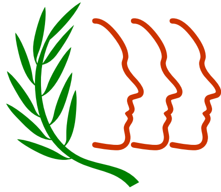


PEOPLE'S NEWS

News Digest of the People's Movement

www.people.ie | post@people.ie

No. 162 **15 February 2017**

Another housing bubble building!

The free movement of capital has become one of the maxims of global capitalism. Along with the free movement of people, goods and services it is also one of the "four freedoms" of the EU's single market.

But the removal of the policy instrument of capital controls has probably contributed to a succession of financial crises. Three decades ago, many people in the EU invested their hopes in a combination of free trade, free mobility of capital, a fixed exchange rate, and an independent monetary policy—dubbed an "inconsistent quartet."

The combination is logically impossible. If Ireland, say, fixed its exchange rate to the German mark—which in effect it has done by adopting the euro—and if capital and goods move freely across borders, the Central Bank would have to follow the policies of the German central bank, the Bundesbank—or, in effect, the EU Central Bank in Frankfurt.

So we sacrificed monetary independence when we adopted the common currency. What has changed since then is the increasing importance of cross-border finance. Many emerging markets do not have a sufficiently strong financial infrastructure of their own. Companies and individuals therefore take out loans from foreign institutions denominated in euros; and that's what the Irish banks were doing a decade ago.

Theoretically, it is the job of the Central Bank to bring the ensuing havoc to an end, which standard economic theory suggests it should be able to do so long as it follows a domestic inflation target. But if large parts of the economy are funded by foreign money, its room for manoeuvre is limited.

In the good times, credit flows into peripheral markets, fuelled by the massive German surplus, where it fuels local asset price bubbles, as we have experienced to our detriment. When, years later, liquidity dries up and the hot money returns to safe havens in Europe, the country is left in a mess.

Unless you accept financial instability as inevitable—and it increasingly seems an intrinsic part of the system as the time between crises grows shorter—you may soon be thinking about imposing capital controls that involve telling foreign investors that you don't want their cash. The point is to prevent hot money flowing in during the good times and to stop it from draining out in the bad times.

This is not yet a subject of polite conversation among policy-makers. Central bankers have instead been peddling a concept known as macro-prudential regulation, a version of capital controls. The idea is to tweak incentives: when a housing bubble seems to be building up, the Central Bank imposes some ceiling on lending, for example by capping loan-

to-value ratios. It might also ask its government to raise stamp duties or other transaction taxes.

Spain tried such measures during the pre-crisis years, and Ireland is trying it now. But it did not stop the build-up of one of the biggest housing bubbles in history.

More drastic action, such as leaving the euro or imposing controls on capital, might prevent the next calamity as rents and house prices soar. Spain did neither, but before long someone will—and it looks increasingly like it should be Ireland. Free movement of capital cannot be sustained as a point of principle when the economic costs are so devastating.

Two-speed EU back on the agenda!

Angela Merkel has said that EU governments may commit themselves to a union of "different speeds" when they make a declaration on the future of the EU at a summit meeting in Rome next month.

The twenty-seven heads of government (without Britain) are due to make a declaration at the summit that will mark the sixtieth anniversary of the EU, in which they will set out a post-Brexit roadmap.

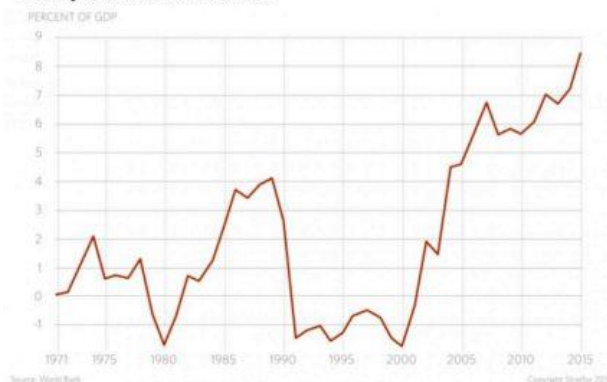
"We certainly learned from the history of the last years that there will be as well a European Union with different speeds, that not all will participate every time in all steps of integration," Merkel told reporters after a summit in Malta. "I think this may be in the Rome declaration as well."

She said the idea was to set out a plan for the next ten years of the EU. Belgium, the Netherlands and Luxembourg—a group of the EU's founding members—also issued a statement on Friday backing a two-speed EU.

Is there a trade war on the way?

