THE MARKET AS FRIEND OR FOE?

THE NECESSITY OF THE REGULATION OF MARKET AND THE HOUSING MARKET

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more information:

Michel Debruyne, Haachtsesteenweg 579, 1030 Brussel, Belgium

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Preface

The Alliances to Fight Poverty would like to thank every speaker. They have made a large contribution to a better understanding of the dynamics of the market. They also showed their commitment for a more social and equal Europe.

This report book is the result of the recording of the seminar held at Marseille, May 2014. This report is a fair representation of the seminar. Not all the texts have undergo corrections afterwards by the speakers. All errors are thus the responsibility of the Alliances.

The Alliances to Fight Poverty would also like to thank Seppe Malfait who has made a very good transcription of the records. It was hard work, but the result may be seen.

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“*To widen the market and to narrow the competition, is always the interest of the dealers…The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it.”*

Adam Smith

The Wealth Of Nations, Book I, Chapter XI, §10.

The market, a friend or a foe? Introduction

Michel Debruyne, advisor beweging.net

The Alliances to fight poverty is an informal network that wants to have an impact on social and economic policy in Europe. Since the very start in 2010, we have always stressed the link between the fight against poverty on the one hand, and inequality and the lack of participation on the other. The fight against poverty cannot be isolated from other policy lines. One of the major challenges is to develop a policy against poverty which is linked with social, economic and cultural policies.

This challenge is enormous. Because of the crisis, an integral policy that embeds various policies is not possible anymore nowadays. European politics have thus become schizophrenic since the crisis. Ever since, we have been hearing two discourses: one on the adaptation to economic demands—even in countries where they decided to loosen up budgetary constraints—and another discourse against poverty. The Europe 2020 strategy embodies this doubletalk. It aims at uniting the economic, social and climate strategies. These are impossible combinations.

Because of these impossible combinations, the performances on fighting poverty are terrible. In 2015, 25 percent of more than 128 million persons were threatened by poverty or exclusion in Europe. Austerity and adaptation policies have been paid by those who are not rich, by those who have a background of migration, by those who had insufficient education, by those without decent jobs and so on.

As a consequence of Europe's schizophrenic politics, we observe an exclusionary doubletalk. The discourse on poverty became a narrative pitting the "good, deserving poor" against the "bad poor". The prophets of adaption policies have always had the brilliant vision that the crisis is but a temporary phenomenon that can be overcome by implementing adaption policies to return to the pre-crisis situation. But what are the actual results of these adaptation policies?

An example of the effects of these policies can be found in a recent document from the "Centre for cities" in the UK which dates back to 2014[1]. This document demonstrates that more than 20 percent of the workers in the UK have a weak remuneration. Moreover, the previsions are not good. The gap between well-paid jobs and low-paying jobs continues to widen: "a significant share of employment growth is predicted to be driven by increases in the number of high pay occupations. Employment in high pay occupations is predicted to increase by 17 per cent between 2012 and 2022, compared to a 6 per cent increase in total employment. Employment in low pay occupations is expected to increase by 6 per cent between 2012 and 2022, while employment in mid-level occupations is expected to fall by 11 per cent."

One of the reasons for this growing cleavage in the UK, is the reduction of unemployment which is the result of an extreme flexibility. Workers are, for example, asked to become independent and to work only when their superiors ask them to. In Germany, meanwhile, more than 43 percent of the workers have an 'uncommon' job: part-time, one hour and temporary jobs are widespread. In the eastern part of Germany, more than 60 percent of the working population have such 'uncommon jobs'. Flexibility has actually become "flexi-poverty".

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[1] Unequal opportunity: how jobs are changing in cities. Naomi Clayton, Maire Williams & Anthony Howell

September 2014. Pages 3 and 4.

http://www.centreforcities.org/wp-content/uploads/2014/09/14-09-01-Unequal-Opportunity.pdf

The future does not look particularly bright for those who don't have a job. Huge amounts of people are looking for a job. Unemployment levels in Europe remain high. More than 25 million people are looking for a job or are no longer seeking for a job. In Spain and Greece, the figures remain high: 25 to 28 percent of the population no longer have an income. They are without any hope. The "no future"-maxim is something very real and concrete for them.

We can conclude that the adaptation and austerity policies result in social disasters. Some months ago, we heard the European President saying that adaptation and austerity policies are necessary to save Europe and that they show good results. The President confirmed that Europe is back on track. European communications were quite positive, but that was before the elections. Today the picture isn't positive anymore. We see just about everywhere a salary and income deflation, prolonged unemployment, extreme flexibility and as a result, the austerity policies are pushing people into poverty.

The necessity to invest in social policy and democracy, eg civil and social dialogue

The Alliances to fight poverty have always insisted on the necessity of a different kind of policy. Our memorandum provides inspirations to develop another policy to build a social, democratic and sustainable Europe. The seminars of the Alliances are meant to elaborate further those ideas.

In Lisbon, we have evaluated the consequences of the adaptation policies and austerity policies on social policy. The consequences are well known: these politics undermine social cohesion, and undermine the future possibilities of the younger, and health. We concluded that we have to invest in education, social security and health to reshape the European Union and its member states.

In Madrid, we evaluated the policies of participation. We analysed that the adaptation policies are at the same time policies that undermine social and civil dialogue. In almost all European countries social dialogue has crumbled and has been replaced by individual consultations at enterprise and individual level.

Social negotiation was one of the pillars of solidarity between workers. It has been broken down because it no longer meets economic requirements. Civil dialogue is always pushed back. The European initiatives of green and white papers and the Platform against Poverty and Social Exclusion only mask the lack of a real civil dialogue. Investing in a social and civil dialogue is necessary if we want Europe to grow again.

The necessity of the regulation of the market

This report of the seminar of the Alliances to Fight Poverty at Marseille will analyse the regulation mechanisms for the economy and social sectors. Market regulation proposals tend to be inspired by privatization and deregulation practices of the financial sector. Regulation is about excluding bad practices. But we have to wonder: when we speak about regulation, are we talking about the market or about bad practices? What kind of market are we talking about?

In his most recent works on civilization and capitalism, Fernand Braudel, historian, stresses the distinction between the market and capitalism. He defends that capitalism is not the market, but the sector of monopolies, the sector where others are excluded from this so called free and competitive market. The recent discussion[2] between Piketty and Stiglitz where Stiglitz

[2] "In the September issue of Harper's Magazine, Noble Prize-winning economist Joseph E. Stiglitz argues that Thomas Piketty's much-lauded Capital in the Twenty-First Century lands at an incorrect conclusion. Capital, Stiglitz writes, holds that growing inequality is an inevitable outcome of capitalism. But this, Stiglitz says, is not in fact the case. Our system produces such yawning gaps because it isn't truly competitive the way a capitalist system should be — it has, in fact, been engineered by the wealthy to prevent competition and to protect

emphasizes that capitalism isn't the reason of the crisis, demonstrates that there is still a confusion between capitalism and the market.

"The market is a social invention and a social advantage". That is the thesis of the latest book of Laurence Fontaine, research director of the National Centre for Scientific Research. In this book, Laurence Fontaine explores how the markets in Europe were a place where poor people could develop themselves. This study shows on the same time that there's always a tendency of regulating the entrance to the market. Regulation of the entry to a market was necessary to protect those who were already present in this market. At the same time regulation means forbidding the entrance to certain groups, like poor people and immigrants. In her research, she focuses on the characteristic of the market that has been rarely noticed until now. The market, that is free for all, can be a place, a space, a practice that can enhance the capabilities of persons.

Therefore, deregulation is a necessity for the inclusion of poor people.

So we can see that the discussion on regulation and deregulation is not that simple. Some examples: non-employed people in the Netherlands are instructed to follow a dress code. Municipalities have to control the way they are dressed. Here, regulations are made to exclude people who doesn't follow the regular dress code. In Flanders, people are trying to create a cooperative bank. One of the fundamental problems for the founders is the access to the bank system. This may look normal after the financial crisis but at the same time we see that regulation is also used in order to defend, to protect one's position on the market. Regulations are used to develop hindrances.

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their economic and political power."
http://billmoyers.com/2014/08/22/joseph-stiglitz-in-defense-of-capitalism/

As Immanuel Wallerstein stated, the core battle was and is the fight between the excluded and the included[3]. Laurence Fontaine, gave us another view on the discussion of regulation and deregulation and on the position of the market within the capabilities of people.

After this introduction, we enlarge our view on this discussion by launching the concept of resilience. A word that originated in the research on metal, resilience is the characteristic of the ability of energy absorption by a body after a state of deformation. Today, it is a word that is used in different contexts: in ecology, psychology, development and sociology. In the ecological context, it designates the capacity of an ecological system, a habitat, a population or a species to rebuild its functioning or its normal development after being exposed to a severe shock. Jean-Luc Dubois, research director of IRD, has elaborated this concept of resilience within the market context. The question is whether and how the formal or informal market (the discourse of Laurence Fontaine shows that the informal market is an invention of the excluded in order to ameliorate their condition by the market system) can be an element of resilience for people. During the previous seminars, Jean-Luc Dubois insisted on the force of migrants and how we can learn from the resilience features of these migrants. The informal market is a part of their resilience. Jean-Luc Dubois also reveals the links between resilience and the capabilities.

When we speak about 25% of the population not having a job, we can compare this situation with an important shock, like a global traumatism imposed on society. One could ask if people can return to a previous state when they don’t have the means to do so, if they don’t see any hope for another type of life, when the causes of their trauma are still there. The concept of resilience opens this question: it links together prevention, endurance and adaptation. How to enforce a population within a long term unemployment trend? How to protect a population

[3] Immanuel Wallerstein. World-Systems Analysis: An Introduction. Durham and London: Duke University Press, 2004

against financial crises? How to come back to a previous state, a pre-crisis state?

These questions raise another question: who will determine the state of prevention, endurance and adaptation? And, moreover, do we wish to return to a previous state? Are we not in need for new structures and new systems? Who will define which system or structure we need? The question of social and civil dialogue and thus democracy, reveals itself with the concept of resilience.

Jean de Munck, professor of Sociology at the Catholic University of Louvain-la-Neuve, has investigated the question of democracy. In one of his latest books, he explored the link between the capabilities and democracy. One of the main elements of the capabilities of a person is having a voice. A voice to say no or yes, and to express a loyalty or a fatalism. The last one is not listed by Hirschman[4], but when we talk about resilience we know that lots of people only have a voice expressing fatalism. And that's something else than expressing loyalty that can change this 'yes' or 'no'.

Expressing fatalism is expressing that there is a lack of resilience. The crisis and the policies of adaption and austerity have created a sphere of fatalism. For Jean de Munck NGO's and trade unions have to look for new creative actions so that people regain their voice.

Jean de Munck also reflect on the relation between rights and the democratization of the market. If we claim that the market is a social advantage, we need a discussion on the direction and the regulation of the market and thus its democratisation. And can we use the human rights in this perspective.

The discussion about the regulation of the market is especially necessary in the context of the financial market. Jeremy Leaman (Loughborough University and member of the EuroMemo

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[4] Hirschman, Albert O. (1993): Exit, Voice, and the Fate of the German Democratic Republic: An Essay in Conceptual History, in: World Politics, 45(2): 173-202

Group[5]) discusses the means to regulate the financial market. It is not only the question of regulation or deregulation (poor countries or under the Troika are excluded from the financial market or have to search on the informal market – like Sudan and BNP Paribas), it is also a question who decides.

Tana Lace, professor at Riga University, talks about the fall of the iron curtain and the consequences for Latvia. Deregulation was the key word. As a consequence all social systems became under pressure. Latvia become an example for the new member states. But have the people of Latvia regained a decent life?

Patrick de Bucquois is President of CEDAG, the European Council for Non Profit Organisations, and is member of Social Platform and Social Services Europe. He talks about how social services can exist within and with the market. The question of the liberalisation of the social services challenges the social services. What strategy do these organisations follow to survive in this deregulated market.

Renaat Hanssens from ACV/CSC Belgium, Bruno Teixeira from UGT Portugal and Robert Szewczyk from Solidarnosc Poland answer the following key questions: (1) What are the main threats in marketization in your country? (2) What are the consequences for households and the rights of workers? (3) What are possible remedies: what kind of regulation is necessary?

The regulation of the housing market

The second part of this report deals with the question of the necessity of the regulation of the housing market.

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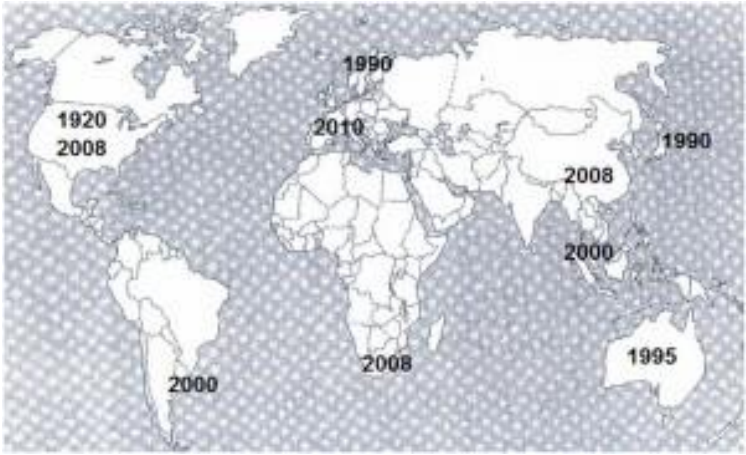
[5] The European Economists for an Alternative Economic Policy in Europe which is a network of European economists committed to promoting full employment with good work, social justice with an eradication of poverty and social exclusion, ecological sustainability, and international solidarity. http://www.euromemo.eu/

The housing market is one of the important pillars of our welfare state. More it is the fundament of the “asset-based welfare state”. This asset-based welfare state asks people to look for their own provisions for their own welfare. The state is only responsible for the activation of the people. Home-ownership is stimulated in almost every country and especially since 1980. When everyone has become a home-owner, then the state can reduce his responsibility for the social security. Having its own house is a kind of financial cushion and can also be used when you are sick or retired, your house as an individual social security system.

This “asset-based welfare state” policy is embedded in a fiscal policy that has the objective to reduce the fiscal (so called) burden. A reduction of fiscal revenues has direct consequences for a broad social policy. Less revenues means always less social policy, or with other words, only they who deserve can receive some benefits. There is a strong correlation between the policy of home-ownership, this “asset-based welfare state” policy and a weak social security.

One of the problems of this policy is that people who can’t afford a house, who can’t become home-owner, have a double disadvantage. They have no financial cushion and there is not a broad social policy. This “asset-based welfare state” policy and thus this kind of housing policy favours no other solutions like social housing.

So, you could say that housing is for a lot of people the wobbly pillar under their welfare.



The problem with this housing policy is that it has a disastrous effect on our economies. There is a strong correlation between the housing bubbles and the economic crisis. On these map you find some of the most known. The big depression in the USA in 1930 started with a real severe real estate bubble in the 1920. In Sweden there was a strong housing bubble that has led to an economic crisis and as a consequence of the policy of restructuring a demolition of the social welfare state. The last elections in Sweden made it clear that people wanted a change of this policy of austerity that started with a housing bubble. In 1990 started a the severe housing bubble in Argentine, that ended in the bankruptcy. They are still trying to solve the consequences of this bankruptcy. We know very well the lasting economic crisis of Japan that started, yes, with a housing bubble.

The housing market is more than a wobbly pillar under the welfare state, it is also the wobbly pillar under our economic system. The housing policy can creates happiness or tragedy. In our societies we see mostly tragedy. It excludes people from decent housing and creates economic problems.

Pascal de Decker, lecturer at university of Louvain and well known for his sharp conclusions, introduce us into the housing market. After him the president of FEANTSA, Mike Allen, discusses the problem of homelessness.

Then four country reports give us a clue how a social policy on housing is sometimes possible or mostly not possible.

Manuel Domerguez, director of the Study department of Fondation Abbé Pierre challenges the market. In France the government has chosen the home-ownership strategy forgetting that social housing and affordable housing is needed.

Patricia Berzunartea[6] from RAIS Fundación gives an overview of the housing policies in Spain: the government promises a lot to people who have lost their homes, but they are empty promises. Above all, there is no housing policy anymore.

In Romania almost everyone is home-owner, says Ramona Sinca, advisor The Open Network[7], but does not have the means to renovate the house or to pay the energy-bill. A broad policy strategy has not been found.

Peter Kelly, Director of the Poverty Alliance[8], gives some hope. In Scotland they have reversed the a-social housing policy of the Thatcher period and created an anti-homelessness policy. With the Scotland testimonie we end with describing a policy that gives a glimpse of hope for a better housing policy.

Peter Lelie, advisor social policies from Belgium introduces the seminar with an overview of the state of affairs of social Europe. He stresses the importance of the continuing fight against poverty, the poor results of this fight in different member states, the discussion about the indicators to monitor poverty and social exclusion and the need for global indicators for Europe.

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[6] RAIS Fundación, www.raisfundacion.org

[7] www.theopennetwork.ro

[8] www.povertyalliance.org

Poverty and Social Exclusion in the EU and the Mid Term Review of Europe of the 2020 Strategy

Peter Lelie, advisor at the Belgian Ministry of Social Affairs

Contents

In this presentation I will first talk about poverty and social exclusion in the European Union as measured with the social indicators that have been developed at the EU level. Then, I will comment on what is the big issue at the moment in the committees of the Council of the EU: the Mid Term Review of the Europe 2020 Strategy.

Before starting, I think it is important to be clear about the perspective from which I will be addressing these issues. In the program I am announced as an expert in social protection. To be a bit more specific: I am working in the Belgian Ministry of Social Affairs, especially on the EU Social Protection Strategy and in this capacity I participate in the meetings of the EU Social Protection Committee. I will talk on the basis of the experiences I have had through participating in those meetings but the views I will express are my own.

In preparing this presentation I have often referred to the annual report of the Social Protection Committee 2013 entitled 'Social Europe: many ways, one objective'. It was published at the start of the year. You can find it on line and you can order a paper copy from the EU bookshop[9].

