The time is ripe:
Democratic Control of Financial Markets!

ATTAC's statement on the financial crisis and democratic alternatives

"Disarm the markets!" When Attac was founded in 1998, this slogan was formulated against the background of the financial crash in South East Asia. In the meantime, we have witnessed other crises triggered by financial markets: in Russia, Brazil, Turkey, Argentina and the burst of the "*New Economy*" bubble in 2001.

At present, we are again in the middle of a crisis. Although its end is not yet in sight, it is possible that it will be the heaviest since the *Great Depression which followed the stock market crash* in 1929. At the heart of the crisis is the sharp increase in *subprime* mortgages to US households, and the corresponding procedures of securitization through which these loans were sold to financial institutions and households, in the United States and worldwide. The wave of defaults on these loans had dramatic consequences on financial institutions: on hedge funds, financial corporations, and also the nonfinancial sector. It appears retrospectively that the procedures of securitization, and the corresponding "vehicles" (the corporations in which securitization is performed), play a central role in the overall financial architecture. Actually, these mechanisms must be understood as one component of a broader set of mechanisms such as Leveraged Buyouts (LBOs) or Structured Investment Vehicles (SIV). These developments point to an extreme form of financial froth. Their effects were expressed in the dramatic rise of profits in the financial sector after 2002, but they also led to the major financial crisis in which the world economy is now engaged.

A crucial aspect of the present situation is that the US economy is entering a recession which could prove more severe than usual, much more severe if appropriate measures are not taken. It is hard to see how demand will be stimulated, knowing that mortgage loans are clearly no longer an option. This will have repercussions worldwide and it is possible that a similar recession will also materialize in the major European countries. The contraction of economic activity means increased unemployment and new pressure on wage-earners to obtain more "flexibility on labor markets", to diminish purchasing powers, to encroach on social protection, etc. The decrease in demand from the industrialized countries will also hit many developing countries.

One should have known better. The crash unfortunately confirms the forecasts by heterodox experts such as Nobel prize winner Stiglitz, by Attac, by social movements and other critics of the neo-liberal project.

Now, under the pressure of the crisis, even the mainstream of the financial community is calling for reforms. But, like always in such situations, the reforms will be controversial. Everything will depend on whose interests will shape the reforms. If bankers call for state intervention, they mean socialising losses, while keeping profits in private pockets. If they talk about reform they mean a piece-meal (re)regulation and short term crisis management, trying to save the neo-liberal basics and returning to business as usual after a while.

What is needed in the interest of the large majority of the people are real changes towards another paradigm, where finance has to contribute to social equity, economic stability and sustainable development. We cannot allow a return next year to the status quo ante.

The crisis is not the result of some unfortunate circumstances, nor can it be reduced to the failure of supervision, rating agencies or misbehaviour of single actors. It has systemic roots, and hence the structure and the mechanisms of the system in general are at stake.

Given that the financial markets constitute the centre and the driving force of neo-liberal globalisation as a whole, everything that happens there – the good and the bad - has strong repercussions on the other sectors of the economy. This dominance by the finance sector evolved after the introduction of free floating exchange rates between the major currencies in

1973, the abolishment of capital controls and the subsequent liberalisation and deregulation of financial markets. Since then, financial institutions and mechanisms have experienced a phase of rapid expansion; the masses of financial assets and debts grew in tandem; more generally, the grasp of "financial interests" on the "real" economy increased tremendously. It is also important to emphasize the sharp acceleration of this process which occurred in the early 2000s, when the US economy recovered from the crisis of 2001 (the recession and the collapse of the stock market), in particular the dramatic rise of both the domestic debt of the United States (notably household debt), and the growing external deficit of this country manifest in the swelling contribution of the rest of the world to the financing of the US economy. Together these trends have led to the establishment of a new economic model, a new form of capitalism, which often is called *globalisation,* some call it *financial capitalism* and others speak of *shareholder capitalism.* However you name the new phenomenon, one thing is clear: whereas in previous times financial markets had a subordinate and instrumental role to the real economy, this relationship is turned around. The logic and dynamics of maximum profit in the financial markets penetrates into all pores of economic and social life. The perfect mobility of financial capital, which is the result of neoliberal policies, plays a crucial role in the world economy. It creates global competition not only among multinational firms, but also among States (their social and fiscal systems) and among workers of different parts of the planet. By creating a power relationship in favour of capitalists relative to workers, this domination of capital has led to rising inequalities, with a decline in labor income share and a transfer of risks in the direction of workers.