The Trump government in the United States is threatening to name Germany and Ireland—among others—as tax havens in the looming trade war between the EU and the United States. The information centre German Foreign Policy reports that Brussels is threatening to return the compliment and officially denounce the United States as a "tax haven."

The EU Commission is now preparing this response, following Washington's strong criticism of Germany's excessive trade surplus. In the six years from 2010 to 2015 alone this surplus has led to an outflow of nearly a quarter of a trillion euros to Germany from the United States, because of the "grossly undervalued" euro, according to Trump's trade adviser, Peter Navarro.



This has been confirmed by the Bundesbank's recent analysis, which shows that, through its monetary policy of essentially printing money, the EU Central Bank has contributed to the euro's undervaluation, which in turn has facilitated record German exports and the large US deficit.

The trade conflict is stoked by an EU propaganda offensive against Trump, exploiting his racist and chauvinist policies to designate him an enemy.

The development of trade flowing between Germany and the United States over the past few years illustrates the main reason behind the looming transatlantic trade war. German exports to the United States, valued at €65½ billion in 2010, reached €114 billion in 2015, an increase from 7½ to 9½ per cent of Germany's total booming exports. Since then the United States has become the most important sales market for German companies.

Simultaneously, Germany's trade surplus with the United States rose from €20½ billion in 2010 to nearly €54½ billion in 2015. For German companies this is the highest surplus of those accumulated through trade with any other country: an outflow of €225 billion to Germany from the United States. In a mere six years the American economy has contributed nearly a quarter of a trillion euros to German prosperity.

For years Germany's persistent export offensive has been provoking Washington's sharp criticism. Already during his first year in office in 2009 President Obama demanded that Germany take action against the country's excessive trade surplus, which since 2006 has continuously been just above the 6 per cent threshold of gross domestic product that is considered a threat to stability in the EU.

By 2015 this had climbed to 8.8 per cent of GDP; and Trump has now made it clear that he will not continue to accept the outflow of two to three-digit billions. He has already openly threatened Mexico and China with punitive tariffs—two countries that are also accumulating a high trade surplus with the United States. So punitive measures against Germany are not ruled out.

For the three years 2014–16 the EU Central Bank's extensive euro-zone bond purchases have led to a sharp devaluation of the euro, by 6½ per cent, in relation to the US dollar. This has significantly contributed to the approximately 5 per cent undervaluation of the euro, according to the Bundesbank. Even though the ECB is officially not allowed to pursue an exchange-rate policy, in practice the declining euro rate, which is driving euro-zone exports and thereby improving Europe's economy, is to its advantage.

This policy gives Trump the opportunity "to accuse the ECB of currency manipulation and apply sanctions to euro-zone countries," according to the Bundesbank's report on its recent investigations. A US law of 1977 allows Trump to levy, "by executive authority, trade tariffs against individual industries or the entire euro-zone countries at short notice."

The looming trade war between Germany and the EU on the one hand and the United States on the other is accompanied by a growing wave of propaganda. Last week the president of the EU Council, Donald Tusk, named the Trump government a "threat" to the EU, together with China, Russia, and the "terror in the Middle East."

This is playing into Trump's hands. And in a trade war with the United States you can be sure that Ireland's "small open economy" will suffer.

Could the EU provide a solution to Ireland's housing crisis?

At present there are approximately 90,000 people on social housing lists. But according to EU "free market" ideology, the provision of social housing and in particular public or local authority housing has an "unfair advantage" over private provision; so social housing is restricted by EU requirements on "state aid."

As a consequence, Ireland is prevented by EU rules from spending more money to build social housing.

In addition there are the fiscal restrictions resulting from Ireland's obligations under the Stability and Growth Pact, which requires the country to have a debt below 60 per cent of gross domestic product (a shorthand measure for the size of the entire economy) and a yearly deficit below 3 per cent of GDP. Our debt is the

total accumulated amount we owe to various lenders. If it's above 60 per cent of GDP (as it is now) the rules oblige us to take concrete, measured steps to bring it down.

The government is constrained by the EU rules (which were incorporated in Irish law in 2012 in the Fiscal Responsibility Act) from increasing public spending from one year to the next above the rate at which the economy is expected to grow in the medium term.

Since 2005 the Stability and Growth Pact has involved each individual EU country being set a target, known as a medium-term budgetary objective, designed to keep the budget deficit or surplus on a steady footing.

A deficit means that our spending is greater than our revenue in a given year. So the difference between the two cannot amount to more than 3 per cent of GDP.

More specifically, it deals with each country's "structural balance," which is the same as budget deficit or surplus but adjusts for the effects of economic cycles.

