

## **Rebalancing the power**

There are many levels at which to assess the current financial crisis in Europe. One of those at the higher level involves the discord between political bodies and financial markets and how this power battle is playing out. There has been talk of financial transaction taxes from Angela Merkel and finance ministers from Austria and Belgium as well as France. The concept is seen to originate with John Keynes in 1936 and was applied particularly in 1972 by Nobel winning economist Jim Tobin. There have been alterations in the interim as analysts try to find ways to minimise the impact on market activities and to dissuade companies from fleeing to destinations where any such tax does not exist. There seems a reasonable chance developing over the last decade or so that a global financial transaction tax could be employed to attempt to bridge growing income inequality, somewhat, and also to provide a fund to deal with many major social issues; though, of course, this remains to be seen.

European countries have pushed hard for the introduction of a F.T.T. tax since 2008 and, in fact, Sarkozy of France has recently introduced a 0.1% on certain transactions (though not on bonds) in the hope that others will follow. The G20 did not reach agreement on a universal Tobin Tax, and so Europe proposed to move ahead within its own 'borders'. The proposed E.U. F.T.T. will apply to the country where the financial operator is based, and so for example a German bank could not avoid the tax by having transactions take place from a different base. The U.K., despite two-thirds support for this type of tax among its citizens has opted out, and so the outcome of this issue remains unresolved. In as much as the 'market' can be seen as a singular entity, there must be disquiet at this concept and some of the negotiations around indebted sovereigns must hinge on some brinkmanship in this battle. The investors and fund managers, in the most, whose jobs entail achieving maximum return for their clients will naturally look at this tax as an unwelcome proposal for their balance sheets. They also look at burden sharing on debts in a similar way

It is easy enough to feel that the markets have all the cards here – it is certainly what the Irish government state quite openly; i.e. that they have no choice but to follow instructions from the ECB and commission and that they are behaving in the only way that they can as markets would not allow any deviation; and so 'Armageddon', 'bombs going off' etc is the language that is suggested if we force the issue of debt clearance with Europe or if Europe generally pushes the issue with the markets.

There is a very strong argument of logic put forward by David McWilliams and others for a long time now that, in fact, this position is inherently wrong, that markets can only invest in what is coming and so would quickly reinvest in countries that shed unbearable debt burdens, because this gives them a chance to grow and makes them more worthy of investment. Iceland seems to provide some support to this argument, as they took a massive hit when declaring bankruptcy and saw fairly immediate growth thereafter as the issues were 'dealt with' and the country and economy reeled but then began to move on.

There are obviously many others who say that this is too big a risk and what happens if the speculators bring down the house. It is easy to sit and think, how did we come to this, how did we find ourselves in a system where the markets dictate to the politicians.

The context of all of this is truly of astounding proportions now. Even a cursory glance at twentieth century politico-economic history shows the dangers in economically disenfranchising a people and how when all moderate options point to economic oblivion there is provided a breeding ground for extremism. These arguments seemed extreme themselves just a few years ago, but an objective look at Europe and Greece particularly as well as the local Irish example of incredibly damaging social impositions under the somehow surreal stipulation to pay banking debts with taxpayers money to a value such as currently taking place, one can see the potential hazards. Anger will continue to mount as the drip feeding of the shocks of 3.1 billion to Anglo promissory notes comes again in March and again and again for a decade. And, of course, in the context of a comment from a slightly heady Taosiach at Davos implying that 'we all went "mad with borrowing"' and people reel from the frustration that whatever they have borrowed they have to pay back while also covering these banks borrowings, really makes it beyond a serious issue for Europe, and an imperative one for the maintenance of order at this point.

Regarding this seeming stranglehold of the markets then - this is one of the major difficulties, but it can also be the source of the solution, for we seem to have collectively forgotten that politicians (representing us the majority) actually hold the strongest hand. They make the laws. They have national judiciaries, police and militaries ensuring their ability to do so as well as many international fora with domestic popular support to resist the market influence (and if McWilliams etc are right – even the markets themselves would support governments eventually standing up for themselves).

So bearing in mind all of this, what could politicians do? Well, they might put the following financial logic forward to the key financial institutes as matters of fact. It is already planned by the European commission that there will be a financial transaction tax in 2014. It will be 0.1% against the exchange of shares and bonds and 0.01% across derivative contracts. It is forecasted to raise €55 billion per annum. A European treaty must allow governments to tell markets that if massive write downs of government debts are not now taken as we dictate the financial transaction tax will be 0.3% against the exchange of shares and bonds and 0.03% across derivative contracts.

Markets are not really thinking entities; people go to work and do what their bosses wish in an attempt to continue to pay their own mortgages and care for their dependents as well as progress in their own careers. Their bosses pressurise them for return as a means of passing on the systemic pressure that comes on their jobs and performances from shareholders. Shareholders can be a whole myriad of personas often financial institutes themselves and pension, insurance funds etc. So it is clear that markets cannot, as currently constructed, grow social consciences. By definition there is only one motive that markets can comprehend. The future of technological development and better informed and educated populations and the peace and prosperity that can arise from that await resolution of this crisis. The resolution of the crisis awaits massive write down of debts, and in the Irish case the allowing of bankrupt banks to go bankrupt. European leaders must speak the language of the markets but explain in that language that they are in charge and that they will not allow continuing social collapse on their watch.