[9] http://ec.europa.eu/social/main.jsp?catId=738&langId=nl&pubId=7695

The first thing we have to look at when we are talking about the social situation in Europe is the at-risk-of-poverty or social exclusion rate (AROPE). This is the target indicator that has been adopted in the context of Europe 2020. It is depicted by the blue line at the top in figure 1 below. The at-risk-of poverty rate is a composite indicator that is based on three sub-indicators. People are at-risk-of poverty or social exclusion in case they are either at-risk-of-poverty or living in a severely materially deprived or very low work intensity household. In brown, the at-risk-of-poverty rate is represented. It’s the relative income poverty rate. It measures the percentage of people below 60% of the median income. In purple, a more absolute measure of poverty is represented, the severe material deprivation rate, which is based on the affordability of certain durable consumer goods and on financial stress: being able to do certain payments etc. You are defined as being at severe material deprivation in case the household you are living in is lacking in at least four out of nine items. The very low work intensity household indicator is represented in green. It measures the percentage of people living in households with a very low work intensity, i.e. less than 20% of the capacity to work in a household.

Figure 1 shows the situation before the start of Europe 2020 strategy, during 2005-2008. You can see that the at-risk-of-poverty or social exclusion rate went down. Since the at-risk-of-poverty rate was rather stable, the downward trend was especially caused by the reduction of the percentage of people in severely materially deprived or very low work intensity households. The dotted line represents a linear path to the target. The idea was that AROPE should go down from about 116 million (EU-SILC 2008) to about 96 million (EU-SILC 2018) people (i.e. minus 20 million people).

Figure 1

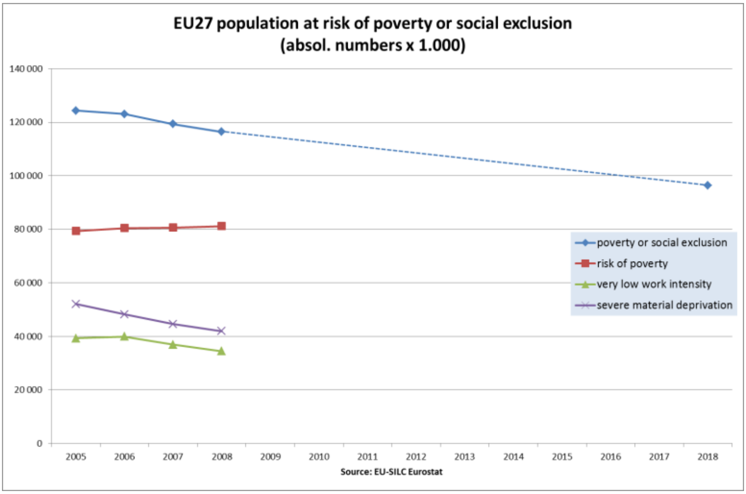


Figure 2 shows what has happened since the start of the Europe 2020 strategy. The at-risk-of-poverty or social exclusion rate went up and is now higher than at the start of the strategy. Looking a bit more closely at the sub-indicators, we can see that initially, between 2009 and 2010, there was a rise in the very low work intensity households indicator. This reflects what was happening with the unemployment figures at the time. And then, between 2010 and 2011, there is an increase in relative income poverty and severe material deprivation. Finally, between 2011 and 2012, the most recent year for which data are available, especially the severe material deprivation rate has gone up.

Figure 2

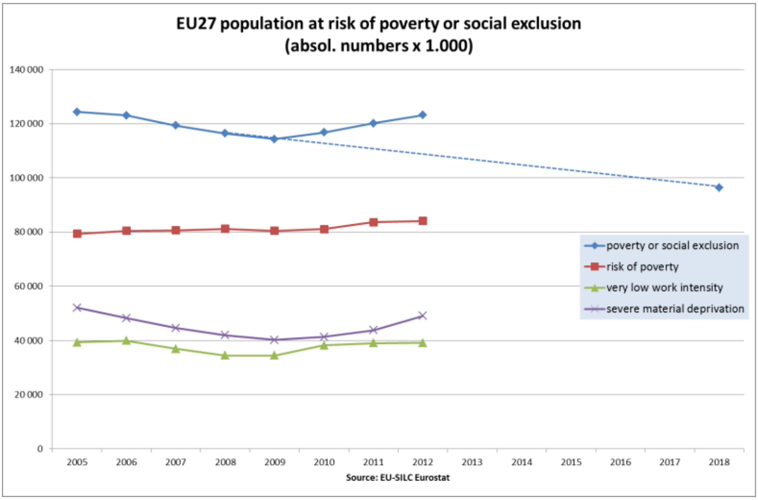


Figure 3 presents the percentage changes in the AROPE sub-populations over the years. The relative change in the period just before the Europe 2020 strategy (2005-2008) is represented in blue and the change in the most recent period (since the start of the crisis) in green. The total evolution 2005-2012 is represented in yellow. As you can see in the first 3 bars, the at-risk-of-poverty rate has gone up constantly, both during the period before and since the crisis. There was a drop in the very low work intensity rate before the crisis, but what was gained then has been lost since the onset of the crisis: in 2012 we are back in the 2005 situation. Some gains in limiting the percentage of people in severe material deprivation remain, but on the whole, you can see in the last column that, as far as the total population AROPE is concerned, we're almost back to where we were in 2005.

Figure 3: Percentage change in the EU27 population at risk of poverty or social exclusion 2005 - 2008 -2012

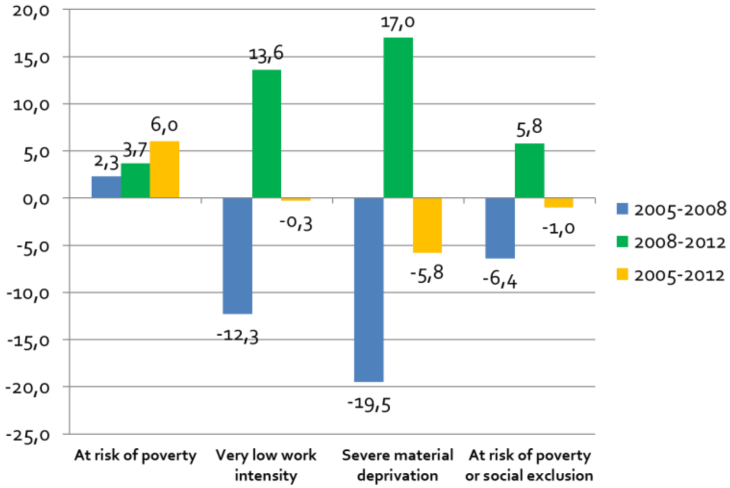
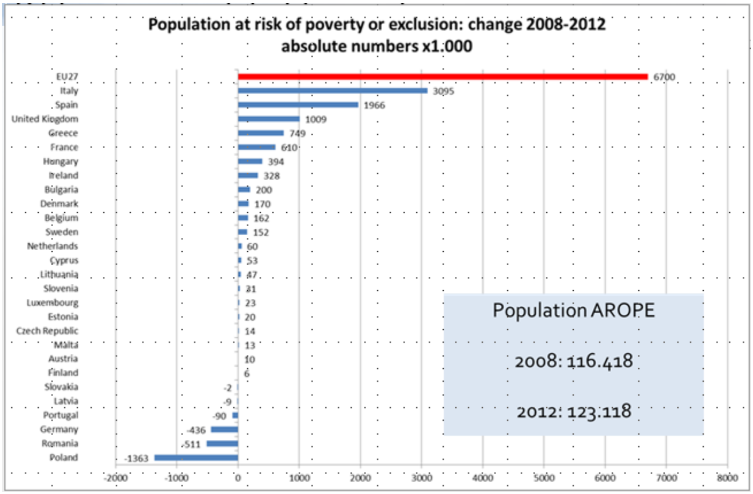


Figure 4 allows a closer examination of developments in the AROPE population in the Member States. In the EU as a whole there was an increase between 2008 and 2012 of about 6,7 million people. The biggest increases were in Italy +3 million, in Spain +2 million, in the UK +1 million, Greece +750 000 and France +610 000 people. The biggest reductions have been registered in Poland, -1,4 million, Romania -500 000, Germany -450 000, Portugal -90 000 and Latvia -9 000.

Figure 4

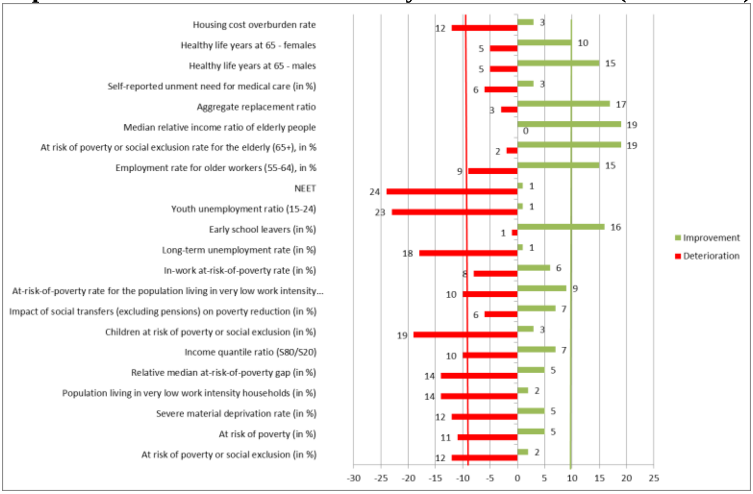


In order to get a more detailed picture of recent social protection developments the Dashboard of the Social Protection Performance Monitor can be used (see figure 5). This Dashboard presents a selection of indicators along different dimensions: the Europe 2020 target indicator and its sub-indicators (4), intensity of poverty risk (1), income inequality (1), child poverty (1), effectiveness of social protection systems (2), social consequences of the labor market situation (2), youth exclusion (3), active ageing (1), pension adequacy (3), health (2) and housing (1). The horizontal bars show the number of EU Member States presenting a statistically significant positive (green) or negative (red) evolution. Figure 5 focusses on the time period 2008-2012. There is considered to be a trend if in 9 Member States out of 28 there is a significant (negative or positive) evolution.

Especially noticeable among the negative trends is youth exclusion. The percentage of NEETs (young people not in employment, education or training) is now higher than in 2008 in 24 Member States and the youth unemployment ratio went up in 23 Member States. Child poverty has increased significantly in 19 Member States. As far as long-term exclusion from the labor market is concerned: long-term unemployment increased in 18 Member States and the share of people in jobless households increased in 14 Member States. The risk of poverty or social exclusion has increased significantly in 12 Member States. The percentage of the households confronted with housing cost overburden also increased in 12 Member States (overburden = spending more than 40% of net income on housing costs). Finally, there is a significant increase of income inequality in 10 Member States.

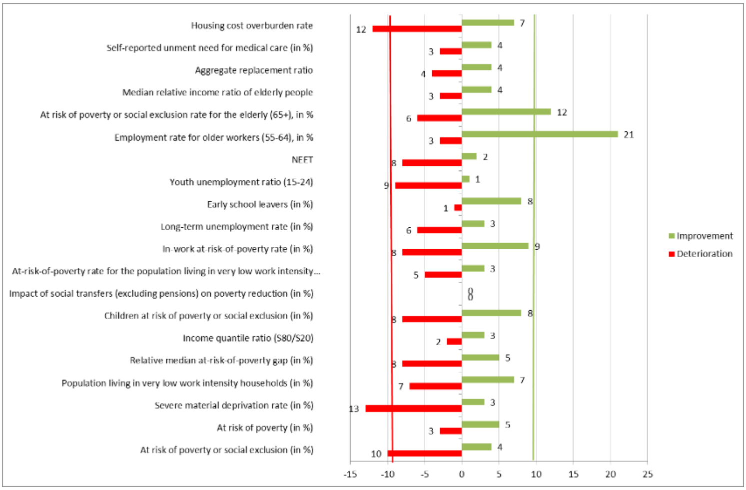
Among the key positive trends are the following developments. The risk of poverty or social exclusion rate of the elderly decreased in 19 Member States, while the relative income of the elderly increased in 19 Member States. The positive development in the relative income of the elderly is not really surprising because this indicator compares the income of the active population with the income of pensioners and it’s normal that if the crisis had an immediate negative impact on the active population, relatively speaking, the position of the elderly has improved. The rate of early school leavers has gone down in 16 Member States. The employment rate of older workers has gone up in 15 Member States. There is also an increase in healthy life years for men in 15 Member States and for women in 10 Member States.

Figure 5: Number of Member States showing significant improvement or deterioration in key social indicators (2008-2012)



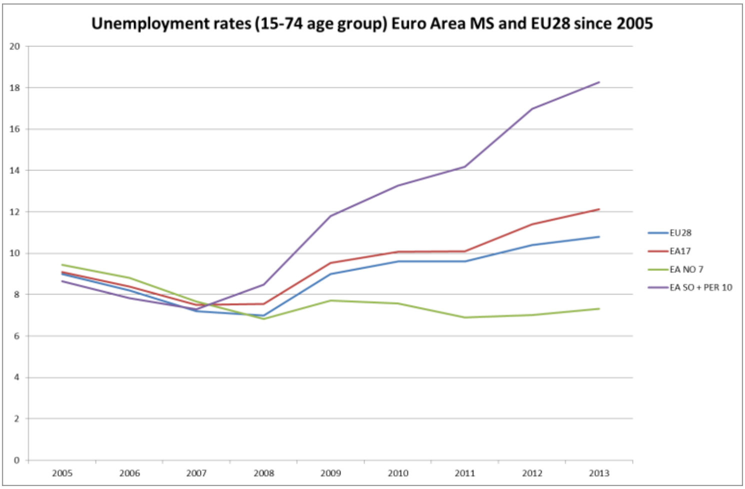
The previous figure refers to 2008-2012. If you look at the most recent year 2011-2012 (figure 6), the most striking development in the negative trends is the severe material deprivation and that is consistent with what I told you earlier. There is an increase in 13 Member States. The housing cost overburden rate has significantly increased between 2011 and 2012 in 12 Member States and in 10 Member States the at-risk-of-poverty or social exclusion rate of the total population has gone up. On the positive side, the at-risk-of-poverty or exclusion rate of the elderly has come down in 12 Member States and the employment rate of older workers has increased in 12 Member States.

Figure 6: Number of Member States showing significant improvement or deterioration in key social indicators (2011-2012)



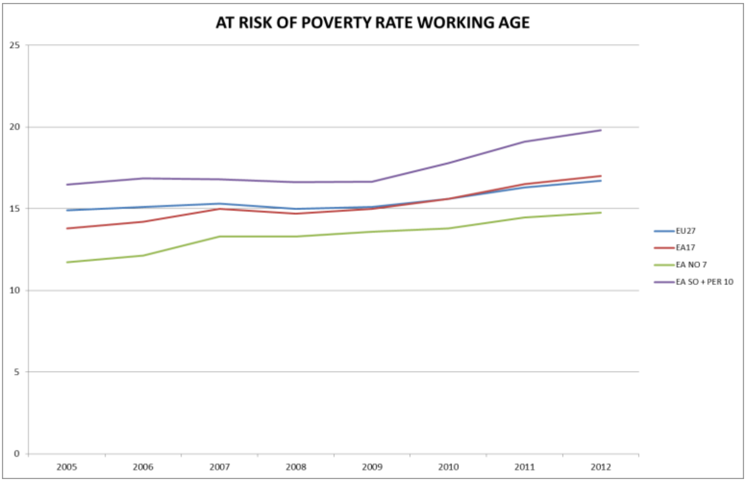
I would like to add something else to the picture. We just noticed that different trends are visible in different countries. This also came to the fore in the context of the development of a new monitoring instrument: the EU scoreboard of key employment and social indicators. In the second part of last year the European Commission published a communication on deepening the Economic and Monetary Union and there was also some attention paid to the social dimension of it, hence the idea of building a new scoreboard of headline employment and social indicators. The purpose was to make it easier to identify major employment and social trends that can affect the good functioning of the EMU and may warrant a closer follow up in the European Semester. At the time, we were witnessing divergent trends within the Economic and Monetary Union. It was felt important to point out that not only economic divergence is important for the Union, divergence in the social and employment trends might also endanger it. A social spillovers can take place when there is an undesirable social development in one country that has an impact on the Union as a whole. The indicators that were chosen for the scoreboard were: the unemployment rate, the NEET rate, the youth unemployment rate, the real gross household disposable income, the at-risk-of-poverty rate of the working age population and the income inequality ratio S80/S20. When presenting the results of the scoreboard, the Commission has regrouped the Member States in different sub-groupings. A distinction was made between the 'north / core' and the 'south / periphery' of the Euro Area. Indeed, if you calculate the averages of these zones you can see clear divergence within the Union. Figure 7 shows the evolution of the unemployment rate between 2005 and 2013. The bottom line, in green, refers to the north / core Euro Area (EA NO 7). The purple line at the top refers to the south / periphery (EA SO + PER 10). It is a very striking graph, where you can see that the unemployment rates in the north and the south of the Euro Area were quite similar in the period preceding the crisis but since the crisis has started, there is an important divergence. In 2013 there is a difference of more than 10 percentage points. I think the difference is even larger when you look at the youth unemployment rate.

Figure 7



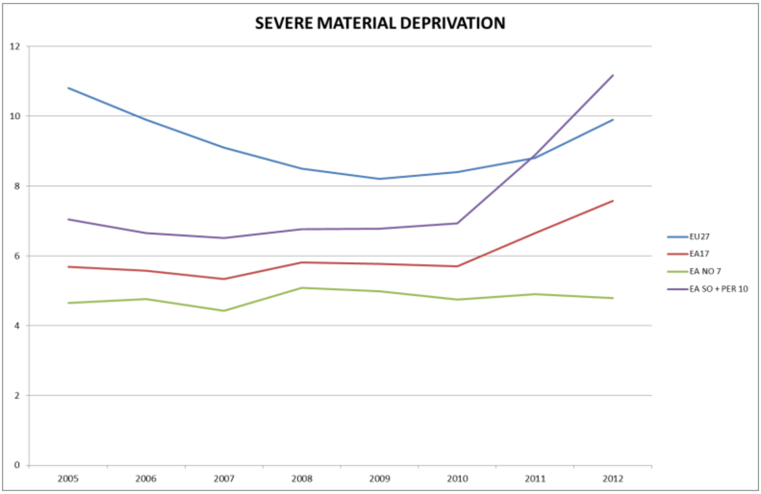
There is also a widening of the gap between the two regions with regard to the at-risk-of-poverty rate of the working age population (in figure 8). The difference between the north/core and south/periphery is 5 percentage points in 2012.