This is where the "expenditure benchmark" comes in. The expenditure benchmark essentially says that annual growth in expenditure should not exceed the medium-term rate of potential growth in GDP, unless the excess is matched by discretionary revenue measures.

So it is important to note that the spending restrictions essentially apply to all areas of potential public spending, and not just housing.

And that includes spending money already in reserve, such as the €5.4 billion in the Ireland Strategic Investment Fund, and the €2.4 billion in NAMA's cash reserves.

The Europhile orthodoxy is that expenditure by the ISIF influences the fiscal rules in such a way that any spending by it in respect of on-balance-sheet activity eats into what can be spent on other public services. In other words, it would have an impact on the expenditure benchmark rule.

If spending is on-balance-sheet, this means it is counted as general government spending and is therefore included in structural balance calculations, and subject to the expenditure benchmark rule.

The minister for finance, Michael Noonan, believes that "expenditure funded by money from ISIF would increase expenditure, worsen the deficit and have implications for Ireland's compliance with the structural balance rule and the expenditure benchmark."

EU banks have more than €1,000 billion in bad debt!

The EU's banks have more than €1,000 billion worth of bad debt, an independent regulator has revealed as it lays out emergency plans for a "bad bank" contingency.

The scale of the EU's banking problem has become "urgent and actionable," according to the chairperson of the European Banking Authority, Andrea Enria—in other words, a crisis is increasingly likely.

He called for the creation of an EU "bad

bank," which would buy up the toxic loans from lenders in an attempt to break a financial cycle of falling profits, pressure on lending, and struggling economic growth. With the lack of a proper market for the selling of bad loans, banks have been reluctant to offload them and accept a price below market value.

Enria envisaged the formation of a taxpayer-backed fund to buy the bad loans from struggling lenders at their "real economic value"—a level that would be determined by the fund at a later date.

The proposal is likely to come under fire from opponents of state-funded aid for banks, who will view any intervention as a distortion of the market mechanism—to say nothing of the taxpayers themselves, who have already funded the banks to allow them to recapitalise and in effect enhance shareholder value.

Though Enria heads the European Banking Authority, he has no power to introduce such a body.

The move comes as the EU is examining ways of reducing banks' non-performing loans and is now consulting national finance ministries and working on a report that is expected to be published in March.

Any attempt by the Irish government to sink more public money in the banks should be strongly opposed.

The level of toxic debt within the EU banking system is significant, at €1.06 trillion, which is 5.4 per cent of the entire EU's total loans. This figure is more than treble that of the banking industries of Japan and the United States. Some ten EU states have an average bad loan ratio of 10 per cent.

Italy has more than a quarter of the EU's toxic debt, which is valued at about €276 billion, and recently created a similar "bad bank" to buy up bad debt from weaker lenders, funded by pooled finances from the stronger financial institutions—not the taxpayer. The EU Central Bank had been exerting pressure on Italy as well as other euro-zone countries to reduce the level of their bad debts and raise capital.

The move led in effect to the nationalisation of Monte dei Paschi di Siena, Italy's third-largest bank, after it failed to raise the capital demanded by the regulators from private investors last month.

Klaus Regling, managing director of the European Stability Mechanism, the euro zone's bail-out fund, welcomed Enria's proposal, which he said could buy up as much as €250 billion in bad loans. He displayed his concern for ordinary people when he added: "Some role for the public sector is probably needed."

The proposed plan does not involve sharing bank risks among the EU members, with any bills being footed only by the bank's creditors and the country of the lender.

Germany, which has a low level of bad debt, has, as usual, strongly opposed any plan to share banking risks, fearing that its taxpayers would end up paying for bank bail-outs in other countries.

More euros to lend at low interest rates = ?

Germany's trade surplus rose to a record €252.9 billion in 2016, surpassing the previous record of €244.3 billion in 2015, figures from the Federal Statistics Office showed on Thursday, even after the EU Commission urged the German government to do more to stimulate domestic demand.

The US government of Donald Trump has

accused Germany of flooding the United States with cars, and said that German exporters had an unfair advantage because of the euro's weak exchange rate.

Trade secrets

Trade secrets can be a recipe, a secret manufacturing method, a client database—any information that has a lot of value for companies and whose confidentiality can be legitimate.

But some companies' confidential information is also relevant to the public interest: internal reports of severe malfunction or pollution, a plan to move a large plant and dismiss employees, tax optimisation contracts, scientific studies showing harm caused by a company's products but kept confidential …

What if the rules created to protect the confidentiality of the first kind of information are used to protect the confidentiality of the second kind?

