



Financial crisis

What have liberal MEPs done to solve the crisis?

It is now common to see comments such as 'this is the end of the free market approach'; 'this is the end of light touch regulation', 'this shows the flaws in the market philosophy'.

And also that regulation must be tighter, stronger and more comprehensive.

These are all comments that play well to people feeling the strain of the financial crisis and recession in the real economy and some use them to challenge a liberal approach.

As ever, quotes can mean different things to different people.

Liberals have not been in favour of *unbridled* free markets. We have always recognised that regulations have to define the difference between proper and improper activity. There must always be 'corridors' or boundaries.

It is also imperative that the boundaries are enforced. Underlying the crisis there are a combination of factors that include lack of regulation in the US and lax supervision in many other countries, importantly in the UK (because of the size of the banking sector) but certainly not limited to the UK. This is not just an Anglo-Saxon (US-UK) problem. Regulators in Germany, France and elsewhere have failed too.

Liberals have always seen enforcement of a strong competition policy as key to maintaining diversity. As a consequence of the crisis some things that formerly would have been unlawful as 'State Aid' have been allowed because of the emergency situation and the need for such interventions on a widespread basis. Liberals were at the forefront of calling for rules and guidance in the emergency situation.

We now face a challenge of maintaining market diversity through a cycle of regulatory reform where there will be pressure to swing the pendulum too far in the opposite direction.

The proof of our line is that we have been consistent both before and during the crisis. The thinking of ELDR MEPs can be seen in the many reports of the Parliament, in particular those on the financial crisis (Daianu and van den Burg report) and the much trumpeted report by the socialist Rasmussen on Hedge funds and private equity - compare the original draft and the final report.

European Supervision

The ALDE group leader, **Graham Watson**, has called in speeches for a 'European FSA'. In Member States the crisis has seen much rhetoric about closer cooperation but in recent votes in the Council this has not been followed through and there are moves to enable local supervisors to keep a closer eye on things. Members of ALDE on the economic committee helped to shape the Parliament's position which takes account of the EU Treaty position that day to day banking supervision is a Member State competence. We envisage day to day supervision at the national level, but a much stronger layer of European supervision for standard setting, appeals and cooperation. These ideas are now becoming mainstream. ALDE is not frightened to

give some decision making (binding) powers to the European layer although that is still resisted in many quarters.

Hundreds and hundreds of amendments have been made by ELDR MEPs to legislation as well as reports.

Sharon Bowles (UK MEP) has always supported smart regulation, based on activity rather than entity. This was included in the Parliament's Rasmussen report. This means regulation would encompass hedge funds and private equity because of their activities. (The Socialists tend to publicise it the other way round)

This is the logic, by way of example: if short selling is considered a bad thing (a separate debate) there is no point banning hedge funds from doing it but allowing Porsche to indulge, as they did last year where, as the press said, they behaved more like a hedge fund than a car manufacturer. The activity of short selling itself should be regulated or banned, if that is what is thought to be bad. The same is true for other activities. Lord Turner the new head of the UK's financial services authority has now said 'if it looks like a duck it will be regulated like a duck'.

Prior to the crisis **Sharon Bowles** also submitted amendments calling for greater supervisory expertise and capacity, and queried some of the mathematical assumptions made in both banking and insurance regulation. All these are now regarded as part of the problem of the crisis (as highlighted by the De Larosière and Turner reports) and amendments that once were opposed at the Member State level are now willingly accepted.

During the revision of the Deposit Guarantee Schemes Directive, **Sharon Bowles** was instrumental in ensuring that the scheme would cover small businesses and also that the Commission should consider the position of depositors with temporarily large amounts. This would be for example when moving home or receiving a lump sum pension payout. In these circumstances there is not opportunity to spread between banks and so with a maximum ceiling for guarantees they would be at risk.

Wolf Klinz (German MEP) put forward proposals that the network of European central banks should have a role in monitoring and crisis management, not just the ECB. This is now being included in the Capital Requirements Directive. One of the main Liberal ideas has always been to defend the independence of the European Central Bank - which we have done successfully where other political parties were sometimes weak and willing to compromise on the matter. **Wolf Klinz** has continuously warned against protectionist tendencies and sees the principle of open markets as particularly important in the current financial and economic crisis.

Wolf Klinz has been advocating a more harmonious and coordinated approach at EU level for the various national rescue packages and bank bail outs. He furthermore put forward proposals to ensure that the EU speaks with one voice in international bodies.

Daniel Daianu (Romanian MEP) was co-rapporteur on the "Lamfalussy follow up - Future Structure of Supervision" report, and authored the financial crisis section. This report dealt with the influence of the 'shadow banking sector', which are those organisations providing financial services once exclusively performed by banks. This has led to a lot of banking-like activity moving off balance sheet and out of sight of supervisors.

Daniel Daianu's contribution puts much emphasis on the issue of systemic risks; it also deals with conflicts of interest (including the role of rating agencies), skewed remuneration schemes and opacity of markets. The reports of the de Larosière Group and the Turner Report (in the UK) are in consonance with the policy thrust and the main recommendations of the Parliament's report.

Sophie In't Veld (Dutch MEP) has been at the forefront in arguing that suspensions in state aid criteria in response to the banking crisis must be temporary and not mark a permanent change to state aid subsidies.

Margarita Starkevičiute (Lithuanian MEP) has been stressing that competition is the key to economic success (and ultimately the welfare of the population) and this basic tenet remains unaltered in light of the financial crisis.

Olle Schmidt (Swedish MEP) has from the very beginning of the crisis warned against rising protectionism. He has tabled numerous questions to the Commission and the Council to maintain the pressure on EU officials so that they remain firm against protectionist behaviour by member states. Olle Schmidt has also argued that while new supervision is necessary, the EU must be careful not to over-regulate the financial market, thus prolonging the road to recovery.

Mariela Baeva (Bulgarian MEP) has been working hard as ALDE shadow to ensure that the Parliament's report on Microcredit stimulates entrepreneurship, improves competitiveness and encourages the development of a knowledge-based economy in line with the Lisbon goals.

Jorgo Chatzimarkarkis (German MEP) has consistently called for a European response to the crisis and emphasised that state guarantees should be linked to environmental targets.