The failure of the dominant model has never been as obvious as today. It is completely discredited. Therefore clear consequences must be drawn.

A historic window of opportunity is opening. It will depend on pressure from public opinion whether a real change of course is achieved.

Another finance system is possible

The complexity of the present finance system makes it impossible to resolve the problems with one instrument. There is no Archimedian point. A whole box of instruments will be necessary. However, in view of the hundreds of single proposals which will come up in the near future and which all will be controversial, we can define some basic requirements which have to be met in order for single proposals to be acceptable as emancipatory reforms:

A. Systemic changes instead of piecemeal repair

The whole finance system in its neo-liberal form has proven to be economically unstable and inefficient and harmful to equality, general welfare and democracy. Therefore systemic changes are necessary. One of our major goals is to break down the pillars of neoliberalism, in particular the worldwide mobility of capital. Some regulatory measures aimed at saving wealth and asset-driven accumulation or cosmetic reforms are unacceptable.

B. A new Bretton Woods instead of "self-healing market forces"

The crisis shows that markets left alone without political regulation lead to disastrous results. Therefore, democratic control is required as well as international cooperation instead of anarchic competition between national economies. In economic decision-making, priority has to be given to sustainable development and the human rights of all three generations.

An appropriate institutional setting under the auspices of the UN has to be set up.

National supervision and international cooperation between regulatory bodies have to be strengthened. Rating has to become a part of public supervision.

Limits must be placed on unrestricted free trade and free capital mobility worldwide. The general "openness" of goods and financial in- and outflows must be substituted by a new configuration of negotiated agreements between various countries and regions of the world, based on the mutual respect of the rights of people regardless of class and the defense of the historical conquests of workers, and as an expression of solidarity with the less advanced countries.

C. Breaking the dominance of financial markets

The basic orientation for a real change has to aim at breaking the dominance of financial markets over the real economy. Some suitable instruments for that purpose are:

- taxation of all kinds of financial transfers including currency transactions, in order to reduce speculation, slow down the speed of financial markets and reduce short termism,

- Progressive taxation of capital income. A main factor contributing to the swelling of financial markets is the concentration of wealth. Thus, in order to slow down and stabilize financial markets, substantial redistribution of income from the rich to the poor is required as well as reducing incentives for excessive profit making

- privatisation of social systems and of important infrastructure such as energy and railways has to be stopped and reversed where it already happened.

D. “Polluter pays principle”

Financial instability is an inherent feature of capitalism in general and of neoliberal capitalism in particular. The intervention of states to confront situations of financial distress is unquestionably necessary. The criminal laisser-faire policies of the early 1930s must not be repeated. But the cost of this intervention should not be paid by tax payers but by those responsible for the crisis. Therefore a special crisis fund should be set up to buffer the consequences of the crisis on the real economy. The fund is replenished through a one-off extra duty on all capital income above 50.000 Euro and a 1% extra tax on all corporate profits.

E. Reforming the EU

Special attention has to be given to the EU. The financial dimensions in the Lisbon and other treaties are shaped according to neo-liberal dogma. Article 63 of the Lisbon treaty, which forbids any restrictions on capital flows and thus sets the perfect conditions for the overwhelming hold of finance on society, must be deleted. We also call for restriction of the freedom of establishment (art. 49), leaving capital free to migrate wherever conditions are most favourable and financial institutions free to seek asylum in the City of London or anywhere else they choose. Furthermore, it is necessary to alter the status of the ECB. The bank is at the very centre of neo-liberalism in Europe. Its monetary and fiscal policy is completely dependent on the neo-classical dogma. Autonomy from monetarist ideology is needed and democratic control over this institution, whose policies influence dramatically the fate of citizens, has to be exercised. We disagree with the focus of the ECB on keeping consumer price inflation under 2% - this is a central pillar of neoliberal policy. Instead, we want the ECB to focus on employment, the maintenance of purchasing power and the stability of the financial system.

