**European Green Party**
**9th COUNCIL MEETING**
**Paris, 9-12th October 2008**

## Adopted resolution

# Put Capitalism on a Green Leash

The last few weeks have witnessed the collapse some of the most powerful banks in the world, the nationalisation of American and European banking institutions, the injection of hundreds of billions of euros of liquidity by central banks and a dramatic downslide of the stock markets. So far, the markets have proved unable to find a solution to the crisis that they created in the first place and to stem its disastrous consequences for the hundreds of thousands of people who will lose their homes or their jobs and for the enterprises confronted with an unprecedented credit crunch. These are just a few of the detrimental effects of financial neo-liberalism. Hopefully, this will signal the end of the era of financial deregulation that has been pursued by right and left Governments alike since the late 1970s. It is remarkable that 40 years later, some of them still defend the fiction that markets will regulate themselves, optimising processes and ensuring liquidity and that creating wealth for the richest will trickle down and benefit all.

The US and EU must take charge of financial capitalism as it stands today and have to find and implement an adequate regulation system. However, before we can develop and implement coherent regulations, we must understand the underlying causes of the financial crisis - and these causes are not solely related to finance. The roots of the problem are to be found in ideologies and conscious political choices which go beyond the financial world. It must lead to changes in the way financial markets are regulated but also changes in matters regarding (in)equalities, taxation, redistribution of income and the management of the end of the era of cheap petrol.

There are three primary causes of the current crisis.

1. The first is the deregulation of the financial system which enabled the development of new opaque financial products that had no relation to economic reality, e.g. they were of esoteric value rather than real value. Furthermore, the prudent rules controlling bank activity were largely by-passed with the blessing of public financial authorities: these banks created products which contained securities originating from subprime credits over which the banks had no control. Finally, the securitisation which should have reduced the overall risk instead led the banks to enter into even riskier domains.

2. The second factor is the massive influx of money into the market. The sources were:

   - Loans from countries that have grown rich because of their control of fossil fuels as well as from some threshold economies;
   - The² social protection systems: the massive investment of life insurance and pension funds by the institutions which administered them (insurance companies, institutional funds...)
   - A significant increase in income and property (Austrian amendment) inequalities which allowed the placement of personal fortunes on the market
   - The shifting of income redistribution to the detriment of salaries and capital profits. Never have the dividends from these organisations been so high.

3. The third is excessive debt. In a context of increasing social inequalities, the tension regarding household buying power, low interest rates, notably in the US, increases in property prices and the ever present pressures to consume, household debt has spiralled not only in the US, but also in the UK, Ireland, Spain and other countries. It is the household debt and credit of the least solvent that have been sold and resold by American

banks to other players in the financial markets and have been subsequently sold on, allowing the system to wash its hands of responsibility.

As a result, vast sums of money are used to buy increasingly high risk credits without any public checks and balances. Austrian amendment: without a proper public system of regulations:

**In this context, the EGP puts forward the following propositions for consideration:**

In the short term, Governments have no other choice than to take action in order to prevent the collapse of the banking system by providing state guarantees or injecting capital, using taxpayers' money. Because at the same time, Governments find billions to save banks that are responsible for their problem, while they can't find the funding needed to fight starvation, unemployment, environmental degradation, the loss of biodiversity and to fund development aid, this rescue is not legitimate if not counterbalanced by a number of measures

***Measures aimed at ensuring the stability and the transparency of the financial system***

- First of all, the compensation of executives and financial traders must be drastically reined in. These were effectively one of the root causes of the current crisis as large banks tried at all costs to artificially inflate the performance of their funds in order to justify the outrageous salaries of their traders. This encouraged executives to take ill-considered risks when trading credits. From now on, their salaries must be in line with real, sustainable performance.

- The long-standing Green proposal of implementing a financial transaction tax (Tobin/Spahn type tax) must urgently be implemented at European level.

- All financial instruments currently marketed and sold by financial institutions, especially those which enable securitization of loans, must be scrutinized by a Financial Services Testing Foundation, set up at European level. Those whose innocuousness and added value to the economy are questioned have to undergo an extra accreditation procedure.

- Similarly, naked short-selling, that is, speculating on the loss of value of assets, must be permanently banned;

- The valuation of stocks by the fair value principle (mark to market) has proven to be feeding the crisis and should be reformed;

- Initiatives must be taken at European level to effectively tackle the accreditation, transparency and control of hedge funds;

- Similarly, increased action must be taken to prevent tax fraud and tax evasion, effectively closing the tax havens within the EU and putting pressure on those outside the EU .

- Consideration must be given to measures effectively preventing speculative shareholders to exert control on enterprises (e.g. by imposing delays before their voting rights become effective)

***Measure aimed at improvement of consumer protection***

- Across the EU, deposits to financial institutions must be guaranteed to a minimum level of 100.000 €; to that effect, a reserve *to which* all financial institutions *shall have to contribute* must be established where it does not yet exist;

***Measures aimed at improving the regulatory framework***

- Accounting rules must ensure that the balance sheets and corporate accounts reflect the economic reality, e.g. by drastically restricting the ability of financial institutions to remove key risks from their balance sheets and by moving away from rules that are exclusively based on short-term market value;

- An initiative must be taken at EU level to institute an independent European rating agency;

- Last but not least, the regulatory package must be supported by the creation of an EU-wide financial markets watchdog which will overcome the national fragmentation of banking oversight and be strong enough to enforce regulation:

***Measures aimed at diminishing the negative effects on the real economy***

- Coordination on the EU-level on measures to diminish the negative effects of the crisis of the finance sector on the other sectors of the economy.

- Anti-cyclical budgetary measures must be taken to master the crisis.

- In order to counter the effect of the credit crunch on the enterprises (especially the SMEs) sufficient liquidity must be provided by the European Central Bank.

Finally, it would also be unethical that those whose action made this collapse possible would escape all consequences of them. Investigations must be launched in order to determine whether the current regulatory framework, however limited, has been infringed upon (especially in terms of transparency) and prosecutions be initiated where applicable.

Politically, at the EU commission level, Commissioner McCreevy has been one of the leading promoters of the deregulation of the financial markets, enjoying the wholehearted support of President Barroso. They bear a heavy responsibility in this collapse and we will do whatever we can to prevent the return of a Barroso/McCreevy commission in 2009.

**Conclusions**

Taking into account the multinational nature of European banks, it is unlikely that there will be a common European plan regarding finance.  However, it is essential that Member State decisions are coordinated and coherent.  In this respect, the 7 October 2008 decisions of Ecofin are a step in the right direction but do not go far enough.

Beyond these emergency proposals, we must address a series of questions regarding the dominant ideology of liberalism in fiscal and credit matters, the fight against inequality, financing of social protection, etc.  The papers voted by the EGP on the economy (April 2008 in Ljubljana) and on social affairs (October 2008, Montreuil contain proposals which are capable of providing a new European political framework for each Member State.

The financial crisis is a historic opportunity to forge a new way of development which will not be based on maximisation of short term profit, but is rather based on putting Europe and the world on the path of sustainable development, maximising the wellbeing of the entire humanity. Europe must be a leading force in this transformation.  This new direction will give the Greens the momentum to win more votes in the European elections in June 2009.