favour of its citizens, rather than bankers.

Britain and the Netherlands have demanded that Iceland cover about €4½ billion lost by British and Dutch depositors when the Landsbanki failed in 2008, going so far as to reimburse their citizens in anticipation of Iceland paying up!

The government twice agreed to those demands, despite the fact that the amount is about 45 per cent of its gross domestic product. Iceland's president decided to test the will of the people, and the taxpayers refused to go along with the government, with the voters rejecting a deal for the second time.

The referendum was invoked when President Ólafur Ragnar Grímsson vetoed legislation from the Alþingi, Iceland's parliament. *"These were private banks, and we didn't pump money into them in order to keep them going; the state did not shoulder the responsibility of the failed private banks,"* he said.

Under the terms of the agreement, Iceland would have had to pay £2.35 billion to Britain and €1.32 billion to the Netherlands by 2046, at an interest rate of 3 per cent. Its rejection for the second time by Iceland is a testament to its people, who feel they should bear no responsibility for the losses of foreign banks.

Iceland has felt considerable pain. Its currency lost half its value against the euro in 2008. A loan of €1.6 billion from the IMF averted a complete meltdown, but the economy still shrank by 7 per cent in 2009, and unemployment quadrupled. Government debt is expected to peak at about 100 per cent of GDP this year—up from 42 per cent three years ago.

Britain and the Netherlands are suing Iceland before the court of the European Free Trade Association for failure to pay its debts. But still it is pulling through. The IMF expects the Icelandic economy to grow by 2½ per cent this year. Unemployment is falling.

Compare this to Ireland, where the Government put the banks' debts on the shoulders of taxpayers. Its economy shrank at least as much as Iceland's, and it is recovering more slowly. The IMF expects Ireland's debt to peak at 125 per cent of GDP in two years' time, but at this point that looks optimistic.

And now, insurance on Icelandic government debt is cheaper than that on debt from Ireland, Greece, or Portugal.

The lesson for Ireland is that such bank guarantees are not necessary to maintain full employment or even to stimulate economic growth. They are simply designed to allow those international banks to increase their profit margins in good times and to avoid catastrophic losses in bad times. They have no social value but bring only misery to the people, who have to foot the bill.

But the catch is that if any sovereign state attempts to restructure its debts, or to force private investors to take a "haircut" on their gambles, these international banks have promised the equivalent of economic war in response. However, the alternative is for representative governments to sacrifice their independence to a cadre of faceless bankers who share no allegiance to any nation.

It is this conflict that has already defined the beginning of the twenty-first century in Ireland. The question is whether free peoples will choose to remain free, as the people of Iceland have, or to submit. It is a question that is very pertinent to the Irish situation and one we urgently need to address before it is too late to do so.

## Is this just another broken promise?

### *(Remember the Charter?)*

*"We will reform the current law on employees' right to engage in collective bargaining (the Industrial Relations (Amendment) Act 2011), so as to ensure compliance by the State with recent judgements of the European Court of Human Rights."*—Fine Gael and Labour Party joint programme for government.

Neither the ratification of the Lisbon Treaty nor the application of the Charter of Fundamental Rights, "in circumstances where Member States are implementing Union law," requires a revision of the existing legislative provision in Ireland on employment rights, the Minister for Enterprise, Trade and Innovation, Richard Bruton, has said.

Readers will recall that one of the big selling-points of the Lisbon Treaty was the incorporation of the Charter, and we even had a Charter Group led by the former Labour MEP and SIPTU president Des Geraghty. But unfortunately, as the People's Movement repeatedly emphasised at the time, it adds nothing to workers' rights, and in fact in some of its provisions actually poses a threat to them.

At its launch the group drew attention to article 28 of the Charter—the Right of Collective Bargaining and Action—correctly stating that *"Irish Employers are resisting collective bargaining rights for workers, and have been encouraged by the Supreme Court decision in the IMPACT/Ryanair case. The European Court of Human Rights in a recent decision has decided that the right to collective bargaining is a human right for*

*workers under Article 11 of the European Convention on Human Rights."*

Bruton said that "among the rights which underpin the legal structure in Ireland is the right to form and join trade unions which also features in article 12 of the Charter of Fundamental Rights of the European Union."

Significantly, he concluded by saying that "the Charter does not, however, require an employer to recognise a trade union"—an issue about which the Labour Party remained silent now that it is in government.

At their launch the Charter Group maintained that "the adoption of the Charter will greatly assist the campaign for Collective Bargaining rights for Irish workers." Perhaps Blair Horan or Des Geraghty might now spearhead a campaign for union recognition, assisted by the provisions of the Charter; but they might begin by explaining to us how it will "greatly assist their campaign"!