In June 2016 the EU's Trade Secrets Protection Directive was enacted to repress espionage, theft and unauthorised publication of companies' confidential business information—their trade secrets. But the way it defines these is so broad that it will also, in all likelihood, make public scrutiny of corporate activities more difficult.

A recently published "transposition briefing" to the directive is intended to provide background information and analysis in order to help national legislators and civil society when this legislation reaches national parliaments for discussion and adoption.

Not all aspects and elements of the directive are covered in this guide. The result of heavy corporate lobbying and a very heated public debate at the end of the process, the new directive—"Directive (EU) 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure"—needs to be transposed (adapted into national law) to become effective. Member-states have until 9 June 2018 to do so.

This is a major concern for the media and their sources, for trade unions, and for researchers. Employees' rights are also at stake, as this text has led to concerns regarding their freedom to go to work for a competitor of their present employer.

Despite the strong resistance put up by civil society during the EU negotiations, this text was adopted with insufficient safeguards for political rights. It creates excessive secrecy and information-control rights for businesses, coming dangerously close to creating a property right for confidential information, where secrecy would become the legal norm and freedom of access, use and publication the exception.

The "protections" on the confidentiality of trade secrets during legal proceedings also risk damaging the rights of the defence during a court case if they are interpreted too narrowly by judges.

This makes it all the more important to defend the safeguards granted in the text, for journalists, employees, trade unionists and whistle-blowers in particular, and using existing possibilities of damage control.

National legislators will have substantial margins of manoeuvre. Although they are given much more liberty to worsen the text than to improve it, they have at least some real possibilities for limiting the risks: adopting strong legislation against litigation abuses (article 7), adopting a short limitation period (article 8—the maximum period after the facts

during which companies can sue is six years), and limiting the damages against employees (article 14) who act without intent.

It is probable that the main political battle at the national level will be to prevent a further worsening of the text. Member-states are explicitly invited to do just this in the very first article of the directive. In particular they can (but are not required to) add criminal law elements (fines and prison sentences), for which the EU had no competence, and they can be even more repressive as long as they respect the basic safeguards of the directive.

Companies that operate in several EU countries will have the possibility of suing from the country whose legislation is most favourable to their interests (which largely contradicts the initial aim of legal harmonisation by the EU Commission).

Finally, several aspects of the directive are not well defined—the exceptions and safeguards in particular—and the protective nature of these safeguards will be tested in national and EU courts.

We've been put on notice!

The security industry is shaping EU legislation: lobbyists in action!

The European Organisation for Security represents the business interest of some of the EU's largest and most powerful security and arms companies. BAE Systems, EADS, Finmeccanica, G4S, Thales and thirty-eight other companies are listed as members. Collectively they employ some 2 million people and control 65 per cent of the European security-systems market, which they want to increase by exerting pressure on EU legislators.

The organisation has already succeeded in influencing EU legislative and policy initiatives. In 2008 EOS approached the EU Commission's Directorate-General for Enterprise on setting up an EU industrial security policy. Four years later this became a reality.

It piloted a so-called end-to-end approach to ensure that research leads to market development. The approach is now in the process of being adopted within the Commission's directorate-generals, EOS says. It also refined the EU's comprehensive approach for maritime surveillance in 2009, first proposed in 2005, which is now part of the EU external border surveillance system, Eurosur.

EOS also has an influence on the multi-billion Internal Security Fund, now under discussion among member-states, designed to help implement EU policies on internal security and external borders. And it has a leading role in the Archimedes project on "innovative security management," and recently began EU jointly funded projects on cybersecurity.

Last summer EOS organised a private meeting with representatives of the EU Commission, EU Parliament and industry to investigate security opportunities in the EU's €80 billion Horizon 2020 research programme, administered by Máire Geoghegan-Quinn.

The director of the Commission's Maritime Affairs and Fisheries directorate-general, Monique Pariat, chaired a workshop in Göteborg last May on co-operation between civilian and military entities in maritime surveillance. The speakers included the director of the Irish Coast Guard, a French vice-admiral, the acting executive director of the European Maritime Safety Agency, and the vice-chairman of EOS, Lars Jernbacker, who is also a vice-president of the Swedish arms manufacturer Saab, where he heads the Business Development Civil Security Division.

In a new initiative, EOS is now pushing the Commission to give private security companies access to maritime surveillance data gathered under the bloc's Common Information-Sharing Environment (CISE). EU and national authorities are responsible for different aspects of surveillance when it comes to border control, safety and security, fisheries control, customs, environment, and defence.