Figure 8



The severe material deprivation rate is an indicator that is not in the new scoreboard, but it is also worth looking at since it is especially this indicator that has recently gone up substantially. In figure 9 you can see the strong increase of severe material deprivation in the south / periphery of the Euro area while the rate has remained more or less constant in the north / core of the Euro Area.

Figure 9



What this adds to the picture is that not only there is a problem with reaching the overall AROPE target for the EU as a whole. Within the Union there are also divergent trends in income and living conditions. This represents a serious challenge for a Union that has always been seen as an instrument of convergence between Member States.

This is what I wanted to tell you about the social situation regarding poverty and social exclusion in the EU. I think it is a good starting point for discussing the Mid-Term Review of the Europe 2020 Strategy because the following question naturally comes to mind: how can the strategy be adapted so that it can successfully tackle the challenges just mentioned?

The Mid Term Review of the Europe 2020 Strategy

The Europe 2020 Strategy started in 2010-2011. So, we are now about halfway. The new, incoming European Commission is examining the progress made so far and intends to come with proposals to strengthen the strategy. In March 2014, the Commission communication 'Taking stock of the Europe 2020 Strategy' started the Mid Term Review. In May 2014, a public consultation was launched. Everybody can participate by sending in their views on how the strategy has developed so far and how it could be adapted to make it more successful. Deadline for contributions is 31st of October 2014. Meanwhile, the advisory committees of the Council are preparing the opinions of the Council Formations. As far as the Social Affairs Council is concerned, the Social Protection Committee and the Employment Committee will produce a joint opinion on where we should go with the strategy. The Council will look at this in the middle of October. At the start of 2015 we expect the new Commission's proposals. Decisions are to be taken by the Spring European Council in March 2015.

When we look at the Europe 2020 Strategy after four years, it is clear that from the start there has been a focus on the immediate economic and budgetary impact of the crisis. Far less attention has gone to the Europe 2020 targets and the long term goals of Europe 2020 that also concern e.g. the social and environmental policy dimensions. In the past few years especially the economic and budgetary surveillance of the EU (Eurozone) was reinforced. The assessment within the Social Protection Committee is that because of the social impact of the crisis, budgetary consolidation and recent macroeconomic policy, the Europe 2020 strategy needs rebalancing. We need a renewed emphasis on the inclusive growth dimension.

There are different aspects we could look at to make the Europe 2020 Strategy more effective.

- First of all, as concerns the **overall architecture of the strategy** there seems to be little enthusiasm for a radical break with the past. The idea is that the main features of the strategy, with its integrated guidelines, its multidimensional objectives and targets, the European Semester, should not be thrown overboard. What is needed is rather a reorientation of policy in order to make the strategy more balanced in practice with a focus on long term growth and inclusion.

- There are 10 **integrated guidelines**, 6 economic guidelines and 4 employment guidelines. In the 10th guideline on social protection there are some ideas that should probably be reviewed. The guidelines have remained unchanged since the start of the strategy but normally they should provide state of the art policy advice. It is felt that they are not specific enough and since they remain the same all the time, they don't take into account the results of the learning that is going on. Maybe the 10th integrated guideline could be more explicit in pointing in the direction that policy reforms should take.
- Looking at the **EU level targets**, in its 'Tacking stock of the Europe 2020 Strategy' communication the Commission suggests that the EU targets on education and the environment are broadly achievable, while the targets on R&D, employment and poverty and social exclusion are unlikely to be met. Instead of reaching the 96,4 million at-risk-of-poverty or social exclusion (AROPE) target, we are more likely to end up with close to 100 million people at risk of poverty or social exclusion. As far as the EU wide AROPE target is concerned, two aspects have been discussed: the level of ambition and the definition of the target. There has been some reflection on changing the level of ambition only: i.e. sticking with the indicator but revising the ambition downwards or upwards. Here, I think the majority of the opinions expressed in the Social Protection Committee go in the direction of keeping the level of ambition as it is. It is felt that, in the present circumstances, with the impact of the crisis and a slow and fragile recovery, raising the ambition would not be realistic, certainly not from the perspective of those Member States within the Union that have been hardest hit by the crisis. On the other hand, reducing the ambition would give the wrong signal: it would be as though the Union is giving up on the struggle against poverty. There has also been some

discussion about changing the (definition of the) target indicator. At the start of the strategy, there was a very difficult discussion, and it is only after very long and intense debate that a compromise was found around the new AROPE composite indicator that takes into account relative poverty, severe material deprivation and low work intensity of the household. It is a bit tricky to now change the target indicator but a few Member States have argued that we should do so. Some suggested that perhaps a target could be set on a more policy oriented indicator. From this perspective, targets could be put on for example minimum wages or on minimum income for the elderly. It's controversial between Member States and not supported enough by them. Another idea was to focus more on the people who are in absolute poverty, the most vulnerable. This is also quite controversial. It seems that a majority is in favor of sticking to the broader definition of poverty although there is a lot of support for an improved monitoring of severe poverty.

- As far as the **national poverty targets** are concerned, it is important to remember that when they were originally set, they were not strictly linked to the EU level target. There was an agreement that there would be no burden sharing at EU level. So, Member States had a lot of freedom in choosing their own target indicators and level of ambition and a priori there was no guarantee that the national targets would add up to the EU target. Indeed, the Commission has estimated that even if the Member States were to reach their targets by 2020, the AROPE population would only be reduced by around 12 million instead of 20 million people. Examining the national targets, it turns out that 18 Member States have put their target on the EU target indicator, the at risk of poverty or social exclusion rate, 6 Member States have chosen not to put it on the composite indicator but on one of its component indicators: 3 Member States have chosen the at risk of poverty rate and thus their focus is on relative income poverty and 2 Member States have opted for the very low work intensity indicator, while one country, Latvia, has targeted the population in relative income poverty and living in very low work intensity households. The remaining 4 Member States have chosen to put their targets on some very different indicators, not directly linked to the AROPE indicator and its component indicators: Germany on the long term unemployment rate, Sweden on something called the quasi activity rate, Ireland on the consistent poverty rate and the UK on a set of national child poverty indicators. Looking at the extent to which the Member States have reached their targets it becomes clear that Germany and Latvia have already reached their targets and Poland is very close to it. Croatia, Portugal, Slovakia, Bulgaria and Romania are moving in the right direction. In the other Member States the situation is now worse than at the start of the strategy. There is a real problem with achieving the targets at the national level. A majority of Member States seem to think that the EU level target should stay as it is while Member States should be free to change and adapt their national targets but the idea would be that Member States should be encouraged to increase the ambition.

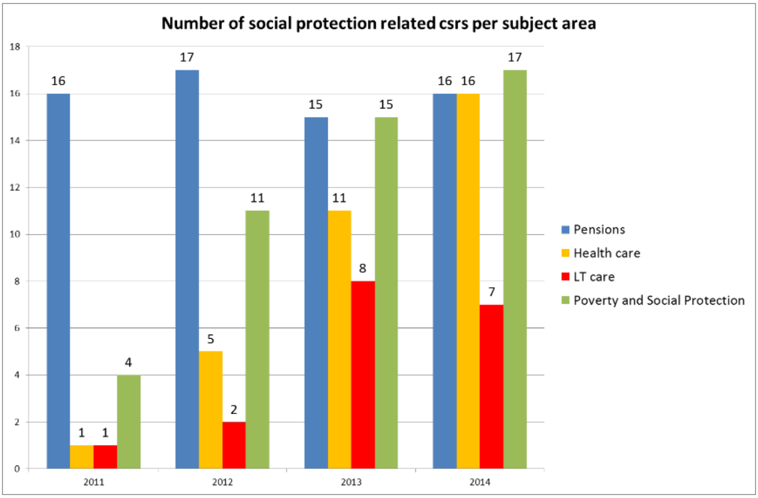
- The Commission's stocktaking communication is generally rather critical of the impact of the so called **Europe 2020 flagship initiatives**. This is specifically also the case with regard to the flagship EU Platform against Poverty and Social Exclusion. The Platform was in fact a kind of social agenda of the Commission in the field of poverty and social exclusion. Two thirds of the actions announced in the Platform communication have in the meantime been implemented but the Platform itself has been eclipsed by the Social Investment Package, a new Commission initiative that has superseded it. The Commission is now fully invested in going for this new initiative and only very seldom refers to the Platform. The most visible element of the Platform, and its only specific governance element, is its Annual Convention. It is in fact a remodelled version of the Social OMC Round Table on Poverty and Social

Exclusion. Stakeholders are worried about the limited visibility and impact of this Convention of the Platform. The Commission itself has said that the value added of the Platform is not self-evident. It is not unlikely that there would be a change in the setup of these flagships as a result of the Mid Term Review. Member States also seem to be rather sceptic but there is a feeling that the flagships are really the Commission's business.

- The **European Semester of policy coordination** has always been dominated by the ECOFIN Council, but especially since in recent years the macro-economic and budgetary surveillance has become stricter the dominance of this Council formation in the Semester has grown even stronger. The problem is that in this way considerations of cost containment always take centre stage in the European guidance for social protection, while considerations of accessibility and social adequacy are almost invisible or of secondary importance. There is a clear asymmetry. Even if, according to the EU treaty, the organisation of social protection largely remains the responsibility of the Member States, very specific economic and budgetary recommendations e.g. on pensions and health care have an important impact on the social adequacy of the social protection systems in the Member States. There is a need for a more balanced approach and for more effectively involving the EPSCO Council (ministers of social affairs) in the issues for which they are responsible (policy formulation and implementation at national level) in the Strategy. The EU Social Protection Committee has a general mandate to cover social protection affairs in the treaty (art. 160) but its role in the European Semester is insufficiently recognized. The Committee itself, however acts on the assumption that it has to be fully involved in the cycle, reviewing all country specific recommendations that are concerned with social protection. It is an institutional problem that the EU social Protection Committee has very little impact on the process.

- The evolution of the number of **country specific recommendations (CSRs) on social protection** (as defined by the Social Protection Committee) over the period 2011-2014 is shown in figure 10 below.

Figure 10



In blue, the recommendations on pensions are represented, in yellow, the health care recommendations, in red, the long term care recommendations and, in green, the recommendations concerning poverty and social protection. From the start, a lot of Member States have received pension recommendations. It is clear that pensions are a very important factor in public finances and pension expenditure has been targeted from the start within the strategy. Health care has built up quite dramatically and in 2014 there were as many Member States that have received a CSR on health care as on pensions. We also notice an important increase in recommendations on poverty and social protection. Some of them are quite helpful, targeting those Member States with very weak social protection systems. There are fewer recommendations on long term care, although their number has also increased, especially between 2012 and 2013. Almost all recommendations on pensions, health and long term care are focused on financial sustainability. Some are very prescriptive. At the basis of these recommendations is often the budgetary impact of ageing, as estimated by the Economic Policy Committee's working group on Ageing (WGA). The problem is that if you look closely at the CSRs, very few of them are concerned with adequacy and accessibility. The CSRs need to be rebalanced. Financial sustainability and adequacy are two sides of the same coin.

- Another problem in the current setup of the Semester is the lack of **ownership of the CSRs** by the Member States. The structure and timing of the current process makes it impossible to have even rudimentary consultation and stakeholder discussion at national level and the dialogue between the Member States and the Commission remains very limited. A better dialogue between Commission and Member States regarding the analysis of the situation in the Member States and possible reforms is needed. The more the analysis of the situation is shared by the Member State and national stakeholders, the higher the likelihood of positive reforms. Therefore, the Commission should publish its analysis much earlier in the process. We also need better reviews of Member States' policies in response to CSRs. Furthermore, the CSRs need to be less prescriptive. The Member States have insisted that the Commission can say something about the policy outcomes and give broad guidance, but it should leave room for manoeuver and decision making at the national level.

Conclusion

The deteriorating social situation is a major challenge. The Mid Term Review is an opportunity to adapt and rebalance the strategy. The choices made by the Juncker Commission will be important. It is in its early days, but Juncker's program has some positive aspects. We just witnessed the hearing of Commissioner Marianne Thyssen in the European Parliament. There are some positive things there. She has said that it is necessary to give a more prominent place to the social dimension within the European Semester. There has also been some suggestions that social impact assessment would be performed on the policies that will be adopted under the Economic Adjustment Programs in the countries in difficulties.

In the EPSCO Council committees there seems to be little support for dramatic changes to the setup of the Europe 2020 strategy, but there is an awareness that it needs to be rebalanced. The strategy should prioritize the inclusive growth dimension.

The market, a social conquest ?!

Laurence Fontaine, Research Director of Centre National de la Recherche Scientifique (FR)

Working on poverty I have become aware of the profound ambivalence of the market[10]. On the hand, it is a space of emancipation and freedom and it pushes towards equality of status for those participating. On the other, it tends to turn everything, including human life into merchandise. That is my starting point. I tried to write a double history. First, how to get out of the vision that turns the market into either the devil or God and try to comprehend both its positive and negative logics. Second, we want to find everything that history has accumulated in the way we think the markets and make them function.

Society of order against the market

I would like to start by returning to history. Ancient Europe was living in a well-ordered society of the three layers: the clergy, the nobility and the Third Estate. The aristocracy, based on birth, was the leading group. Its power was legitimated by the catholic religion. Tracing the links between religion and market allows us to understand the origins of the present relationship with economy. At the stage when religion was the foundation of power, it was via religion that the priests and the warriors protected themselves against attacks on the roots of their domination that were threatening the potential of a capitalist economy.

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[10] Fontaine L., 2014, Le marché. Histoire et usages d'une conquête sociale, NRF Essais, Paris, Gallimard

The first prohibition on usury, which is common to all monotheistic religions, is fundamental. The capacity to make money with money, multiplies the market forces. Lending at interest is the very motor of capitalism. In fact, to have money and the capacity to get rich by using money while playing on time, can only pose problems to the elites that are based on religious or political power. They see the formation of a new class of wealthy men who may surpass them. Those who have money can offer work and with it the freedom to obtain new objects. In this process, we see that a new type of society crops up, which is founded on values that rival those of the traditional elites such as work versus idleness, markets versus gift and credit versus charity. It permits the expression of individual needs, sowing the seeds for the desire of freedom. Religion wanted to control the individual needs: sexual needs, and the desire to obtain objects, because then people could construe their own individuality. Indeed, acquiring objects is closely related to the construction of subjectivity. We understand that in order to preserve the status quo, societies fight against the markets in the name of God, because the market society announces the possibility of a godless society.

Between antiquity and the downfall of aristocratic powers in Europe, history tells us how capitalism has progressively gained rights of citizenship, dearly bought the right to live, and developed itself against the traditional social hierarchies that finally fought to preserve themselves. Moreover, the major aristocratic nations of modern Europe quickly relegated finance in the hands of foreigners. Thus, they affirmed the pre-eminence of religion and politics on the economy needed to be preserved. They did so most radically by refusing citizenship to all those who made money and for whom money-making was a trade.

I want to underline two moments in this long history. First, the foundational moment of Western monasticism which is accompanied by an intense work of codifying practices including economic. These codifications circulated in Europe and served as a basis for future reflections. Historians have shown how monastic rules elaborated between the 5th and 6th

Century in Italy, the South of France, Spain and Ireland came together in the 9th Century in the Carolingian monastic reforms which spread in the following centuries. The important thing is that all these rules show an opposition between the world of the religious and the world of the laity and seculars. The first obtained a supremacy because they renounced personal will and requirements in order to obey humility and open up to the world of the divine spirit while distancing themselves from the latter who remained carnal beings subjected to passions and the tyranny of the individual will.

“Avarice” is a key concept in this differentiation between the people of the flesh attached to wealth and the people of the Spirit, the monks. It has been defined by the fathers of the Church as a tendency towards sterile treasuring, a will to possess for material purposes instead of purposes of salvation. By refusing avarice and prodigality, Benoit pits his camps against the two other societal orders: (1) the nobility that has prodigality as one of its necessary values for the maintenance of the numerous people depending on it, and (2) against those who work (the Third Estate) and practice avarice. The Third Estate, however, is not a homogenous ensemble. A small group was becoming richer through the market. With avarice, they accumulated wealth and developed enterprises, distancing themselves from those who have to work to make a living and save money in order to fight against life’s incertitude’s. Clearly, Benoit is only interested in the first and condemns their activities.

When legislation evolves, it does so according to the logic of the Estates by creating exceptions for certain groups or categories of individuals and not following democratic principles with an ambition for universality of decisions. We must read the exceptions that are accepted by the Church in this light. As of the 13th Century, exceptions were given for merchants to obtain money. They installed a new type of society and a new social group cropped up apart from the warriors and the clergy: the merchants. However, not only the merchants practiced usury. In a time when the majority of the population was at risk of poverty during the first economic crisis, usury was one of the survival strategies for the small people. The small people was an actor in the development of an abundant informal finance because it needed to borrow money in order to survive the crises.