## Italy proposes new change in treaty

The Italian Finance Minister, Giulio Tremonti, has called for a new revision of the EU treaties in order to equip the European Union with updated tools with which to face immigration, the economic, crisis and energy challenges. "The Treaties were written in a period that is long over. They precede globalisation," he said during a hearing with the European Parliament's constitutional affairs committee in Brussels.

He invited the European Union to use the present economic and geopolitical crises as a "trigger" for new and more intense agreements.

The Italian Home Affairs Minister, Roberto Maroni, went as far as questioning Italy's membership of the EU last week after the latest diplomatic failure to convince other member-states to shelter some of the immigrants reaching Italian shores.

"The instability produced by the private sector has never received sufficient attention," Tremonti said, repeating Italy's long-standing call for the emphasis to be switched from public to private debt. However, his proposal comes as the European institutions have just approved a change in the treaties aimed at establishing a permanent stability mechanism for the euro zone.

Tremonti also warned against the risks of nuclear energy. "We know that its benefits are local, but its negative effects are general." Italy is the only G8 country without nuclear plants. It decided to decommission them after the Chernobyl accident. However, in 2009 Berlusconi's government tabled an ambitious plan to return to atomic energy. Tremonti's words come as a confirmation of the Italian government's new prudent approach to nuclear issues. Indeed last week it proposed freezing indefinitely its nuclear programme, a U-turn compared with previously held positions.

## Secret, dark debates

### *We always suspected!*

Euro-zone economic policies should be conducted only in "dark, secret rooms," to prevent dangerous movements in financial markets, the president of the Euro Group, Jean-Claude Juncker, has said, adding that he had often lied in his career to prevent the spread of rumours that could feed speculation. As already exists in the case of monetary policy, all economic decisions should now be discussed behind closed doors, he said.

"Monetary policy is a serious issue. We should discuss this in secret, in the Euro Group," he said at a conference in Brussels on economic governance organised by the European Movement. "The same applies to economic and monetary policies in the Union. I'm ready to be insulted as being insufficiently democratic, but I want to be serious: I am for secret, dark debates."

So now you know!

## Another euro referendum in Denmark?

The Danish government is reconsidering its opt-out from the euro, with a referendum on "modernising" the country's relation with the EU possibly taking place by June.

After meeting a group of MEPs the Prime Minister, Lars Løkke Rasmussen, said that his country should reconsider the opt-outs in a referendum, especially as Denmark will take over the EU's rotating presidency on 1 January 2012. "There are both the euro pact and the presidency, issues which make it relevant to consider whether we should modernise our relations with the EU," he said, according to the daily paper *Politiken.*

The referendum may take place before the summer in order to give Rasmussen a clear mandate when he participates in a summit meeting in June, where EU leaders are to decide on the Competitiveness Pact. "It depends on what the pact will consist of exactly, but clarity [in a referendum] may be needed," he said, while stressing that he has no intention of trying to "sneak" Denmark into the euro. "Currently there is a No to the euro that is in place, and that limits the degree to which we can be part of euro-zone co-operation," he explained.

The Danish people rejected adopting the euro in a referendum in 2000. But this time around, opinion poll figures indicate a slight majority in favour of scrapping all three Danish opt-outs (the euro, EU defence policy, and justice and home affairs). Dubbed the "Big Bang model," a referendum on all three opt-outs might be more successful than holding a referendum just on adoption of the euro, with 45 per cent of Danes in favour of this move, according to a Megafon opinion poll carried out in February. But the margin is still narrow, with 43 per cent opposing and 12 per cent undecided.

But some Danish politicians warn against holding a referendum on the opt-outs before a general election due this autumn. They point to Rasmussen's low popularity, suggesting that voters might use the opportunity to sanction the government. Scrapping the EU opt-outs could also serve the Liberal premier before a general election in the autumn, as both opposition parties are internally split on the issue.

## Splits between the EU Parliament's main political groups

**The *Wall Street Journal* reports on splits between the European Parliament's main political groups on the strength and focus of new economic governance plans.**

According to the paper, the divisions are likely to weaken the assembly's negotiating position with EU member-states.

MEPs on the Parliament's Economic and Monetary Affairs Committee held a "marathon" four-hour voting session last Tuesday, which ended up strengthening the European Commission's economic and fiscal "policing" of member-states while making it more difficult for EU governments to prevent the imposition of sanctions on countries with a large deficit.