F. Reforms in central parts of the system

In light of the crisis, some cornerstones of the present system require special attention, such as:

a. Capital requirements and prudential practices in the banking sector

Capital requirements for banks have to be upgraded. In that respect Basle II was a step in the wrong direction. Therefore Basle III is needed, drawing consequences from the crisis. Off-balance deals which are at the heart of the current crisis must be banned.

The procedures of securitization must be restricted to institutions under the strict control of Governments, as used to be the case in the United States. The worst procedures of securitization, as in Collateralized Debt Obligations whose purpose was the massive resale of subprime loans, must be prohibited. Investment banking has to be separated from other financial services. The public and cooperative banking sector has to be strengthened. The public should own at least some of the key banks to provide stable finance for sustainable and just development. Rating agencies - which failed badly in the current crisis as well as in almost all crises in the last few decades - should come under public control. At least rating agencies should no longer be paid by the firms they rate – instead they should be financed out of a fund paid for by all users of the ratings and issuers of financial products.

b. Highly leveraged institutions

Who needs hedge funds and what is their benefit for the economy? When at the 2007 G8 the Germans asked for more transparency for Hedge Funds, it was argued that these funds have a useful function because they take risks that others are not ready to take. In reality, these risks are the risks of speculation only at the service of maximum profit. There is no benefit for the economy stemming from these operations, on the contrary they destabilise the system. Due to the practices of leverage the risk is transferred to the banks. This is why they should not take place at all. Declaring hedge funds as an instrument of risk prevention is the same as giving a pyromaniac the task of fire protection. Supervision has to prevent banks from doing business with hedge funds. Nobody needs hedge funds except rich individuals and institutional investors in search of high-risk maximum profit.

c. Regulating derivatives.

As long as there remain certain risks for the real economy within the global economy, such as exchange rate volatility, derivatives can play a positive role if they serve as an insurance against such risks. For that purpose, they should be traded at the stock exchange, standardized and authorized by a supervisory body. Trade *over the counter (OTC)* should be banned.

d. Offshore Centres

Who needs offshore banking centres (OFCs) and fiscal paradises? Only rich individuals and institutional investors who want to hide their assets from tax authorities, the mafia, terrorists, arms traders and other criminal forces who want to launder money. There is no reasonable economic argument in favour of maintaining the economic status of such territories. Therefore their economic function should be completely closed down.

As long as this is not possible, because some big industrialised countries maintain themselves as OFCs and protect others, a set of unilateral measures can be used, ranging from lifting the bank secrecy of the banks under their sovereignty, via obliging banks which maintain branches in tax heavens to close them, to putting a high levy on transactions with OFCs.

e. Regulating Private Equity Funds

Private Equity Funds can improve efficiency in the real economy and provide venture capital if they are regulated properly. Capital requirements have to be improved. Leverage has to be limited to a sustainable level. Reforms in corporate governance such as triple voting rights for long term shareholding are necessary. Trade unions, consumers and other stakeholders must be given mandatory participation in corporate decision making.

f. Regulating indebtedness of households

Regulatory limits must be placed on indebtedness, first concerning households, by the imposition of ceilings on the ratio of repayments and interests to income in every country. The housing of social strata with lower purchasing power, and their access to home ownership, is one component of social programs on the part of Governments. It must not become the privilege of the worst segments of private financial institutions. We strongly support proposals to set up a new procedure of foreclosure which would allow over-debted home owners to become tenants.

Attac Austria, Attac Finland, Attac Flanders, Attac France, Attac Germany, Attac Poland, Attac Spain, Attac Sweden, Attac Switzerland