In 1335, the government of Siena proclaimed that usury was a crime committed in secret by servants, widows, the poor, the small artisans and foreigners. You have to see this within the context of a medieval society where everyone must remain in place. Informal financing proliferated, and the different classes of the population suddenly found their capital increasing. They got money where they could get it, thus acting against the order installed by God. It is in this context of an increasing poverty that was visible in the cities, that the Franciscan rupture takes place in the 15th Century. Indeed, certain monks started thinking differently about these issues. They sought to admit that access to credit was more helpful for the poor than charity. Bernardino of Siena is one of them. He denounces four types of economic behaviour: (1) that of the Jewish usurers, (2) consumption of luxury goods by women, (3) businessmen who exchange goods without importing them or transforming them, and (4) parasites relying on the charity of others. With the condemnation of these types, a new value emerges: the refusal of enrichment without work. Bernardino condemns three modalities: usury, speculation and laziness. At the same time, a break occurs: money becomes the "blood" and "natural warmth" of society. The monks have become aware of the fundamental role of capital in economic activities which brought them to combat expensive informal finance, and demand the establishment of credit institutions for the poor. As pawnshops sprung up in Italy during the last third of the 15th Century, laws against luxury and exaggerated consumption are enacted. This expresses the will of the Church to control the social dynamics that resulted from the first breach in the legislation that was aimed at impeding capitalism's development. This legislation tried to return the newly rich to the people and prevent display of social transformations that were underway. In 1474, a law was promulgated against feminine luxury because it causes the destruction of patrimony and social belonging. Just about everywhere in Europe, we saw this kind of legislation. Failing to prevent the enrichment of men without dignity, these legislations tried to prevent the mixing of the Estates.

The fight is not only to prevent the ascension of men to aristocracy, it is also to protect the orders and to deny the democratic logic that supports the market. That is my second point: the democratic logic is part of the definition as such. In the first dictionary of Ancient French, the word “market” has only one meaning: “selling, buying at a discussed price” (Fréderic Godefroy, Dictionnaire de l’ancienne langue française et de tous ses dialectes, Paris, 1901). Later dictionary definitions incorporate what history has construed as the space where exchanges are held. The Encyclopaedia will unite both meanings: (1) a public place in a town or city where commodities are put for sale, and (2) a more general meaning as “a connection by means of which something is exchanged or bought” which takes a commercial aspect into account.

In this general sense, the term “market” is a modality of exchange characterized by the fact that traded goods are the object of discussion and that there is an estimation of their value followed by an agreement. This debate is opposed to the aristocratic trade which is based on the pre-eminence of the nobility that dictates its terms. The democratic element of the market is based on discussion in this context. To discuss, however, equality is necessary which implies equal status.

Given the uncertainties about the procedures and the non-standardization of the products, bargaining was the norm. Only aristocrats refused this. That is why they did not go to the market. They would send their servants. Haggling was never admissible be it in the hostel or during an important act of dowry. If a nobleman offered a sum for a wedding that was too high for his finances, for example, his honour code forbade him to go back and reduce this sum.

In the exchanges, the nobles would show their superiority in three ways. First, they would specify the value of goods. They would always reduce the price by 10 or 20 percent saying that they were the ones setting the prices. They were also the masters of time. They would make the suppliers wait before treating their receipts, slowing the process down willingly. Furthermore, they would pay with objects instead of money, because giving an object meant giving a bit of themselves which showed their status and power; Within this system, the value of the objects is not given by their qualities, but by those of the owner. This transfer of the value of things to the value of their owners, explains why the first modality of this kind of exchange was the gift which it was most able to express the status of the noble. This gift is not a symbol of generosity. On the contrary, it shows the power of this "donor" and creates a link with the receiver. It is more a debt than a gift. Montaigne was opposed to this and clearly preferred the market when he said, "For me nothing costs dearer than what is vouchsafed to me and for which my will remains mortgaged under the title of gratitude: I prefer to receive services which are up for sale. For the latter I give mere money: for the others, I give myself. Such knots as bind me by the laws of honour seem tighter to me and heavier than the knots of civil constraint. A lawyer ties me in his knots more loosely than I do myself." (Montaigne, Essais, III, 9)

The market as a ferment for liberating those without status

After the potentialities of the democratic market, I would like to stress that it is also a ferment of liberation. Because it imposes an equality of status, it is a ferment of liberation for those without status, women in particular. In the Ancien Régime, the rights of women evolved according to their social status and the phases of their life cycle. Widows, for example, had more freedom than married women, because the latter were under the authority of their husbands. However, the responsibility to take care of the family gave them access to the market. This opened the door to liberty and initiatives because they became consumers and even merchants. To enter the market, however, a certain number of rights need to be recognized. The right to property for instance. To possess an object of money is not enough, you need also be able to manage and protect it. So, you need access to justice to sue and testify. For those deprived of these rights, the market is a way to acquire them. The example of women is a clear one. The consequence of these tolerances was the creation of a category of merchant women and the recognition of its independence. It was enough to undertake commerce in the full knowledge of the husband to be authorized to manage contracts and debts within market-related acts.

Today, in patriarchal societies, we see that women use commerce in order to gain spaces of autonomy and freedom. There are numerous examples from all continents. To mention one, in India, the SEWA (Self-Employment Women's Association) which was founded 35 years ago, are now managing over 350.000 accounts set up by women who have used the services of this association. They were first given small amounts of money which they used to set up multiple activities. Among those women, about 100.000 have also acquired health or life insurances. Before, they were working in textile companies and they were exploited by the informal sector. With their profits, they started to improve the comfort of their houses with toilets and washing machines. At the same time they gained autonomy, they also enlarged the ambitions of themselves and their daughters providing them with access to education.

Certainly, these economic successes—small and large—which we find in pre-industrial Europe and in most of the contemporary societies where women are suffering from an inferior status, are not sufficient to give them access to a democratic space. They are lacking equal rights. Once they have acquired them, the fight is not over because they also need to change attitudes and representation. This process moves even more slowly. Still, the market is a ferment of transformation that creates spaces of autonomy and initiative, and it helps to redefine social roles.

The market is also at the heart of survival strategies for those who are likely to become poor. Poly-activity is the first strategy of those who only have their work to survive and have to think of ways to withstand economic crises that could strike them. Examination of the elements of this poly-activity reveals that individuals with access to the market are doing better than those in the dependence of wage labour. A recent study reveals that in developing countries, 61 percent of those who got out of poverty managed to do so because of individual initiatives. But in order to enter the market, one needs access to a minimum of capital.

These needs for capital combined with the absence of a social network was at the heart of the financial economy of the ancient city. That generated a host of moneylenders and intermediaries which created chains of financing in which many poor people lived of the needs of other poor making their services very expensive. This omnipresence of usury is also one of the features of contemporary informal finance. The cities of the developing world are characterized by the same abundant and usurious finance that supports a multitude of small merchants. In this context, we understand the Franciscans' approach who fought to establish mounts of piety and banks for the poor like Muhammad Yunus who has been working to create a bank for the poor.

The desire to reinvest the market is also present in the contemporary Western world where it develops in parallel with the weakening of wage labour and rising unemployment.

To recognize the role of the market as a fundamental element in the individual strategies to combat economic crisis, or to exit them, should not mask that possessing capital is not sufficient to succeed in the market. You also need to have knowhow and capabilities. Besides the enjoyment of equal rights, access to education is essential. The market encourages this access. The merchant migration zones like the Alp valleys are an example. In past centuries, they were much more literate than the plains. In India nowadays, we see that there is a higher demand for education as market access spreads quickly. These occasional successes show that it is important to think in the line of Amartya Sen's work on capabilities to highlight the price that individuals pay because of their political, legal and economic marginalization and physical disabilities.

This approach is rooted in Adam Smith's thinking which assigns a duty to the states to ensure compliance with contracts and to create an impartial administration for justice. He developed the concept of public service as a duty for governments. Among the services that cannot be left in the hands of individuals, because he said that their profits can never reimburse the expenses, Smith includes all the infrastructure that can facilitate commerce and education for those that cannot provide it for themselves. In his view, it is essential that the state provides the basic knowledge and skills (reading, writing and counting) to its people by establishing small schools in each parish that would help to educate children that have no labour to offer, so even poor parents can accept to send them to school. One of the obstacles for the education of the children in poor families, is that parents need the income they can generate. So making education mandatory in a country where child labour is part of survival strategies has little chance of success. Understanding this key point in the economic balance of families led India to offer economic compensations for poor families who send their children to school. In the same way, President Lula has introduced the family purse in Brazil in 2003 to develop education and health of children. It is a monthly assistance given to the poor mothers if their children are sent to school until they are 17 and if they are vaccinated. These measures have created the largest money transfer programme to benefit needy families. Nearly 25 percent of Brazilians uses this programme. This initiative is a success that not only educates children and protects their health, but it also allows families who are benefitting from this programme to participate in the economic life by enabling them to consume. If they want, they can also obtain a microcredit. All these measures are helping these families to consider themselves citizens. From a European point of view, the fact that the parents are paid so that children can benefit from these services, is shocking. Many would disapprove of this policy. Yet, raising the educational level of the country is a common good that could benefit the entire country. It is an intelligent and effective policy that does not destroy the precarious balances that are based on a different view on childhood while helping the children's evolution.

The market, the long term and the collective goods

In this plea, I have stressed what the market does well. It is true that it is a very powerful tool for individual initiatives which is completely in line with the objectives of democracy. There are, however, things that cannot be done by the market. These differences of capacity arise from the nature of the market which is a place of exchange. This means that to have access to the market, you need something to exchange. The market does not include the lack or absence of means because everyone has to bring something into the transaction.

Furthermore, if the market is a space of initiative, it is also one that allows cheating and violence. This is not linked to the market economy and its values, but to the human condition. As soon as a possibility opens up, there will be someone to profit, cheat or to assume an asymmetrical advantage that will give him/her a position of power. Adam Smith had already understood that human nature transformed the market into a permanent fight against man's envy and greed, and that they were more capable than the whims of kings to destroy the benefits of commerce. He also said that commerce and exchange, which were supposed to be a link of concord and friendship between nations and individuals, became one of the most fertile sources for enmity and strife. "The capricious ambition of kings and ministers has not, during the present and the preceding century, been more fatal to the repose of Europe than the impertinent jealousy of merchants and manufacturers. The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy. But the mean rapacity, the monopolizing spirit of merchants and manufacturers, who neither are, nor ought to be, the rulers of mankind, though it cannot perhaps be corrected may very easily be prevented from disturbing the tranquillity of anybody but themselves." (Book IV Ch. 3)

During the French Revolution, Condorcet wondered why there were so few legislations against commercial dishonesty. Besides the difficulty to distinguish the innocent, he also saw a fear to punish the industrial activities wanting to punish the bad faith. We knew that the market was benefitting from a positive environment for this kind of economic delinquents. This is why the logics of individual profit are not the best framework to manage the long-term and to administer collective goods. These are not defined all at once and their list changes with companies and the development of states. Thus, the Encyclopaedia article “Price”, written by Jaucourt, based categories of goods that are not part of the market, on the one hand, on the link between market and property that excludes things “that are not objects of property” such as “the high region of air, the vast ocean, etc.”, and on the other hand, on divine and human laws that prohibit the sale.

For instance, if a judge is bribed with gifts, and a minister of religion sells sacred objects, when he does not want to perform the tasks assigned to him except in favour of those who give him presents. The collators of benefits and ecclesiastical jobs also sell holy objects when they assign these benefits and jobs not to the most worthy, but by favour or for money.

The availability of certain assets is also part of public goods for the men of Enlightenment. That is why Jaucourt included the concept of “humanity” in the definition of price. He contrasts the “legitimate” prices and “current” prices. The second are a consequence of the “common assessment by individuals, accompanied by the consent of the contracting parties”, and the first of the impossibility to make one pay “objects that are absolutely necessary for life, which are abundant and which cannot be obtained elsewhere. Because at this point, it would be inhumane to take advantage of one’s poverty by demanding an excessive price for something essential to his needs.” These three inputs are the very foundations of future definitions. As a matter of fact, economists define public goods on the basis of the first category as “non-excludable” and “non-rivalrous” goods, in other words goods that are accessible to all consumers and goods for which any consumer can consume the totality of the service without reducing the satisfaction of other consumers who also enjoy the full services. The second category of public goods refers to general conceptions of society and the struggles to improve its functioning. Their history is always under construction. The third definition puts humanity before the market without excluding the market. Because it only concerns those who do not have the means to acquire the goods that are necessary for life in the market. Here we have the notion of a "right price" and the principle of social prices.

Finally, it are also the domains in which that market should not penetrate in order not to contradict the objectives of democracy. You have to be aware that there is a conflict between these aspirations and certain market logics. So when work is scarce or when individuals are unable to work, all they can do to enter the market, is to offer what they possess: their organs, women, children or body. It is because human dignity is at the core of democratic values that everything that affects it cannot be part of the market. That is an underlying logic that imposes the existence of solidarity systems that give everyone a revenue which is necessary to have access to the market.

The logics of capitalism are twofold. On the one hand, it has to do with autonomy, individual freedom and dignity, but on the other hand, it is dangerous to humanity and democracy if we do not clearly define limits to the spheres of trade, and if we do not exclude anything which affects man and undermines his dignity and integrity.

But not all markets are comparable. One must distinguish between financial markets and other markets. The economic crisis has revealed the central role of the financial markets. They are truly the oil of the economy, and we must consider them separately from other markets because the circulation of money depends on all economic activities.

Adam Smith, who understood very well the power of political transformation that supports the market, was wary of some of its mechanisms. In the conclusion of the first book of *The Wealth of Nations,* it returned to the three parties that compose the annual product of a country (rent, wages and profits) and notes that the interests of pensioners and employees is inseparably linked to the general interest of society, while “The plans and speculations of the employers of capitals regulate and direct all the most important operations of labour, and profit is the end proposed by all those plans and projects. But the rate of profit does not, like rent and wages, rise with the prosperity and fall with the decline of the society. On the contrary, it is naturally low in rich and high in poor countries, and it is always highest in the countries which are going fastest to ruin. The interest of this class, therefore, has not the same connection with the general interest of the society as that of the other two...” (Book I, Conclusion).

So for those who live of profit, their “ interest is never exactly the same with that of the public”. They have “generally an interest to deceive and even to oppress the public”. Smith adds that they have done so on many occasions. Another observation is added on the capacities to defend their interests. Pensioners whose income “will cost no work, nor worry”, are often careless and easy prey to fool with regulations which they don’t bother to understand and foresee the consequences of. Merchants and master manufacturers, in contrast, who are occupied their entire lives with projects and speculations, have more subtlety to understand the interests of their business. “Their superiority over the country gentleman is, not so much in their knowledge of the public interest, as in their having a better knowledge of their own interest than he has of his. It is by this superior knowledge of their own interest that they have frequently imposed upon his generosity, and persuaded him to give up both his own interest and that of the public, from a very simple but honest conviction, that their interest, and not his, was the interest of the public.” (Book I, Conclusion) This is how securitization can be developed as pensioners simply delegate the management of their money.

Smith understood that financial capitalism was embryonic in the market economy and his goal was to do everything to prevent it from preceding over industrial capitalism. He favoured regulating the money market and to set a maximum rate that was slightly higher than the lowest market price to allow for flexible rates, depending on the guarantees the borrowers could offer, thus the risk the borrowed money ran, but not too much higher, as not to divert money from financing profitable enterprises in countries in favour of those whom he refers to as prodigals and designers. The prodigals, such as aristocrats, do not care about the rate at which they borrow as they are not constrained to repay their debts. The designers who have unreasonable, speculative and dishonest projects, believe that the money can offer very high returns, which often leads to squandering and destruction of capitals they attract.

Conclusion and propositions

I have stressed the importance of the market in survival strategies of popular environments as well as the private appropriations of the market by the biggest and most powerful which I do not elaborate here as they are the best known aspects of the market. The question remains: How to make sure that the market works for the good of all, where the common laws and justice apply? We have in fact arrived at the big question, of building a democracy but not with, as in books and theories of political philosophy, human beings—men or women— who would be ideal types, but grappling with real beings which are at once generous and greedy, selfish and altruistic. Any reflection on democracy and political, social or economic institutions should start from that point, regardless of the field it addresses. Rebuilding the links between economics and politics and bringing back the economy in the common goods are the only means to surpass obstacles of a world within which political entities are circumscribed but the markets are globalized.

In the conclusion of my book, I make some proposals to make the market at the service of everyone. The first proposition is to use the tools of democracy which are transparency and information, both of which are the foundation of public debate, to moralize the market. In fact, exposing the market's appropriation mechanisms is the best way to combat individual abuses. The entire undertaking of Adam Smith is to separate that which concerns the market from that which falls within inter-individual power relations so that everyone can judge the other's behaviour and the state's attitude. Yet still one must desire to inform oneself because information is a right that needs to be conquered and exercised which is more easy when the citizens and the political oppositions feel concerned.

The second is to put the consumer at the centre of our endeavour. The third is to anchor the market in human rights. The fourth is to extend the notion of public goods to the economic domain and the last one is to deepen the concept of public space. To round up, I will focus on the third one: to anchor the market in the human rights, because putting the institutions of men and women at the centre, in which they participate, has as a consequence that it is necessary to rethink definitions of economic instruments on the basis of not only economic interests but also human rights, that is to say, the necessary recognition of individuals and their diverse interests. This project involves a change in the definitions of poverty and richness. We need to leave behind the poverty of purely economic paradigms that currently define it and forget the other dimensions of humans, particularly that they are social beings and being able to live in society is part of the foundations of human existence beside staying alive. Analysing the experiences of poverty and their treatment, allows us to comprehend how important it is to change our perceptions of those considered to be poor and to stop seeing them as aid receptacles, but rather see in each one of them a person whose projects and judgements matter. It is equally important to reflect on the use of the word "poor" and all that history has ballasted it with.

In sum, working on inequality of people in the light of the survival strategies they can deploy, calls for a definition of poverty that does not only think in monetary terms and economic deficits, but takes into account the diversity of individuals, their aspirations, and above all their capacity of action. In this sense, once again, it appears that an analysis in terms of capabilities, to get back to Amartya Sen's concept, is extremely pertinent. It substitutes the notion of individual responsibility in the sense of taking control of one's own destiny and the freedom of choice.

Markets and Resilience: a contradiction or a potential?