However, the assembly's Socialist and Green groups refused to endorse several measures within the so-called "six-pack" economic governance package, arguing that the severity of the proposals to curb member-states' public deficit would also negatively affect investment to boost growth and job creation.

Members of the committee warned that the euro-zone reforms "would lead Europe in the wrong direction," with the group's economic and monetary affairs spokesman, Udo Bullmann, arguing that although "we agree to the aim of reducing public debts and deficits, we [also] want a smart investment strategy to get member-states back on their feet and avoid a lost decade for growth and employment.

"A majority of the conservatives and the liberals were not ready to support us in defending investments to boost growth and job creation. They refuse to give EU governments any room for manoeuvre to invest in key sectors of the economy linked to the EU 2020 strategy, such as transport, energy-efficiency, education, research, and innovation. This for us was unacceptable."

Attacking the flexibility of plans to curb spending by euro-zone members, Bullmann said: "The Stability and Growth Pact, which governs budgetary discipline, works only with sticks but no carrots."

However, Bullmann's Socialist colleague Elisa Ferreira, rapporteur of one of the six reports within the package covering macro-economic imbalances, said the group had been successful in defending social rights in several areas. "We made sure that the assessment of macro-economic imbalances should not affect fundamental rights, in particular the right to negotiate, conclude and enforce collective bargaining.

"When the European Commission has to assess a country's performance it will have to take into account social factors, such as the level of unemployment and education investment. This is a great achievement for our group."

The parliament's Green-EFA grouping also welcomed the new proposals on macro-economic surveillance, with the shadow rapporteur, Philippe Lamberts, saying the result would enable the Commission to monitor imbalances "that can potentially harm the cohesion of the Euro zone."

However, like his Socialist counterparts, Lamberts was critical of the general balance of the package. "The Parliament has missed an opportunity to set out a fair and comprehensive economic governance framework for the EU. The so-called reinforcement of the Stability and Growth Pact targets public expenditure rather than the sustainability of public finances, which is the wrong approach to take.

"The failure of EU governments to deliver any measures that would enable revenue to be raised through fair and effective taxation resources means that there will be no alternative to austerity in order to balance government budgets. This will hit the most vulnerable the hardest.

"Clearly, the euro zone remains under severe stress. While being an important element on the prevention of future crises, the package as voted is no substitute for swift and decisive action by the EU in order to provide a credible answer to the unsustainable situation of certain member-states and a large part of its financial industry."

The left-right split between the Parliament's main political groups, unless resolved, is likely to weaken its negotiating position with EU member-states.

MEPs on the Economic and Monetary Affairs Committee are to meet again to discuss whether they have a strong enough mandate to begin negotiations with national governments.

## Divided EU Parliament tightens measures on economic governance

by Leigh Phillips, *EU Observer,* 20 April 2011

**The European Parliament has limited the fiscal powers of national parliaments.**

MEPs have toughened up the provisions in a package of six laws that centralise economic decision-making in the EU, delivering more powers for oversight of national fiscal policies to the European Commission.

In a four-hour, at times heated meeting of the powerful Economics Committee of the European Parliament, deputies waded their way through a full two thousand amendments proposed to the package of bills, dubbed the "six-pack" by EU officials. A number of key votes passed with majorities slimmer than the Parliament is used to.

By the end of the meeting the six-pack had been markedly altered to give a stronger role to the Commission at the expense of the Council, representing the member-states, throughout new processes of oversight of budget and wider economic policy planning.

Attempts by Socialists and Greens to temper what critics are calling a rulebook for permanent austerity with more leeway for public spending on education, transport and infrastructure met only moderate success, resulting in the two groups opposing half the new laws.

Emphasising the controversy of the moves, posters denouncing austerity were stuck to the walls throughout the building where the votes took place, and at one point the meeting was interrupted by a handful of whistling left-wing protesters opposed to the shift in powers. They were hustled away before they were able to unfurl their banner.

The new rules focus on keeping in check two elements of national government spending, the first being annual government budgets and the second, under a more open-ended process but under just as tight a leash, all economic policies—and not just for one year but over the longer term.

With budgets and long-term economic plans now submitted to Brussels before being presented to national parliaments, the deputies voted to give the Commission the role of policing a member-state's budget and wider economic policies, rather than, as initially envisaged, the European Council.

Additionally, under the Commission's original legislative proposals, the Commission was to issue economic policy recommendations for member-states, and on the basis of these assessments the EU Council was to decide, by "qualified majority," what to order an individual country to do.

The whole process would take six steps before a member-state could be sanctioned, and only at the final stage was the EU Council faced with having to cobble together a qualified majority to block.