Some eighty different security-related national authorities work in the maritime sector. Each gathers its own data but does not necessarily share it. CISE wants to consolidate the collected data into a single platform, with restricted access to public authorities. Meanwhile EOS sees a new business model emerging from the CISE project. It wants the EU to create a data-exchange system on maritime surveillance and to give private firms access to the information, so that they can buy and sell it to generate profits. EOS documents refer to this as the "Internet of the Sea."

Creating new markets is of high import-ance, because European industry is facing stiff competition from the United States and China. Globally, the security industry is expanding: it has grown nearly tenfold in the past decade, from a market size of approximately €10 billion to €100 billion in 2011. But the Commission predicts that the market share of EU companies in this sector could drop by a fifth, from about 25 per cent of the world market in 2010 to 20 per cent in 2020, if no action is taken to enhance the competitiveness of EU security firms.

The EU's high representative for foreign affairs and security policy, Catherine Ashton, and its commissioner for maritime affairs and fisheries, María Damanáki, are working on a joint document that spells out the options on how to create security for the global maritime domain.

They state that the EU needs to be a reliable security provider and that "continuous efforts need to be invested in building capacity." In some instances such investments are already channelled, directly and indirectly, to industry by way of EU agencies or member-states, using the EU Border Fund. This fund offers, for example, to finance up to three-quarters of the national co-ordination points set up under Eurosur.

What better illustration could one have of the seamlessness that exists between industry and the executive in Corporate Europe.

Why not become a friend of the People's Movement on Facebook?

www.facebook.com/peoplesmovementireland

More austerity for the Greeks

After months of bitter dispute over Greece's budget, euro-zone governments and the International Monetary Fund reached a breakthrough.

The result is not so good for the Greek people. The Greek government will have to swallow more austerity to keep the programme on track (about €3.6 billion split over the next two years) and avoid a default in July.

The lenders were meeting the Greek minister of finance, Eukleídis Tsakalótos, to twist some arms before the elections in the Netherlands and France make completing the rescue scheme more difficult.

What to do in Europe? Proposals from the left

■ *The second International Conference of the European Research Network on Social and Economic Policy, "France and Europe after Brexit," was held recently in Paris. The joint statement below was drafted following the conference and signed by twenty-five academics, writers, and politicians. It reflects a left Eurocritical ideological stance. It has its weaknesses: most particularly it still draws back from the dreaded word "exit" but is still important nevertheless.*

"These are critical moments for Europe. It is clear that the Economic and Monetary Union has irrevocably failed, the economies of the periphery of Europe remain in severe crisis, and the economies of the core lack any impetus. The single currency has become a tool for Germany to implement mercantilism through wage dumping and—with the support of other core economies of the EMU—to dictate 'structural reforms,' which create economic stagnation, poverty, and unemployment. The big corporations and promoters of neo-liberalism are taking advantage of the crisis to intensify their offensive against the social and democratic conquests of the twentieth century.

"The capitulation of SYRIZA in Greece has shown that both the EU and the EMU are major obstacles to any attempt to modify the dominant neo-liberal agenda in Europe. Austerity, neo-liberalism, and free trade policies, together with the contempt of European Institutions for basic rights and democracy have led to an unprecedented crisis of legitimacy for the EU.

"Consider the results of the three last referendums linked to European issues. In Greece, on 5 July 2015, a large majority decided to reject the conditions attached to the third bail-out proposed by the European Commission, the International Monetary Fund, and the European Central Bank. In the UK, on 23 June 2016, a majority opted to leave the European Union, and demanded that the process of European integration should be reversed. In Italy, on 4 December 2016, a large majority rejected the pro-market and anti-democratic constitutional reforms, despite the declared and unanimous support by European institutions, forcing the pro-EU prime minister Matteo Renzi to resign. The rejection of European institutions has never been clearer among member states of the EU.

"Anger and indignation are steadily building up among working people in Europe. Unfortunately the beneficiary until now has been growing xenophobia, the hard Right, and even fascism. The European Left is paying dearly for its misguided adhesion to the EMU, and for the taboo of avoiding rupture with the governing framework of the EU, including the neo-liberal mode of integration of member states. If the future of Europe is not to be dominated by neo-liberalism and the hard Right the answer must be to break free, at the local, national, and international level, from the iron cage of the policies and treaties imposed by the European institutions.

"What should be done by the Left?