Jean-Luc Dubois, Research Director IRD (Institute of Research for Development) (FR)

As Laurence Fontaine has noted, there is a paradox between a market that can help people to survive in a difficult context and can make them more vulnerable and exclude them at the same time. Analysing this paradox could help us find solutions. What could the solutions be? We think that through the concept of resilience, we could come to a better understanding of the definition and articulations of the market. The work that has been done on resilience is based on a book titled *Fragilities and resilience: The new borders of globalization*[11]. We have developed this book with my research team in Senegal, Madagascar and Ivory Coast and some French colleagues.

We have thought about the concept of resilience and its application on policies. This concept will be explained in the first part of my presentation. This work has been developed for the ministry of Foreign Affairs. Europe has decided to focus on resilience in the framework of many social projects in Europe. There has been a meeting of all European countries and their relevant ministers about the concept of resilience. We created a working group which has been working for a year to clarify this concept. We haven't really asked ourselves what links resilience has with the market. Can markets be considered as a factor of resilience? These are the kind of questions we have decided to tackle.

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[11] Châtaignier J.-M., 2014, Fragilités et résilience : nouvelles frontières de la mondialisation, Paris, Karthala

Behind all the current problems of crisis, markets, flexibility, growing vulnerability and so on, there is a basis: the world is developing. Throughout the world, there are groups pushing this development. Of course it is not done in a stable and balanced way. In all the Southern countries, there is a will to develop. In Western Africa, there is a monetary union that has been working on the development of the 17 member countries for the coming 20 years. They are working on resilience and the possible means for this. If there is this will of development in spite of the limited resources, then there has to be a redistribution along the lines of a sort of social justice for which some countries would have to pay the price. What are the justice mechanisms that could be developed in the markets so that everybody would have their space in spite of the limited resources the planet offers?

Reasons for addressing resilience

It is normal that the concept of resilience is taken into account because we are living in a globalized and well-informed world where the financial markets are imposing their ways of functioning. Financial flows are selling throughout the world, there has never been a financial dynamism with all the derivative products, mechanisms and methods that make the situation as it is. The world is flooded with money. There is also a market volatility which has consequences on agents' flexibility and on permanent precariat. This generates permanent uncertainties due to regular changes. It also generates vulnerability (the risk of falling) and fragility (risk of breaking-up). We have two writers in France who show that the current development has a trend which is bursting countries. There is a rise of precarious classes. If there are poor people, there is also a middle classes that is becoming more and more vulnerable. We cannot think about poverty and vulnerability anymore. We have to reason in terms of trajectories of individuals. Individuals who follow a certain path professionally, can suddenly lose everything and be obligated to start a different path. A completely different kind of economic analysis has to be taken into account.

Confronted with this kind of vulnerable situations, people ask themselves what they can do. Is it possible to adapt ourselves to improve the situation? If yes, what are the conditions? What can we do to prevent or (*ex-ante*) or to remedy (*ex-post*) a shock in order to allow resilience? This is why we talk about resilience: there is a rising vulnerability in this global world that is directed by markets. This explains why the concept of resilience is used more and more. It is not only a trend, it is really showing a serious need.

Resilience: conceptual issues

We will focus on the origins and history of the concept, and on its definition and formalization. What should we observe and how can we measure resilience? What kind of public actions and policies should we take?

First of all, the concept of resilience comes from Latin *resiliere* which implies a breakdown and going back to the origins. In English, resilience refers to the possibility to jump back to a new path, a new balance or beginning. Elements for a common definition of resilience emerge from various scientific domains. In metal physics, it means to go back to a primary state of torsion. In the 1940s, psychology and psycho-sociology added new elements.

Werne[12]r followed groups of children between 1950 and 1970 and discovered that in a 20 years period, there was more than 60 percent of children that were able to rebound and create a new life despite traumas and other experiences. Masten[13] has talked about magic because everybody has a capacity to rebound and act differently. We are not predetermined. All the sociologists

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[12] Werner, Emmy E (2001). Through the Eyes of Innocents. Basic Books.

[13] Ann S. Masten, Ordinary Magic. Resilience Processes in Development. University of Minnesota

20 or 30 years ago, had a tendency to privilege social determination. They did not focus on this rebound possibility.

Amartya Sen and Giddens were also focusing on this capacity of acting. Cyrulnik[14] has popularized this in France. He is showing the same thing over and over again: people have the possibility to rebound given the presence of a resilience tutor and a positive environment.

Another aspect that should be taken into account are socio-ecosystems. This means that balanced systems can be destroyed by men or by nature. The system then has to be rebalanced. We call these different mechanisms that enable to rebuild "panarchy". There is a shock upon which you have to be able to rebuild. There are two different approaches to this social resilience. The first one focuses on resilience as a "capacity" (individual and collective) and a "process" managed through various steps. The second (social system) point of view focuses on the different rules that are used to discover how the system can readapt itself. So we are trying to find a joint definition through these approaches. We focus on what resilience means from an individual capacity point of view. Then there is also the process of resilience. There is often confusion between the capacity of an individual to rebound and get out of a crisis, and the procedure to get to this resilience and find a balance. Another fundamental aspect of social resilience is the role of interaction and collective action.

So, "we must distinguish resilience as the 'capacity' of systems, institutions, and people to recover from shocks […], and resilience as a 'process' composed of successive steps such as resistance and rebellion, adaptive capacity, quantitative reinforcement, qualitative innovation, rebirth ... which aims at overcoming the negative consequences. This impacts the

[14] Boris Cyrulnik et Claude Seron (dir.), La résilience ou comment renaître de sa souffrance, Fabert, coll. Penser le monde de l'enfant, 2004

production of relevant indicators based on the observation of capability, in the first case, and of the successive steps of the resilience process in the second.”[15]

Amartya Sen considers resilience to be a capability of a person which is effective, observable and potential leading to freedom. The unified, classic definition of social resilience views it as “the ability of a person, a social group, a system to bounce / restart / reborn after a traumatic shock that destroyed all or part of its integrity."

We need to distinguish between the shock and the breakdown and therefore between the situation before and after this shock. What kind of shock are we talking about? What is the duration and the intensity? Was there a breakdown? In a vulnerability situation, we receive the shock, but in the breakdown we physically break down. “While fragility expresses the inability of the person to adjust to external circumstances leading to a final break down, vulnerability opens the way, on the contrary, to the ability of adjusting when confronted to the same circumstances. This expresses the person’s ‘capacity of resilience’. Unfortunately, even in this case, there are limits that should not be exceeded because they restrict this capacity of resilience. Going over these limits may make the person totally unable to adjust, therefore becoming fragile, with the risk of collapse.”[16] So a shock occurs, which can result in a breakdown. There can also be a phase between the shock and the breakdown. The person tries to adapt to the vulnerability inflicted by the shock through quantitative adjustments. When the shock is too big, there can also be a breakdown in which something is destroyed and the person becomes fragile. What can the person do in case of fragility? He/she can rebound. But to be able to do so, he/she needs to find resilience tutors to start this resilience

[15] http://resilience2014.sciencesconf.org/24906

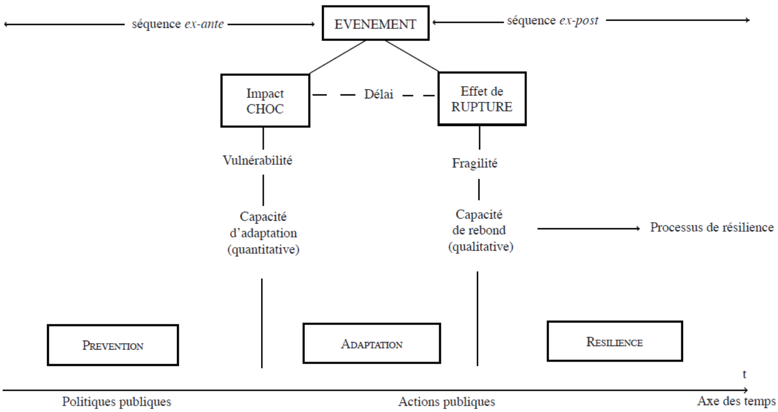
[16] https://ideas.repec.org/a/ris/etheco/0003.html

process. After the adaptation phase, he/she arrives at the resilience phase.

What will we observe and measure? Do we have to focus on the capability to bounce or on the different steps of a given resilience process through agency? Each requires specific procedures and methods. Another question: Will we focus on the capability approach? Because there is a double application: is it an effective or a potential capacity? We also have to take account of the freedom to choose different procedures and the agency. Are we looking for a resilience threshold, for a set of multidimensional indicators, or for objective or subjective measurement? Which indicators will we measure: quantitative gap indicators for adaptive capacity (vulnerability) or qualitative leap indicators to express a break (fragility)?

How can we take action? We need to distinguish between *ex-ante* and *ex*-post situations. Natural disasters, for instance, require *ex-post* curative public actions. In Haiti, for example, plenty of NGOs started humanitarian actions and followed up on the resilience steps. Other shocks require an *ex-ante* approach: How can we avoid a situation of breakdown from a preventive public policy point of view? How can we help people to rebound and reinforce the potential dimension of resilience capability? The aim of these policies is to anticipate a shock or crisis. This requires risk management, human development, building protective infrastructure etc. Therefore, the general public policies have to distinguish between fragility and vulnerability, and between shocks and breakdowns.

Figure 1. Schéma du processus de résilience



Some brief examples

Let us take a look at the examples of Madagascar, Senegal and Ivory coast to illustrate. For Madagascar, socio-political blockages lead to regular government changes. There is a cycle of market breakdowns with a decreasing GDP with alternative phases of growth in which the markets manage to adapt but with a lack of social redistribution. In Senegal, there is a fragility of marine and coastal ecosystems. Due to a breach, there has been a flood of salted water. Consequentially, there is a change in the markets: people that were producing wheat and vegetables change to salt production. In Ivory Coast, there is a question of social resilience after the civil war and the resulting population trauma which is a consequence of strong structural North-South inequalities and a socio-political crisis due to the presidential election.

Markets: resilient system or source of vulnerability?

Markets are a particular resilient system which is able to adjust to the socio-economic environment and to rebound in the case of crisis through its internal mechanisms of demand and supply, exchange and prices. It is able to rebound in a new form. We have already talked about adaptations of the market in the course of history through a series of laws. At the same time, it is a resilience factor for people who want to get out of a crisis and find new revenues. Considering the volatility imposed by the financial markets on other types of markets, we can conclude that we are in the presence of a permanent source of vulnerability for all actors. The consequently rising exclusion risks, for example, are also a matter of rupture. Can we correct this via processes of insurance? Those processes exist on the market, but we cannot cope with the speed of new products on the market.

Conclusion: Regulation for what, for whom and how?

The objective is to prevent crises by controlling excess in terms of social and economic justice while promoting freedom initiatives. We have talked about the difference between business banks and deposit banks. A number of laws were promulgated in Europe which were criticized because they did not completely separate them. We should not forget about the history of taxation on exchanges. All the governments of the merchant era have imposed taxes on what was produced. There were taxes on merchants, industrial products, services, and now we need a tax on finances of course. We are waiting for such a taxation to come into existence in Europe.

On the other hand, we might rethink the very nature of the market. Is it a good? Is it a space of encounter? Is it a collective public good? Or is it a social capability to do something? We can also think of the market as a relevant instrument for redistribution based on a precise analysis of supply and demand. It is a space where we can create and invest in a different way to make sure that people are considered as active players and take their own lives into their own hands. [17]

[17] Recent References

How can we democratise our economic system?

Jean De Munck, Prof. Dr. social and political science of UCL (BE)

Let us think about the best democratic tool: the law. Legislation is the tool that allows us to regulate the markets. The history of the market is also a history of modern law and this since the 18th century, I believe. The history of the labour movement is also a history of social law.

Today, where do we stand as far as law is concerned? The law is at the crux of the interest of people working in social movements. Today, we find ourselves in the face of a situation that is extremely ambiguous. We are no longer convinced that the law allows for market regulation or deregulation and emancipation.

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The English make an essential distinction between law and rights. In French this distinction is also present: the plural *les droits* means laws which can be in conflict with law as such. That is important in the current situation where, on the one hand, you have economic globalization which moves through globalization of law. It confirms property rights and human rights in a global way. In our jargon, we call this constitutionalization of global law. That is to say that a global law must progressively enter into a constitutional logic that might be the equivalent at the global level of what happened at the national level in the 18th Century. However, this constitutionalization often goes together with a neoliberal agenda. This is the reason why the process of globalization of the markets is also a process of internationalization and generalization of democracy. For instance, in Latin America, moving into law after dictatorship went together with the legal transformation of the laws and also an opening up of the markets. The two went hand in hand.

The fundamental discourse of the World Bank, the IMF and of the American Bank, was focused on human rights together with the market. We might even think that reform of constitutionalization aims at protecting the markets from government intervention. That is how constitutionalization is understood in Latin American societies. The IMF, World Bank and US insist that the constitution guarantees human rights of property by avoiding expropriation by the states. The state protects foreign investments against any attempt of regulation. We see that global rights goes hand in hand with the opening up of the market. In Europe, we are going through the same stages with the Transatlantic Treaty (TAFTA). Indeed, the TAFTA will allow for opening up transatlantic markets between Europe, Canada and the US. What is being introduced as a new tool is judicial rulings. Ruling of conflicts within the framework of this treaty are not a national matter, so you need judges of the *lex mercatoria* or the law of the merchants.

Another aspect of the matter, is the fights for rights such as the rights of workers at the global level, the rights of the indigenous populations in Latin America, all of that uses the language of law. Everything is moulded in the discourse of law. Today, we find that global claims are formulated as rights: labour rights, women rights and so on. Here lies the ambivalence of rights and the discourse of rights: on the one hand, it is used as a tool for expansion of markets and imperial policies, on the other hand, it is a tool that allows to fight against these imperial politics. The law field has become a complex and divided domain. This tool that we believe to be clearly defined, no longer is. Maybe it never was. As Jacques Attali[18] said, the fundamental contradiction between opening worlds, is the contradiction between state and market. In a global way, we are in the midst of a fight between markets and states. Where do we position law? On the market side? If what I have said is true, then this is the case. Or do we position in on the side of the state? Because indeed, law has been identified with the state and serves the state to regulate an external market. Attali does not solve this problem. I think he is completely wrong. We have to leave this binary approach. That is not the way the world functions. In order to leave the market, it is not a self-evident thing that we move to the state.

I am going to defend the idea that law is a tool of regulation. However, we have to rethink this idea. What is regulating by law? I will put three ideas forward which I consider important for social movements: (1) judicial pluralism, (2) we will make the idea of law more complex by explaining that it is not just a way to regulate behaviours, but also offering representations and categories that allow us to perceive things, and (3) human rights and capacities.

Judicial pluralism

[18] http://www.senat.fr/rap/r06-262/r06-26211.html

The mechanism of institutionalization of the market is important. Fontaine's historian approach showed that market has created the law well before the state had legalized the laws of the merchants (*lex mercatoria*). These mercantile laws emerged in an autonomous way to delimit a certain field of activities. Now, what Fontaine also clearly explains is that there is no such thing as a single market. There are at least three different markets. They are different in terms of normative regulation type. You cannot talk about the market. You have the product market, the labour market and the capital market. These markets have been institutionalized to generate an autonomous judicial order.

There are, of course, other types of judicial order. The state, for example, is a matter of judicial order. It came into being in a parallel way. It is, however, not the only judicial order. The law does not function like that. The merchant order has always been autonomous. Another type is the big enterprise. A major company is in fact a private judicial order with a certain authority and primary and secondary rules. It is a system of law to solve legal conflicts in an autonomous way. Private ordering in a multinational is being established at a transnational level escaping the nation. You also have collective bargaining. This is, again, the invention of an autonomous judicial ordering independent from the market, the state and the multinational. It moves beyond the big companies and sectors. So, we have different types of judicial order which are all intertwining. Don't try to look too much for ordering in these different orders, because you won't find any. Being a legal mind, you have to be able to move into these various domains. That is what lawyers have to do.

For the social movements, this means that more than ever they must redeploy on various legal and judicial registers, especially with regard to the market. The labour movement was something extraordinary. As far as the construction of legal ordering of work is concerned, the labour movement has introduced normative contracts, institutions of collective bargaining, notions of representation, quasi-political it was citizenship on the work floor. Today, this is still very important of course, but the emerging problem is the regulation of the product markets and the financial markets. We are becoming aware that, in order to become free, we have to rethink the access conditions of financial markets. What could a (human) right to capital mean? Microcredit, for example, is a social invention. You can compare the invention of microcredits to the invention of mutuality's. They installed a different social rights domain. The microcredit as such is now launching the right to capital opened up to each and every one.

The right to products, to quality products and to natural products is a second challenge. The right to decent food. In countries such as the US, with a very deregulated market, the poor don't get quality food. You have special shops for the poor. There is an existing discrimination. The matter of the regulation of product quality is the crux of the matter. Moreover, this is also the question of labelling. In 1998, we talked about that at the ILO. It was a proposal of the ILO. We talked about core labour rights, but certain countries were against labelling.

Let us look at the idea of state against market. The product market, the capital market and the labour market are different intervention sites for the social movements. Second of all, we can have a doubt concerning the law. I can understand this. Often we think about why we should create new national or regional laws. Because we know that multinationals have highly performant legal systems. They develop this kind of law-shopping, which means that they choose the type of jurisdiction. They choose, for instance, New York, Paris or Berlin according to the legislation that serves their interests best. We know that they have legal power that is quite consistent. I would like to underline that, since we are talking about the 18th century when we developed state sovereignty, liberalism has been able to limit this sovereignty through the sovereignty of the owner. Today, it is this owner sovereignty which is problematic. Because in a liberal framework, it gives the possibility to dictate a law. It is not only the state that produces legislation. The rating agencies and the companies are also legislating.