Now, when the Commission makes a recommendation at the very earliest stage in the process, the EU Council can only reject this with a reversed qualified majority within ten days. It is likely to be very difficult to round up such a majority in this time.

Cheering the move, the Liberal leader Guy Verhofstadt said: "The European Commission shall be entitled to intervene with all necessary means if the stability of the euro is at stake, to preserve our European project."

Sanctions against countries that are unable or unwilling to adhere to the Commission's orders on how to adapt their fiscal policies would also now be imposed on states earlier than the legislative proposals had originally foreseen.

### *New fines for creative accountancy*

Now countries would have to offer up a deposit of 0.1 per cent of GDP as soon as the EU Council has decided that a country has strayed from the roadmap laid out for them. Previously such a payment would have been imposed only after a member-state had flouted two successive orders.

Where the Commission accuses the country of "deliberate and severe non-compliance" with its orders, fines are upped to 0.3 per cent of GDP.

Moreover, MEPs have come up with a whole new one-off fine—not appearing anywhere in the Commission's legislative drafts—of 0.5 per cent of GDP for countries that are caught fiddling the books, as Greece last year admitted to having done.

Also, previously, the billions of euros that would be paid by rebel states were to be handed over to those countries without excessive deficits. Now the sums and their interest are to be given to the European Stability Mechanism—the EU's permanent bail-out fund to be established in 2013—and, before then, the European Investment Bank.

However, deputies were keen to open up the process to public scrutiny. Any EU Council votes on imposing deposits and fines should be held in public, except in a crisis. But the production of assessments and orders coming from the Commission will remain behind closed doors.

The Parliament also wants regular "economic dialogues," with the president of the Euro Group and the Commission to come before MEPs and explain their policies, and a say in the establishment of the metrics in a "scoreboard" that is being developed against which the behaviour of member-states can be measured.

The Socialists did manage to introduce details requiring that Commission's assessments take

account of public investment intended to stimulate jobs and economic growth; and, in a major victory over concerns from trade unions that the process would undermine collective bargaining, the group won a vote requiring that the assessment of wider economic imbalances between states would not touch this area that centre-left deputies described as a "fundamental right."

But overall, both the left and the Greens were unable to balance austerity with the freedom to open other paths of investment. "The failure . . . to deliver any measures that would enable revenue to be raised through fair and effective taxation resources means that there will be no alternative to austerity in order to balance government budgets," said the Greens following the vote.

**Stoking "EU disillusionment"**

Both the Socialists and the Greens voted against three of the laws, while the hard-left United European Left (GUE) and the sole UK Independence Party member on the committee voted against all six.

The right accused the left of irresponsibility for its opposition. The Dutch Christian Democrat Corien Wortmann-Kool hit out at her opponents, saying that she "regrets that the left is not prepared to take responsibility for sustainable public finances."

The discourse from the left was just as corrosive. The laws are being "imposed from above without any democratic debate," said the German Die Linke MEP Thomas Haendel, who warned that the process would boost anti-EU sentiment. "The EU is doing everything to ignore the lessons learnt during referendums on the EU Constitution and the disillusionment caused by a European project being carried out against the wishes of the people."

The Parliament normally enters negotiations with the Council after such a committee vote only if there is wide cross-party agreement. As a result of the divisions, the left of the committee room attempted to postpone the launch of talks until after a vote by the full sitting of the Parliament.

The move, however, was defeated by the conservatives and Liberals, by 26 to 14. They argued that the continuing euro-zone crisis left little time for such niceties.

## "German interference in Hungarian domestic affairs is unacceptable"

by Leigh Phillips, *EU Observer,* 20 April 2011

The Hungarian Foreign Ministry has denounced Germany's criticism of its new constitution as an "unacceptable" interference in domestic affairs and warned it to steer away from such "shocking" statements in the future.

"The comments made by Minister of State Hoyer basically evaluated Hungarian domestic political processes," Németh Zsolt, the German minister's Hungarian counterpart, said on Thursday. "The statement is incomprehensible and unacceptable."

On Tuesday, Hoyer said that the new conservative constitution passed by the Hungarian parliament the day before, and a controversial media law approved earlier in the year, were "hardly compatible" with EU values. "We are observing the developments in Hungary with great attention and some worry," he had said.

The Hungarian Foreign Ministry said in an e-mail message that it was "shocked" by the German minister's statement and complained that Hoyer had received "detailed information on the constitutional process several times. The new constitution does not restrict the rights of minorities or the rule of law and strengthens the common European values instead of harming them."