"Based on the proposals discussed during the second international conference of EReNSEP [European Research Network on Social and Economic Policy], and after the last summit for a Plan B in Europe, we suggest that there are three main objectives for the Left to pursue in Europe now:

"1. The main priority is to end austerity and create high quality jobs. That should be the

core of the economic policy of the Left. However we will not succeed in convincing people of our capacity to achieve this objective if we do not present a concrete strategy that deals with the major imbalances of the economies of Europe, thus setting the ground for an ecological and democratic transformation of industry and agriculture. Addressing the social needs of the people of Europe and dealing with the ecological challenges of the continent are not possible without such a clear and feasible strategy. Above all, it is necessary to have massive public investment to boost demand and to regain power over corporations and banks. This will be the foundation on which to rebuild and widen welfare provision while confronting inequalities of income and wealth.

"2. Radical policies require monetary sovereignty. The straitjacket of the European Treaties and the directives and mechanisms of EMU have been built to preclude any strategy other than austerity and liberalisation. To lift austerity it is necessary to regain democratic control over money creation and the banks. Any Left government should begin by disobeying European Treaties and preparing for a sustained confrontation with European authorities, while developing an integrated economic strategy to manage the conflict. The Left should get ready to create new currencies and it should not be afraid to cancel public debt when such cancellation is politically legitimate and economically necessary. It should propose nationalising and socialising banks in order to regain democratic control of the economy. The Left should also propose a new framework to control capital flows across Europe and to manage exchange rates and trade surpluses and deficits among European countries. These are perfectly feasible steps that the Left should pursue with confidence. The key is to develop a strategy that would break with austerity and strengthen solidarity between movements in individual countries, while being rooted in each country's national environment and proposing global alternatives. If we are not prepared to make these steps, on the basis of national realities and supported by an alliance of Left forces in individual countries, breaking free from austerity and neo-liberalism would be impossible.

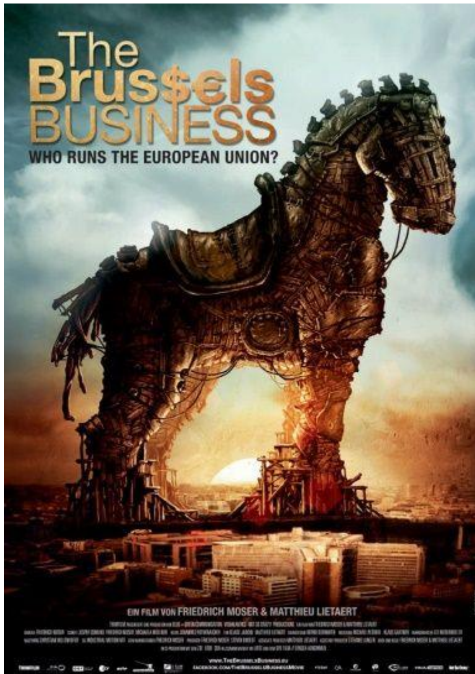
"3. Radical economic policies are also inseparable from the demand for popular sovereignty and democracy. The institutions of the European Union have never been democratic and were never conceived to serve the peoples of Europe. They are part of a political machinery that was designed to implement an economic order favouring transnational corporations, the systematic privatisation of public services and other public property, and the erosion of welfare provision. The neo-liberal free trade regime promoted by the European Union, makes any popular sovereignty impossible. It is necessary to break with the free trade agreements and Treaties that have been developed and imposed on the countries of Europe. Confronting the EMU and refusing to apply neo-liberal directives and Treaties are necessary means to implement progressive economic policies and to regain democratic control. They are also necessary steps to develop the new political co-operation we need in Europe, based on social justice, international solidarity, democracy, and environmental sustainability. We must support the launch of constituent processes to build authentic democratic political regimes. We should also stimulate popular self-organization and mobilization.

"The clouds are gathering over Europe. There is still time for the Left to shape the direction of events provided that it regains its political courage. The Left must renew and sharpen its proposals on economy, society and politics. It must remember that its strength derives from the defence of democracy, popular sovereignty, the interests of workers, and the oppressed. And it must prepare for a radical break with the neo-liberal straitjacket imposed by the EU Treaties and the EMU."

Worth a look

■ Fiscal Politics in the Euro Area: A useful analysis from an unfriendly source. Lack of regulation is still a big problem!

■ Lobbyists rule! Watch the documentary: "Who runs the European Union?"



■ What recovery? An interesting analysis and a useful resource: "Crisis Recovery in a Country with a High Presence of Foreign-Owned Companies."