Complexity of legislation: regulation and representation

Legislation is not only used to control behaviours. It also gives a language and categories through which we can qualify problems. Soft law is very important on the topic of labour rights. You know that the ILO has identified four core labour rights, but they also said that they are not mandatory. Everybody said that this makes them useless. What is the use if there is not a mechanism the control the application of these rights? I agree with Amartya Sen on this point. It is not true that this makes them useless. Of course it would be better if they were mandatory to some extent, but it is already something that is used to coordinate or diagnose problems. At least it has some categories for this purpose that can change these representations by building consensus. Soft law is as important as hard law and sanctions. In the global contemporary world, we do not have religion anymore to specify or designate through different categories. That is what religion's strength is. Through categories, we understand what is important. Everybody believed in salvation, for instance. Today, law and rights are taking this place of a shared language in a global world. That is why soft law is efficient in spite of the fact that it is not compulsory.

There is a shift in the cultures of social movements. Let us compare these social movements and the traditional labour movements who did not really trust the rights and wanted collective actions and policies. The new movements around the world today, including workers' movements, are legalist movements focusing on (human) rights. It is a different culture, because these legalist movements don't really like collective actions and strikes, because it destroys what they try to promote: an order that is regulated through law. There are different elites in these movements: smart, young people who speak the human rights language, people who can translate and apply his language to specific situations. There is a transformation of the legal and judicial culture that is ongoing which is problematic for different kinds of trade unions that are always mistrustful towards the law. They focus on other elements. They should adapt and transform their legal culture.

Interpreting human rights

Another element that is fundamental is a progressive interpretation of human rights. Knowing that another interpretation is prevailing the legal framework. It consists of reading and understanding the human rights from an individualist point of view. There is also an over-valorisation of the civil and political rights in comparison to the social and cultural rights. Our Canadian colleagues tell us that the introduction of human rights in labour rights is a catastrophe because we only talk about discrimination and by doing so individualizing the rights and destroying the power of collective action. A mainstream academic idea holds that individualism equals civil and political rights that are bigger than the other elements, so there is a challenge for social movements to offer an alternative interpretation of human rights. In Latin America, when we talk about food sovereignty, it is something invented by farmers. It is a reinterpretation of the right to food promoted by the UN agency. What do we mean by right to food? What kind of food? McDonald's? Right to food can mean anything. Or is it the right to cultivate what you want in your territory rather than only soy? So, there is an internal debate concerning human rights which is important and concerns the social movement.

The capability approach allows, first of all, to give a definition that is not specifically negative towards rights. It is linked to neoliberalism of course. You define a right in a negative way, when you say that it is a capacity to act without any external intervention, be it my neighbour or the government. So, it means that I am free in this case. Amartya Sen's position is more positive. The right to express oneself. There is a negative component, but that is not all there is. I need access to fora to express myself and I need access to education, otherwise I will speak nonsense. You have to give the means to be free.

Another important element concerning the capacity approach is that—as Sen argues—human rights are not instruments, but aims. We are not using human rights for anything else. Of course, we are forced to get into a political and philosophical debate. Do human rights exist as an instrument for prosperity? This is a liberal vision of economists that it is an instrument. Why should we respect the freedom of speech, of association, of property? For one reason: it allows to build and develop a system which can grow. The objective is not human rights, it is material prosperity. You can produce this prosperity with inequalities. When we talk about equality of rights, it is used for prosperity. Once you have a GDP that is quite high, you are satisfied. You are one of the top players. At the same time, however, you can have huge levels of inequality, you can violate basic social rights and harm the environment. We see that Chili, the most unequal country in Latin America, is also the most prosperous country in Latin America. You can understand the social consequences of these policies. We could call this an instrumentalization of human rights. Don't forget, Chili is not what it was under Pinochet. There is a certain level of freedom of expression.

What strikes me in the social movements, are the slogans that I regularly hear in the left-wing: you have to focus on policies, and not on rights. The neo-Marxists Hardt and Negri also criticize the rights and the instruments of rights in *Empire*. Agamben[19] also does this. It is a tendency in left-wing movements. I don't think it is well-founded. It is more interesting to think about the possibilities of regulations today. If we want to do so, we have to base our work on this judicial pluralism and the different intervention sites. Rights give us instruments to qualify struggles. We can talk about the condition of women in the human rights language. We don't need a

[19] http://en.wikipedia.org/wiki/Giorgio_Agamben

specific language on women, contrarily to what some feminists would argue. This is fundamental if we want to have common basis and a common language. Finally, we need to start working on a progressive interpretation of human rights as an alternative to the neoliberal interpretation.

Discussion 1

Question: I have a question for Ms. Fontaine about microcredits. I was influenced by the book "Poor economics: A Radical Rethinking of the Way to Fight Global Poverty" by Abhijit Banerjee and Esther Duflo. I am not really following her approach, but she was analysing the system of microcredits. You were talking about behaviours such as usury. Usury and microcredits goes sometimes hand in hand. How can we avoid this usury and what are the effects on the emancipation of people, and especially women?

L. Fontaine: As far as the microcredits are concerned, it is a good financial product. But that is about it. In my research, I did not find any improvement of the social position of women.

Firstly, the crisis of microcredits in India has to do with the fact that microcredits are not labelled. When there was a rush towards microcredits and everybody started using it, people went to the market because it was a good thing to do to make money.

Secondly, research has been conducted in which one half of the population gets microcredits and the other half does not. This is problematic. But there are a lot of things where this randomization approach does not work. You cannot reply to highly complex questions with this approach. Especially if we talk about projects over more than 16 months. How can you measure the impact of microcredits on representation or the life of women in this period? If you put yourself in the place of the these poor people, you grow aware of the fact that doing an inquiry transforms the seeing of the problem. You have reputed scientists that ask "do you like water", "do you need water" etc. I said to those scientists: take a young American women to the place where the poor people live. When they are experiencing the poverty, then the inquiry will work better.

The third thing is that there was another team that wrote a perfect book on budgets for the poor. They have followed up budgets for those that live with less than two dollars per person per day. In my book, I give the example of two families, one living with less than two and one with less than one dollar per day. These families have extremely complex strategies to survive. Even the people with less than two dollars per month can lend money to others at infernal rates. One is lending money to the sister. They use one third for food and furniture and another third for lending. Finance is a strategy of survival. We should not forget this. In ancient Europe it was like this. People were brilliant financers. When microfinances arrived, they have given cheap credit which was just another resource for these people. Solidarity between those people was an essential element in their survival. People had to reimburse interest every week. There were lots of obligations and constraints. They also created saving accounts. They understood how the popular economy actually functioned and adapted to this. It is working quite well. When these poor people have to quite elaborating financial constructions, they let go of the solidarity principle. So, we have to move from economists' yes or no questions towards examining the practices of the people.

I am absolutely in favour of a right to capital. People need money for just about everything. They must have access to capital to survive. The only thing that is important is to control the debts. If you prohibit credits, you will have usury. In ancient Europe, any interest taken on capital was considered usury. It was only in the 18th century that these interests became excessive. If you don't have an institution to give capital, then you open a market for criminals. A criminal market is always more expensive.

Comment: How will we resolve the important distinction between usury and credit? How can we define the demarcation line between usury and credit. So what is an acceptable credit? How will we determine that? There is a question that I did not find in your book. It is the question of prices. If you see how this functions in developing countries, you grow aware of the fact that people are satisfied when they can afford to pay. If you look at the microcredits in 18^{th} century Europe, we see only usury practices. They gave money for women to buy something and they had to pay a lot for that. These women actually used the usury money, because despite it being expensive, it allows them to benefit in a way. If we give them cheap credit, some of the market benefits will go to them too. To the extent that it allows people to survive, they are willing to pay these exorbitant rates. It is a matter of people benefitting from the investment they are doing. So, you have to fight against high interest rates, but in the practice you see that people who are able to pay high rates and benefit from the credit, are willing to do that.

Comment: The solution that we have found on the labour market for the right price for labour, could not be left to the fluctuations of the market. You would have insufficient salaries. Collective bargaining was a solution for this. We don't agree that the labour price is defined by individual negotiations. We need collective bargaining between workers collectives and business collectivities. Could we imagine a similar tool in the field of the right to capital? We could for instance demand that there is an obligation to negotiate the price of the credit at a collective level.

L. Fontaine: Yes, I completely agree. I emphasized the concept of public good, because in the 18th century –and this is remarkable- the third definition of a public good was humanity. So, this was already part of the correct price in the Middle Ages. What is correct price? When there is food crisis, you cannot ask people to pay for goods at exorbitant prices because they need to survive. That is a collective issue to fix prices. In Medieval Europe, you allowed the market to fix prices, except for humanity i.e. the fundamental, essential needs of human beings. Everywhere in ancient Europe, justice was not working well, we see that the collectivity is regulated in order to determine prices for instance. One of the major tools was the auctioning that happened in the presence of this collectivity. This price-fixing at the collective level, determines individual behaviour. That is one of the major lessons from the study of the Ancien Régime. When you look at the economy, you see that anything that is individual and allows for cheating, you try to regulate it by law. But sometimes this does not work. Today, we have to think along those lines.

Comment: We are talking about auctioning. We need someone to establish a link with the collectivity. If you have an auctioneer, you are all set. But if you say that the auctioneers are just about everyone, it means there are no auctioneers and the door is wide open to cheating.

Comment: There is contractor relation between two people. You cannot force me to do anything against my will. That is why these things develop informally on the margin of society. Secondly, credit is making money through money. Because of that, consumption over time is spreading. If we want to decommodify this, there have to be collective savings to pay. The second thing is that, to be commodified, it has to be subsidized. That is why we have preferential credit by the state or charities. This is where we have to go: how to subsidize credit. All these things emerged because people have the needs to borrow money. And this creates what we call usury?

L. Fontaine: I would say there are rules that have been determined. Central banks for instance, determine interest rates. Then you have the collective bargaining which might indeed be helpful. It might be feasible.

Question: You are talking about a right to capital. Of course there is a right to money because you need it to survive. But how do you distinguish whether the borrowing is for money or for capital? Most experiences I have with poor people, is that they borrow money at excessive rates to do things that seem stupid to me, but are meaningful to them. For instance, in Ireland there is a big problem of very poor people borrowing money to buy a communion dress for their children. There is no return on that investment. If they borrow it to buy fish, then there is a return. So I understand how the rate is set by the return they will get on the fish they buy. Is the distinction between capital and money simply in the way the person spends it?

L. Fontaine: The question you raised is the problem of the definition of poverty. The economical definitions of poverty hold that people need access to certain goods. This woman wanting to buy something for the communion is related to the need to live in a society. Living in society means that you need that dress for your girl. So you cannot refuse her this. We have studies in France where people refuse to pay telephone for the poor, because they need something else. They still arrive at saving money to buy a telephone. They have a right to have a telephone because otherwise they are excluded from society. People found systems in Europe among themselves to survive. One of the discussions that raised was that a lot of people started buying just about anything. However, is this a problem?

The problem is that when people can choose a type of consumption, it has to do with existential fundamentals. You have the right to choose. We cannot moralize their choices. Choosing has to do with human dignity. People start to buy futile objects, but at that point in time they felt like a citizen and a member of society. In France, what I saw, is that, on the one hand, you have the citizen as a formidable being and then you have the consumer who is a horrible person. In spite of all that, one has to understand that consumption is something fundamental to our existence. Shakespeare had King Lear saying "Even the poorest beggars have some meagre possessions they don't really 'need'. If you allow people no more than what they absolutely need to survive, then a human life is no better than an animal's." That is the complexity of human existence.

Question: Jean De Munck argued that the individualization is a new agenda rather than collective rights. In my view, this is very important. Legal rights need activation either through the state or the individual. Individual human rights leads to more individual activation of law. This is a real problem in my view. The more you push in that direction, any infringement of rights has to become a crime for the State to intervene. We have a lot of problems here. If a State doesn't make racism a crime, then it is your responsibility to complain that somebody has infringed my rights. This is an important principle. You need individual rights, but this is not sufficient to protect yourself. This is part of the overall structure of law. Individual as well as collective. Not collective in socialist sense, but in the sense of the State being involved to intervene. Then I come to the issue of the rule of law and democracy. Democracy is not only about elections, it is about the governance of rights; you need the participation, accountability and transparency. Otherwise we will not obtain our rights. This is why there is a tension between the right of the bureaucrat to do whatever he wants, and individual to get what they can from the system. This tension needs to be managed. Unfortunately we see that the more we move towards the market, the more this accountability gets chipped. There is something which I disagree with you. You said that we need one common language of human rights. In principal I agree, but I think that in your discussion you are very clear about the necessity of visible rules and that laws are interpreted. Because of that visibility of people, it is important in the law. Otherwise it is incumbent on the women to go and defend themselves and the judge could say: "this is my interpretation, this is a cultural issue and it does not apply to women at home." Here, there might be visibility and transparency of the law and not opening it up to interpretation is crucial. That is a challenge that we have to face. We need to approach the law not only individually and institutionally, but also make it visible for different groups of people. The other issue is that markets have historically existed for thousands of years. As soon as people had a surplus to exchange, they were markets. But markets change over time. Under capitalism they have become the most advanced. The commodification of everything is part of it. Now, the point is how to manage commodification and needs by individuals and society. Here, there might be regulation of the market. Tomorrow, we come to the housing market and how it has deprived a lot of people from housing. There you need regulation to bring land in the public sector. Here, regulation is crucial.

Question: You have said that the role of religion has disappeared in our society. What is the role of religion, for example Islam? What about these religions that are well-functioning and promote values, even if it is not fundamental. We have seen what happened in China with religion in communism. There are problems in society, because individualism is very present. The question that I wanted to ask is: Do we need religion that defines men not as individuals but rather as brothers and sisters? Some people have a perfect life without religion. So what is the role of religion in societies?

J. De Munck: What is striking in the legal experience of the labour movement, is precisely the fact that they developed individual and collective rights. Sometimes we say that labour rights are collective rights. It is not true. They are individual rights as well: the minimum wage and the right to health care for instance. It is interesting that we cannot imagine individual rights without collective rights and we don't have to choose. This was the mistake of the old socialism. They wanted to develop collective rights and not individual rights. The consequence of this is oppression, bureaucratization and desindividualization. We don't have to choose.

Second, I understand your point on the visibility. What does it mean for us to have human rights in our context? I believe that human rights and more international legal principles are very abstract and vague. We need vernacularization[20] of this language in very precise contexts. In this process, we need intermediaries. For instance, a trade union can be a translator of the human rights language into a context. But for that, we need political rights to discuss and deliberate. It means that the political rights in the very classic sense are very important. It is a fascinating question. For instance, there are very good anthropological researches about the vernacularization of human rights in indigenous women communities. What does it mean to have a right to expression when you are an indigenous woman in Peru in a very old and classical family. It necessitates a translation.

Third, the hot topic of religion which is difficult to answer. If I read the book of L. Fontaine, I understand that some normative

[20] Vernacularization = to translate into the natural speech peculiar to a people

concerns are the result of a long process of secularization of religious insights or intuitions. It is true that in the religious realm, there is a kind of developed reflection about justice and fairness. What is good and bad? What is human? In modernity in the Western world, there is a secularization of these concerns. This doesn't mean that we decided to give up these moral concerns. We translated them into secular understandings. I don't need to be religious to understand the word "fairness". In the Middle Ages it was impossible to understand it in another framework. This process is very important. L. Fontaine is right. We cannot imagine normative limits to the financial markets without secularization of these religious insights. Secularization, however, means reformulation too. The big question is: if we do that, and probably we don't do it enough in the case of financial markets as opposed to labour markets, can we find in the new framework resources of brotherhood or sisterhood?

Can we imagine a way to secularize this very important content coming from the old monotheist tradition? The idea of a community and togetherness. Because, the modern idea of equality comes from this idea. If we are brothers, we are equals because we have the same father. Is it enough? Some people say it is not and that the idea of brotherhood is lost in the process of secularization. Sure, you can see this. Who is active in the social field for the undocumented people? The church is most active because the normative content in their discourse is oriented towards such problems. This is not the case with more secular movements. In some trade unions, the solidarity with undocumented people is not very clear, to say the least. The problem is, I believe, to see if it is possible to maintain without religious faith this sense of brotherhood. I believe that the socialist movement succeeded during one century more or less to do so. This is no longer so. The idea that the class solidarity can be the substitute of common belonging to a religious community disappears. I believe that there is a possibility of a secular version of solidarity. But equality is one of the main vectors of this.

Comment: There was an interesting debate between Habermas and cardinal Ratzinger about the meta-foundations of democracy. To some extent, I think Habermas had to recognize that democracy was not self-sustainable and had to be supported by something beyond democracy. I support your view on that.

Question: I feel there is a strong relationship between economics and policies. We can’t expect some modification in the future if you don’t have some intervention on the basics and citizenship. We really need to protect the poor and socially excluded. It is not easy, however, to work with the politics because we have a lot of (neo)liberalists. Our work is based on the capability approach. Trying to empower people. Trying to work with resilience. I strongly believe that some change in the future should come from the grassroots and the social sector. Do you expect some change in the future? How do you see the future concerning economic and policy changes? In our experience, in Portugal, they are always the same in policies and economics. They comment any kind of social intervention. Do you believe it is possible to have any change on the system?

J. De Munck: Obviously it is impossible to say something on the future as an observer. Nevertheless, the question of commitment is important in relation to the future. As for me, I share your pessimism concerning the state and the market, and even what we call leftist parties. Obviously we are with them while we don’t believe in them. We are in a historical situation where the State, once again, must adapt to the market. Once again, in the long history, the functional adaptation of State and market. The idea that the State can be resistance to the market, is a bad analysis and untrue. Surely, the State can bring something independent, but it must adapt itself. That is what we see in France now, with the leftist parties in the government. It is what we see in Holland and Germany as well. Everywhere.

You are right. The grassroots movements are the most important. Exactly as it was the case in the Europe of the 19th century. The State and the market were very linked by a capitalist class in government and the firms. There were grassroots movements that disseminated conflict with good and bad ideas without unity. It is the same situation now. Nevertheless, it is a very important thing to do. Because, in this laboratory we develop the ideas of the future. At the end of the 19th century, the mutualities, labour movements and other new institutions proved there was a possibility. That is our situation. The grassroots movements are really important. But, I have spoken about legality and so on, what is important is the culture. What is striking in, for instance, the socialist party in France is that they have power but no culture. They don't share common understandings. They are divided. They don't share ideas. Where is the socialist culture? It does not exist anymore. They have power, they won the elections, they are in the ministries, but they lack culture. That is the difference with the socialist parties of the previous century. What should we do now to build a new political culture? This should come from the grassroots and the intellectuals.