The ministry also derided as "particularly unacceptable" references by Germany to its Media Act, saying that it had been amended following complaints by the European Commission. In conceding to the EU's concerns, Hungary "thereby demonstrated a commitment to common European values."

The Hungarian minister also told Germany not to criticise his country in public again. He hoped that as a result of "the intensity and friendly nature of Hungarian-German diplomatic relations," in the future "concerns would be dispelled in the course of bilateral relations instead of statements."

## German government may fall over vote on bail-out fund

### *Spanish borrowing costs continue to rise*

*Financial Times Deutschland* reports that Angela Merkel is facing the prospect of a heavy defeat in the German parliament over the approval of the permanent euro-zone bail-out fund (ESM).

Several sources within the government coalition confirm that there is "no majority" support within the governing parties. Merkel may be able to obtain a majority with support from the opposition parties; however, this could endanger the governing coalition. The vote is now due to take place in the autumn. The television channel HLN reports that resistance to the structure of the ESM is increasing in Slovakia, although the government has already approved it.

Spain raised €3.4 billion in a successful bond auction last week; however, its cost of borrowing reached its highest point for a decade amid reports of poor economic activity following further falls in property prices and a rise in bad loans.

A new opinion poll by Reuters found that a majority of economists expect that a Greek restructuring will take place. However, most expect it will not happen for up to a year. In the meantime Lars Feld, one of Angela Merkel's closest economic advisers, admitted in a radio interview that he fears that "Greece can't get out of this situation without some kind of restructuring. That doesn't have to mean an actual default": it could include "the buying back of bonds through a European institution." These are both ideas that have been ruled out by the German government so far.

To the surprise of no-one, the proposal includes increasing the budget by 4.9 per cent (€6.2 billion), about 2 per cent more than average inflation in the EU.

Needless to say, given that all EU members are trying to cut spending, increase taxes, and impose varying austerity levels on taxpayers, we have a feeling that Lewandowski's proposal won't be met by cheers in many countries. Below we have a breakdown of what we estimate each country's increased contributions to the EU budget will be under the proposal—based on the projected national share of contributions for 2011, as forecast by the Commission. (It's a moving target, as you're never quite sure what the actual contributions are until the money is paid out.)

We're looking at a €769 million (£680 million) increase for Britain. This is dwarfed by the €1.2 billion that is added to Germany's EU bill for next year under the proposal (quite apart from the €100 billion plus in loan guarantees that the country's taxpayers are already liable for through the bail-out packages).

The French, who are beginning to realise that they are now net contributors to the EU budget, are on the hook for an extra €1 billion. The Netherlands, whose government is now asking uncomfortable questions about the EU's external aid (partly as a result of our recent report on the topic), are on the hook for another €309 million.

For all the contributions, see the following table. (These figures are gross contributions, meaning that in reality some countries might actually get more cash back than they pay in, for example Spain.)

*Increase in budget contributions*

| Country | Increase |
|---|---:|
| Germany | €1,206 million |
| France | €1,003 million |
| Italy | €800 million |
| Britain | €768 million |
| Spain | €524 million |
| Netherlands | €309 million |
| Belgium | €238 million |
| Poland | €191 million |
| Sweden | €154 million |
| Austria | €131 million |
| Denmark | €126 million |
| Greece | €115 million |
| Finland | €90 million |
| Portugal | €83 million |
| Czech Republic | €74 million |
| **Ireland** | €71 million |
| Romania | €64 million |
| Hungary | €51 million |
| Slovakia | €36 million |
| Slovenia | €20 million |
| Bulgaria | €19 million |
| Lithuania | €15 million |
| Luxembourg | €14 million |
| Cyprus | €10 million |
| Latvia | €9 million |
| Estonia | €7 million |
| Malta | €3 million |

Comically, the Commission's press statement says that "bills must be paid," alluding to the fact that the Commission has committed itself to various projects that still are running. This argument is weak. Although it's true that the EU budget can't run a deficit, meaning less room for manoeuvre compared with national budgets, there's no reason whatsoever why the Commission, MEPs and member-states can't come together to prioritise and reshuffle, as funds are clearly getting tighter. Just as national governments are forced to prioritise.

As we note in our response to the proposal, there's plenty of fat to cut in the EU budget, including the fifty or so EU quangos, paying non-farmers not to farm, and recycling "cohesion" funds between some of Europe's richest regions . . .

We're sorry, Mr Lewandowski , this proposal is neither for "500 million Europeans" nor for "times of austerity." In fact it's quite the opposite.