Question: This debate is really important. What is democracy nowadays in Europe? How do people have access to rights? It is very difficult to make ordinary people understand that poor people also have the right to choose. How can we do this? We need to have debates about this. Human rights for example are very good in a lot of aspects, but it does not work. How do we make it work? How do we organize a public debate about all the human rights?

L. Fontaine: I just want to say that it is true that one of the means that help me to understand the right to choose is to take account of the genealogy of the history of charity. I found this very important to become aware of the underlying philosophies. As long as we have not dealt with our origins this is very difficult. I told you we have to change the definitions, but I want to add a brief word about religion. When I read Smith, he talks about religion only twice. Once, saying that the protestant bank of Amsterdam creates trust among themselves. All they need is interest on the capital. Adam Smith thought this bank was exaggerating. The second opportunity was this: he says that people who are living in an unprotected society, spend their life inventing resilience. How will I be getting through the day?

Religion is one of the tools for this. Smith explains that if a poor person drinks for one night, the day after he cannot work and probably will lead his family straight to misery as opposed to the rich who can feast for days on end and then take a rest. Fanaticism is developing in poor environments as a means to weapon yourself morally in order to avoid to fall into excesses. This is a very interesting idea of Smith. To show that we can in a way rethink the world without religion, Smith has two weapons: the first one is justice. According to him, society will crumble without justice. The second one is empathy and sympathy. Those are two things that are part of human nature. One wants to be loved and detests it when people see that you are suffering. The last thing I wanted to say is that Daniel Kahneman[21] has shown that when someone is looking at someone repairing an injustice, it activates zones of pleasure. Empathy and sympathy are very important. We haven't sufficiently worked with that. We need to understand how we can benefit from this type of social disposition. More work needs to be done on this.

[21] http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2002/kahneman-bio.html

Ending a Fatal Addiction: Re-regulating Europe's Financial Markets

Jeremy Leaman (Loughborough University)

The era of monetary accumulation which produced the most damaging financial crisis in modern history and generated dangerous new disparities in the distribution of wealth and income provoked policy elites at least to acknowledge the need for significant changes to the global economic order. The primary focus of deliberations within the G8, G20 and the EU has been on the reform of financial services in order to avoid a repeat of the contagion effect of the collapse of September 2008. The progress of this reform agenda has been both slow and largely limited to individual national initiatives. The absence of a serious multilateral dimension to the re-regulation of financial services defies the logic of a globally interdependent political economy and the associated arbitrage activities of both financial and non-financial corporations. Measured simply by the ambitions of western policy elites in 2009, reforms have been a failure. Measured against the analysis of critical political economy and the requirements of a sustainable European economic order, the failure to achieve even modest ambitions compounds the greater failure to diagnose the global economic crisis and to address the underlying structural flaws of monetary accumulation. This paper seeks to outline the necessary regulatory changes to the governance of financial services by addressing the deeper-seated and potentially fatal addiction of contemporary capitalism to anti-competitive monopoly income streams, and the associated complicity of democratic electorates in the maintenance of an unsustainable system of social reproduction. This complicity can be illustrated effectively in the operation of pension and social insurance funds as actors in the reproduction of capital.

'There is a pressing need to reassess the relationship of finance and real growth in modern economic systems' (Cecchetti & Kharroubi 2012)

The analysis begins with a short survey of the history of financial and social regulation in modern capitalism; it then examines the key features of the period of deregulation from the late 1970s to the 2000s with particular reference to the deregulation of financial services in advanced economies and the emergence of an intensified form of monetary accumulation. A survey of the both the critical effects of financial chaos following the crash of September 2008 and the piecemeal attempts to rein in the operations of banks and shadow banks is then followed by an attempt to outline the regulatory preconditions for the construction of a sustainable economic order in Europe's political economy, based on social justice, intergenerational equity and trans-generational respect for the environment.

The history of regulation in capitalist political economies

A key pre-condition for the expansion of dynamic capitalist forms of production was the establishment of a set of statutory norms, enforced by the central authority of a dominant political order/ state and acknowledged by the overwhelming majority of economic agents through their compliance with laws governing ownership and exchange of economic assets, and their subordination to the jurisdiction of an independent judiciary. The emergence of the state as arbiter and enforcer of contractual law was supplemented by the establishment of common standards of weights and measures, by state responsibility for roads, waterways, harbours, customs houses, railways, by the establishment of trading standards, the protection of intellectual property rights (patents) and much more. Modern capitalism is inconceivable without the involvement of local, regional, national and in the twentieth century by international agencies of government. Furthermore, the increasing complexity of the national and international systems of production and exchange went hand in hand with an increasing role for the state as regulatory body and as economic actor. Adolph Wagner's 'Law' postulates a strong correlation between the rise of the state ratio (ratio of state revenue or expenditure to GDP) and socio-economic modernisation (Wagner ref).

While neo-classical economics assumed the reversion of market forces to equilibrium (along with a large chunk of ceteris paribus), heterodox political economists like Marx, Keynes, Schumpeter, Minsky and Kalecki identified a tendency of all capitalist political economies to both cyclical and structural crises, as well as the enormous consequences of those crises for social relations and for international relations; the evidence for economic crises generating social and international conflict is self-evident. The emergence of the modern regulatory and interventionist state from the mayhem of two world wars, hyperinflation and global depression is rooted in the conviction of critical political economists of the inherent tendency of capitalism to crisis that cannot be resolved without pre-emptive or reactive measures by political actors at national and increasingly. at international level. The fallibility of markets became a commonplace in the post-1945 era, as did the national and international architecture of governance which sought to combat the contradictions of market processes. The Keynesian 'consensus' emerged in the period after 1945 as a rational response of capitalist elites to the social catastrophe of war, mass unemployment and poverty and to the acknowledged danger of the overthrow of capitalist economic relations by socialist uprisings, as in Russia, China and many other states. The temporary success of Welfare Keynesianism in most west European states during the Golden Age (Trentes Glorieuses) was boosted by the greater idiocies of Stalinism and the willingness of the US to underwrite the new consensus with the resurrection of a Dollar Gold Standard and the promotion of European cooperation; it was also underpinned by a trading system which was built on the unequal terms of trade of subordinate developing countries before and after decolonisation. The apparent stability of the US's hegemonic bloc system nevertheless concealed.

The benign conditions of European post-war growth – high international demand for both investment goods and consumer goods, fixed exchange rates and radical tariff-disarmament and trade co-operation – helped to conceal the persistent contradictions of the Keynesian consensus, notably the distributional conflict between capital and labour, the tendency towards monopolisation, falling rate of profit, unequal development and the limits of growth in advanced economies. When the exogenous shocks of the early 1970s (US failure in SE Asia, Yom Kippur War, First Oil Shock) coincided with the end of US guarantees for the fixed exchange rate regime, these immanent contradictions generated a set of severe structural crises in the economies of the OECD and, in particular, of western European states. The primary crisis of simultaneous stagnation and inflation ('stagflation') represented both a fundamental challenge to Keynesian business cycle theory (trade-off between growth/ employment and prices) and a corresponding challenge to policy-makers and their institutional machines. It is fair to say that neither the academic community of OECD countries nor their policy-elites rose to the challenge of this structural crisis with the same intellectual rigour as the architects of the Keynesian 'Global Plan' (Varoufakis 2013), notwithstanding the latter's evident weaknesses. The rapid abandonment of an intellectually rigorous, if flawed, Keynesian paradigm by both academic and political elites in favour of the market-radicalism of the Chicago School, neo- and ordo-liberals was breathtaking in its audacity and, predictably for a minority of dissenting voices, breathtakingly irresponsible.

Given the haphazard nature of the 'dismal science' of economics (particularly macro-economic), and the associated impossibility of testing its hypotheses through application to the real economy, the dramatic paradigm shift to deregulation, privatization and liberalization in the late 1970s and early 1980s can be explained in terms of ideological fallibility and class interest. However, there are also important institutional factors which pre-determined the transition to market radicalism, qua path dependency. The collapse of the Bretton Woods exchange rate regime in 1971 and the transition to flexible exchange rates altered the parameters of the global systems of trade and exchange; the modification of exchange rates was removed from the arena of multilateral political negotiation (and democratic legitimation) and shifted into the essentially volatile space of international trade and payments flows. This space was occupied increasingly by 'hot money' (vagabond capital) and, after 1974, by the 'petro-dollars' of oil-producing states in search of investment havens; in this context, the central banks of powerful economies played a significant role in determining the real interest rates that could be enjoyed by the major investment funds (sovereign wealth funds, pension funds etc.).

In particular, the two major autonomous central banks within the OECD, the US Federal Reserve and the German Bundesbank, acquired critical leverage in the setting of (real) interest rates and thereby in the determination of the priorities of macro-economic policy, which set European states on the path to deregulation and privatization. In the utterly unfamiliar territory of stagflation – which defied the standard political response of either deflation or reflation - German crisis management was subject to the primary imperative of its central bank's commitment to 'price stability', i.e. to a deflationary strategy which demanded, directly or indirectly, fiscal consolidation and austerity from Germany's central, regional and local administrations. Given the dominance of the Bundesbank in the family of European central banks and the increasing disparities in the current account balances of European economies, the imperative of fiscal austerity and, by implication, a reduction in the active role of the state was forced upon the central banks and finance ministries of other European states; this was achieved in the main by a combination of factors: 1) by the industrial and trading dominance of west Germany's political economy within Europe; 2) by Germany's trade/ payments surplus with most other European economies and the associated upward pressure on the nominal DM-exchange rate; 3) by the ability of Germany's secular economy to reverse the deterioration of its terms of trade following the oil price shock quicker than others as a result of the lower elasticity of global demand for its high-grade investment goods and consumer durables; 4) by the

Bundesbank's deflationary monetary policies (increased Discount and Lombard rates) which repressed domestic demand through raising the cost of credit; 5) by lower rates of inflation in Germany than in most other OECD states and thus by the seemingly magical fall in the real DM exchange rate, while an appreciating nominal exchange rate reduced the damaging effect of higher imported energy costs for Germany's economy (c.f. Leaman 2001: 155ff).

As a result, a pattern emerged, whereby other European central banks were obliged to follow interest rate increases by the Bundesbank with matching increases, but generally to much higher levels in order to prevent the outflow of investment capital from domestic to German (or other) securities which beckoned with higher real returns. French attempts firstly to moderate Bundesbank dominance through the collaborative launching (by Giscard D'Estaing and Helmut Schmidt) of the European Monetary System and its Exchange Rate Mechanism and secondly, under Mitterand (1981-1995), to defy the anti-Keynesian thrust of the new Bundesbank orthodoxy in the early eighties, both failed. The ambition to stabilise European currencies around a common ECU was thwarted by the Bundesbank's scepticism to the whole venture and its domination of interest rate/ exchange rate dynamics; high interest rates in turn rapidly put irrestible pressure on Mitterand's attempts at reflation in the extended set of recessions at the beginning of the 1980s.

The upward pressure on real interest rates in the 1980s, with their chronic effect on the borrowing costs of most states (1st World, 2nd World, 3rd World) in the 1980s, was driven furthermore by the mongrel economic policy of the Reagan administration (deflationary via Federal Reserve interest rate rises, reflationary via high federal borrowing, in part to cover the colossal cost of Reagan's 'strategic defence initiative').[22]

In summary, the preconditions for rolling out the new paradigm of deregulation and privatization were created by the failure of the post-war 'global order' to cope with the structural crises of the early 1970s, the resulting volatility of global flows of trade and capital, the benign indifference of the US and German central bank to 'market-determined' exchange rates and their preference for an economic order in which the market drove the essential allocation of social resources, rather than the (Keynesian welfare, active) state. None of the other OECD/ European states were in a position to resist the impetus of the so-called 'roll back' agenda whereby, in rapid succession, individual states removed key elements of statutory control from the operations of market actors, above all the new wave of transnational corporations that had begun to exploit the advantages of multi-locational production, distribution and financing.

Deregulation of Global Capital Markets: the Lifting of Exchange Controls

Charting the progress of deregulation involves both the identification of key political decisions – predominantly national

[22] Reagonomics defied the logic of the Thatcher-Reagan neoliberal revolution, inasmuch as his two administrations (1981-88) presided over a 4 percentage point increase in the US state ratio and a virtual trebling of federal debt (from $997 billion to $2.85 trillion), in part to cover the $43 billion cost of the delusionary Star Wars initiative. For further details on the extraordinarily negative effects of Reaganomics, see James Galbraith (2008: 38) or Leaman (2014a: 59). The description of Reagonomics as 'military Keynesianism' is a cheap simplification and does not bear witness to the colossal mountain of economic gibberish that emanated from American market-radical economists nor to the economic devastation it wrought (and continues to wreak) in the rest of the world economy

legislative acts – as well as critical non-decisions, i.e. the toleration (deliberate or resignative) of new economic processes and events, avoiding national or multi-lateral political responses to those events.

The end of the controlled period of internationalisation under Bretton Woods in 1971 was preceded by important developments in the major financial exchanges of OECD states. In particular, the sudden opening-up of national stock markets to foreign companies and foreign investors in 1969 reflected a clear desire on the part of multi-national companies to reduce the cost of capital by sourcing diverse stock markets (Allen 2013: 45). This prefigured, albeit in a modest fashion, the later patterns of international IPOs, but it also set up a new set of expectations regarding the international deployment of capital as such. Consequently, the decision by major trading nations to phase out/ suspend controls on the movement of capital (exchange controls) – in the wake of the collapse of Bretton Woods – was a critical pre-condition for subsequent events in both the real global economy and, in particular, in the emergence of an increasingly 'de-coupled' global financial market (c.f. Altvater 1992; Strange 1986).

While exchange controls were the norm between 1945 and the 1980s, there were significant disparities in their application. With the exception of Germany, all OECD states had relatively strict controls on outward flows (OECD 1993). Neither the UK nor the US (along with Canada and Australia) had controls on inward flows in contrast to the other members of the OECD. German controls on inward flows were suspended in 1975. The US suspended controls on outward flows in 1973 and in 1979 the Thatcher government in 1979 followed suit; this move was cushioned by the UK's temporary North Sea Oil boom, but above all it reflected the role of the City of London both as a key conduit for global capital flows and as a coordinator of an increasingly important network of secrecy jurisdictions or tax havens in Britain's 'Crown Dependencies' (Jersey, Guernsey, Isle of Man) and Overseas Territories. The UK's liberalization of exchange controls was above all in tune with the new wisdom of OECD countries that they represented a ‘handicap for domestic financial intermediaries’ and ‘reduced their competitiveness’ (OECD 1993: 21); other western European states followed suit in the 1980s and, in the context of the Single European Act (1985) the European Community issued the June 1988 Directive on Capital Movements, obliging all member states to liberalise their exchange controls by the SEA’s launch in 1992 (OECD 1993: 26)

The OECD publication cited here coincided with initial stages of post-communist transition in central and eastern Europe and shared some of the confidence, if not triumphalism of liberalisation fans. However, it sounded a note of caution about the process of global deregulation which rings very true from the perspective of 2014, six years into the mayhem of global crisis management:

‘However, it was clear from the outset that for the free movement of capital to deliver expected efficiency gains, more rigorous prudential supervision and progress in the harmonisation and mutual recognition of regulatory arrangements across countries were necessary’ (OECD 1993: 21).

The absence of ‘more rigorous prudential supervision’ and international ‘harmonisation’ was to prove tragically evident as the juggernaut of deregulation swept aside such instruments of risk management, as the ‘efficient market hypothesis’ overwhelmed even the old bastions of Bretton Woods, the International Monetary Fund and the World Bank, to establish the fateful Washington Consensus. Instead of harmonised political risk-management, what emerged was the transformation of the major capitalist states from partners in the Global Plan under the benign hegemony of the United States into ‘competitive states’ (Altvater, JAS; Hirsch 1995), all seeking to maintain or attract the favour of industrial, commercial and financial corporations through a destructive process of ‘location competition’ (Altvater) and involving the legislative weakening of national regimes of regulation and taxation. The dominant protagonists of this process were the increasingly powerful institutions of the financial services sector, most notably banks.

Deregulation of Financial Services: the Promotion of Secrecy and Complexity

Before the collapse of fixed exchange rates, a global financial services sector barely existed; international financial transactions and financial services like shipping and other trade insurance were largely confined to the established financial centres of New York, London, Zurich and Paris. Banks were predominantly national in nature and national in scope and ambition. Accordingly, the banking, insurance and stock market systems of individual economies differed significantly. In the UK, as in the US and most western European states, retail banks were legally separated from investment or merchant banks, while in west Germany the traditional form of 'universal banks' survived the post-war 'decartelisation' process; retail banking and investment banking operated side-by-side in Germany's private banks, public banks and cooperative banks with the very particular feature of all three categories of banks owning significant shareholdings in non-banks, i.e. in industrial and commercial corporations[23]. Housing finance remained predominantly the domain of specific mortgage banks, which again differed in legal form and were subject to differing regulatory statutes; furthermore, housing finance differed in relation to the contrasting ratios of home ownership to rented

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[23] The interlinking of Banking and Industrial capital in Germany was, on the one hand outlawed in other OECD countries on grounds of unfair competition, on the other envied by those who saw the advantages of long-term banking commitments for the investment strategies of non-banks and for the corresponding avoidance of short-termism on the part of credit institutions. (c.f. Hutton ref)

accommodation[24]. This diversity was easily maintained within the traditional and path-dependent banking cultures of individual member states (as were their cost-inefficiencies). However, the suspension of exchange controls on capital exposed national capital markets to increasing pressure from the major retail and investment banks of London and New York as they sought to attract, above all commercial, borrowers with competitive rates of interest in the context of unprecedented global real interest rates (Reaganomics) and a global wave of industrial modernisation and productivity growth; there was also strong political impetus behind the liberalization of financial services within the Single Market agenda and fears of EC-elites of the technological revolutions driving the Japanese and the US economies. It is no coincidence that the UK's 'big bang' of 1986 coincided with the signing of the launch documents of the SEA in Luxembourg and The Hague; the abolition by the Thatcher government of the demarcation lines between stockjobbers (market-makers) and stockbrokers, the removal of entry barriers to share-dealing, credit business and mortgage-lending were measures designed to boost the profile of the City of London as a conduit for mobile finance capital; the process was accompanied by the technical modernisation of financial markets (notably in share-dealing) with the introduction of screen-based trading (c.f. Mellor 2010: 40ff).

A critical side-effect of such reforms – copied in many other financial centres – was the blurring of the distinction between incorporated retail banking and the hitherto separate (mutual) institutions of building societies and mortgage banks. The entry of Britain's big retail banks (Barclays, Midland, Lloyds, National Westminster) into the market for mortgage-lending put pressure, firstly, on the more traditional regional/ local UK building societies, largely operating on the basis of 'mutual' ownership (of its savers and borrowers), both to merge and later

[24] 3 In 2012 the percentage of households which owned their own home varied from 43.9% in Switzerland and 53.3% in Germany to 66.7% in the UK, 75.9% in Greece and 96.6% in Romania (sic)

to ‘demutualize’, i.e. become rivals to high street banks through incorporation and stock market flotations; secondly, it increased the pressure to change on the UK’s conservative mortgage culture; where traditional mortgage contracts had required borrowers to provide a minimum deposit (often from a building society savings account) towards the purchase of a property, and building societies applied both rigorous checks on clients’ creditworthiness and limits on the size of the mortgage credit aligned to multiples of joint household income (usually no higher than two-and-a-half or three times net income), the new mortgage culture witnessed increasingly cavalier checks on creditworthiness/ solvency, smaller deposit ratios and increases in the income multiple. The new hyper-competitive UK mortgage culture thus prefigured similar developments in the US, Ireland and Spain in its indifference to risk and to the potential damage to the lives of gullible mortgagees.

The, for some, critical separation of retail banking and investment banking in the United States – underpinned by the famous Glass-Steagall Act of 1933 – took longer to sweep aside, despite consistent pressure from the financial services lobby. This major reform in 1999 was preceded by two decades of liberalisation: in 1978 the ceiling on interest rates was removed; US ‘thrifts’ (savings banks) were allowed to to make consumer loans and later commercial loans, bringing them into competition with other credit-institutions. As a consequence, a large number of smaller savings and loans companies ‘fell victim to speculative losses and had to be bailed out’ (Mellor 2010: 41). The Federal Reserve System loosened the provisions of the Glass-Steagall Act, by allowing retail banks to ‘earn 25 percent of their revenue from investment banking without violating Glass-Steagall’ (Allen 2014: 49). The ensuing manoeuvring within Wall Street saw the formation of financial holding companies in a wave of mergers and acquisitions. Citibank’s merger with the insurance company, Travelers in 1997, nevertheless breached even the Federal Reserve’s loosened guidelines, but, rather than forcing a demerger, the Clinton administration was persuaded,firstly, to tolerate the (illegal) merger and accordingly to sweep aside Glass-Steagall with the Financial Services Modernisation Act in 1999. This act allowed banks ‘to embrace a wide range of financial activities: banking, insurance, morgages, stock market trading, personal and speculative lending and bank direct investment’ (Allen 2014: 42). The scene was set, not for the achievement of efficiency gains from the abolition of anti-competitive, guild-like restrictive practices, but for the licentious abuse of market power, secrecy, information disparities and of Ponzi-style speculative bubbles. Notwithstanding the higher incidence of financial crises in the 1980s and 1990s (Mellor 2010: 41 etc), the 2000s saw a veritable acceleration and intensification of monetary accumulation within casino capitalism, in which the political, academic and corporate elites of the advanced world suspended both common sense and ethical judgement in the pursuit of ‘fool’s gold’ (Tett ref).

To summarize, the advanced states embarked on the programmatic dismantling of regulations pertaining to the financial services sector (as well as to the labour market, to monopolies, to social provision) and to their global transaction; regulations, that had been put in place for very good reasons in the wake of two world wars and a global depression and which, despite the growing complexity and interdependence of global capitalism, were now considered unnecessary for the achievement and maintenance of market equilibrium. Just as the increasingly complex delivery of healthcare requires the strict control/ licensing of drug development, patents and drug application, so the financial health of all economic actors in the highly complex contemporary division of international labour requires the strictest levels of vigilance in relation to innovations in credit markets, in accountancy and asset management. The colossal improvements in peri-natal mortality (maternal and infant death-rates) and in human longevity are inconceivable without the accumulation of knowledge and the political regulation of pharmaceutical and clinical innovations. The abandonment of the regulatory anchors of post-war economic order and their basis in knowledge and historical evidence is tantamount to the relicensing of thalidomide, snake-oil and blood-letting in the health service. Of course this is inconceivable in virtually all world medical systems, while the crisis of casino capitalism has revealed a preparedness to sanction the toxic 'products', the toxic structures and the toxic processes of a financial services sector that was (and remains) out of control.

The results of deregulation and the systemic addiction to financialised capitalism

In this section, the key consequences of ill-judged and irresponsible financial deregulation will be examined in order to substantiate a corresponding set of arguments for reform and re-regulation. The major areas of concern here are:

- The emergence of highly concentrated and oligarchic financial institutions that were subsequently deemed 'too big to fail';

- The emergence of multi-tiered organisational structures of both ownership and liability;

- The emergence of the process of 'securitization', the laughingly inappropriate term for converting liabilities into assets, facilitating the further process of hyper-leveraging;

- The acceleration of the turnover of financial assets;

- The diversion of finance capital (pension funds, investment funds, public and private treasury management) away from real investments to fictional assets and speculation;

- The sanitisation/ sanctification/fetishisation of derivatives by both legislators and by credit rating agencies; the associated emergence of shadow banking beyond the control of regulatory authorities

- The skewing of macro-economic income/ wealth distribution in favour of economic elites and at the expense of the '99 percent';

- The substitution of real income increases with the deliberate promotion of private debt to drive economic growth (credit cards, equity release, consumer credit etc.);

- The emergence of an unsustainable culture of material expectations, based in hyper-individualised consumption and, within elites, criminogenic norms of economic behaviour;

Bank Concentration: Purpose, Efficacy and Systemic Risk

The market liberalisation of the 1980s and the 1990s was ostensibly designed to increase competition and market efficiencies within the financial services sector. What occurred was a fairly predictable process of consolidation via mergers and acquisitions, as the major market players sought to neutralise the (for them) negative effects of suspending entry barriers and restrictive practices; it was a process that confirmed Wallerstein's dictum that 'all capitalists seek to monopolize' (Wallerstein 1983: 142).

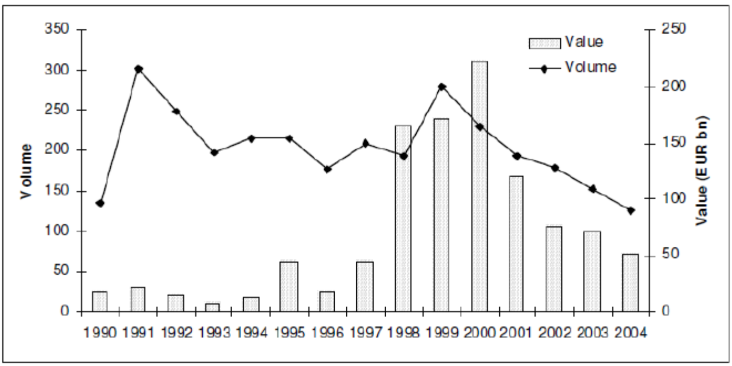


Figure 1. Bank Mergers in Europe 1990-2004 by Volume and by Value (€ billion). Source: Merger Market 2008

The surge in mergers and acquisitions in the banking and financial services sector in the past two decades is well established (Haldane 2010a; 2010b; Merger Market 2008; Buch & Delong 2012 etc), as is the particular increase in cross-border banking mergers (Buch & Delong 2012); the national and international consolidation of bank market power is evident both in the rising concentration ratios in the sector (ref) and in the total value of the acquisitions (Figure 1). The manoeuvring of the largest banks

in Europe and the USA involved both the assembly of a full range of financial activities under one roof (c.f. Allfinanz) and the exclusion/deterrence of smaller competitors. In the United States, the total number of commercial banks was more than halved between 1985 and 2010, from 14,496 to 6,673. A similar dramatic process emerged in Europe (Figure 2), reinforced by the privatisation of central and east European banking (in which the major acquirers were west European big banks), by intermittent banking crises and by the availability of vast sums of liquidity (see below). In his study on the efficacy of such mergers, Rudi Vennet (2002: 35) identifies profit efficiencies and motives driven by market power:

'The profit efficiency improvement may be caused by changes in the pricing behavior of the acquired banks, positive revenue-generating spill-overs from the new parent bank, or increased market power'.

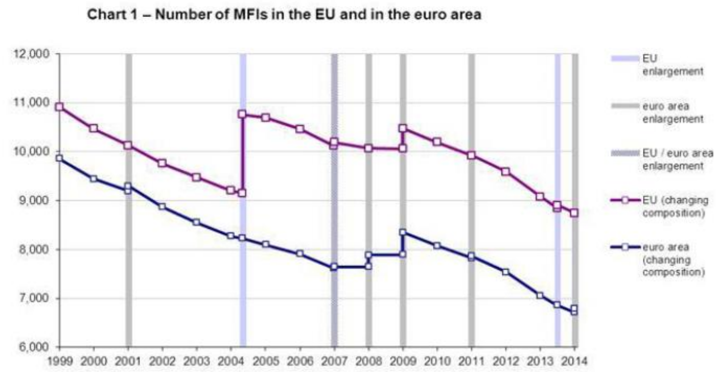


Figure 2: Growing Concentration in European Banking[25]

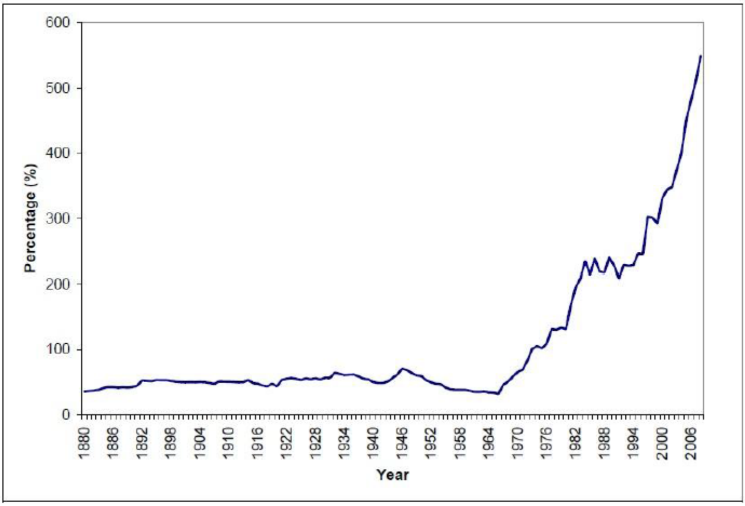
Profit efficiency, however, is offset by an impairment of cost efficiency. Similar findings are presented by a number of studies (Haldane 2010a; 2010b; Amel, Barnes et al. 2004). As a senior member of the Bank of England, Haldane's observation that there is a relatively low threshhold, beyond which merger 'efficiency gains' are lost, represents an important indictment of bank practice and an implicit critique of anti-competitive oligopolistic tendencies in financial services (Haldane 2010a: 11)[26]. Above all, Haldane sets persuasive arguments against bank mergers in the context of the (proven) systemic risk of banks that are 'too big to fail' and the correct proposal that financial crises like the ongoing post-2008 crisis should be managed according to the 'polluter pays' principle (Haldane 2010a: 1ff). While it is possible to argue that the contagion of the global financial crisis emanated from the USA, it is noteworthy that Europe dwarfs the United States in terms of the ratio of bank assets to GDP, which – in the case of the UK –

[25] ECB http://www.ecb.europa.eu/press/pr/date/2014/html/pr140121.en.html

[26] Haldane quotes Saunders (1996), according to whom 'economies of scale in banking are exhausted at relatively modest levels of assets, perhaps between $5–10 billion'.

ballooned from around 100 percent in the early 1970s to some 550 percent in 2006 (Figure 3; 495); the average for the EU27 is 349 percent, but only 92 percent for the US (data from: Eurostat; Helgi Library).

Figure 3 UK Bank Assets as a Proportion of GDP 1880-2006 (in percent)



Source: Sheppard, D. K (1971) and Bank of England.

Note: The definition of UK banking sector assets used in the series is broader after 1966, but using a narrower definition throughout gives the same growth profile.

Figure 3 also provides valuable evidence of the increasing over-reliance of the UK economy on financial services as vehicle of growth (and harbinger of disaster). An additional conclusion from the critical studies of (cross-national) mergers is that the activity of investment banks as (highly paid) advisors in the vast M&A sector is, in macroeconomic terms, not worthwhile to anyone apart from the bank M&A teams.

If deregulation of global financial services was supposed to enhance efficiencies through competition, it failed. Rather it provided a licence for the biggest firms (banks, insurance companies, the ‘big four’ accountancy firms, the credit ratings agencies) to jostle for and occupy greater positions of power in national, regional and global markets. As increasingly self-regulating institutions, banks, CRAs, accountancy giants can also be seen to wield disproportionate power over permissive states. At best states tolerated, at worst they were complicit in the extraordinary developments that accompanied high levels of concentration (Mellor 2010: 40ff). In particular, financial institutions set about constructing highly complex webs of national and international relationships which were arguably directed at the maximisation of commercial secrecy, the maximising of bank, shadow bank, financial advisor and client returns and the minimisation of tax liabilities and the influence of national jurisdictions and multilateral institutions of global economic governance.

Secrecy is a functional mechanism of financialised capitalism. It has become completely distinct from the honourable maintenance of client/patient/ parishioner confidentiality, namely to an instrument of corporate power which has lifted the abstract notion of ‘asymmetrical information’ in market relationships to staggering levels of duplicitous behaviour which depends on weak states and powerful transnational private financial networks.

Secrecy operates within a global space; with deregulation and globalisation, individual nation states have at best the mechanism of information exchange between cooperating jurisdictions to combat that secrecy; at worst, they operate in a fog of ignorance, reinforced by the ruinous location competition from a position of weakness, involving a downward spiral of regulatory and tax concessions towards ruthless corporate lobbyists and arbitrage specialists. Within this asymmetrical relationship between weak states and powerful corporations, a ‘central part of the financial system is via shadow banks directly connected to offshore financial institutions’ (Oetsch 2014: 61).

The purpose of the offshore system 'is to put a cloak of invisibility over distinct financial transactions' (ibid.). The degree of invisibility or opacity is used by the Tax Justice Network to generate its 'Financial Secrecy Index', in which offshore jurisdictions are compared[27]. Ötsch quotes the analysis of Palan, Murphy and Chavagneux about the way in which 'opacity' is realised: notably, by the bank secrecy laws of a particular jurisdiction, by that jurisdiction's level of regulatory monitoring of financial transactions, and by the sector 'establishing entities whose ownership and purpose is difficult to identify' (Ötsch 2014: 61).

Currently, there are 82 jurisdictions in the 2013 FSI, headed by Switzerland, Luxembourg, Hong Kong, Cayman Islands and Singapore, that is by states – with the exception of the Caymans – that are not 'offshore' in the literal sense of obscure islands beyond the physical reach of 'the authorities', but in Nicholas Shaxson's sense of 'nowhere' (Shaxson 2011: 8ff) of a regulatory no-man's-land which operates (for some) with the connivance of the host jurisdiction and in defiance of the ethical norms of the majority of the world's citizens, of the so-called 99 percent[28]. It is therefore noteworthy that alongside the usual suspects of the Channel Islands, Bermuda and Mauritius, TJN apply the metaphor 'offshore' to European states like Germany, Austria and the UK, to the USA and to Japan with a corresponding opacity rating. Of critical importance to any analysis of financial deregulation/ reregulation is the sheer scale of the offshore economy and its centrality to the operation of global trade and financial services. The Tax Justice Network calculates that there are currently between $21 billion and $32

[27] http://www.financialsecrecyindex.com/introduction/fsi-2013-results

[28] 'We are the 99 percent' was a key slogan of the Occupy Movements in the wake of the 2008 crisis, in opposition to the political economy of the 1 percent (c.f. Weeks 2014).

billion in financial assets parked offshore[29]; according to James Henry (2010: 26), this equivalent to some 10 percent of total global wealth. Henry also calculates that, through a network of corporate holding companies, the bulk of these assets (62 to 74 percent) is controlled by the top 25 multinational banks:

While there are now over 500 private banks, hedge funds, law firms, accounting firms and insurance companies that specialize in offshore, the industry is actually very concentrated. Most of its employees work directly or indirectly for the world's top 50 private banks, especially the top 21 that now each have private cross-border assets under management of at least $100 billion each. … In short, this comparative handful of major private banking institutions now accounts for 62 to 74 percent of all offshore private wealth. Many readers will recognize the names of the dominant players, as they have done for decades: UBS, Credit Suisse, Citigroup/ SSB/ Morgan Stanley, Deutsche Bank, BankAmerica/ Merrill Lynch, JPMorganChase, BNP Paribas, HSBC, Pictet & Cie, Goldman Sachs, ABN Amro, Barclays, Credit Agricole, Julius Baer, Societé Général, Lombard Odier (Henry 2010: 32)

An Actionaid study (2013) of the top 100 FTSE companies reveals not only that 98 of the 100 have subsidiaries in tax havens (a total of 8,311 subsidiaries) but that banking is the 'most prolific user of tax havens; in 2013 a total of 1,780 bank subsidiaries (57.3 percent of all bank subsidiaries) were registered in tax havens (Actionaid 2013: 17), likewise 61.1 percent of the shadow banks (predominantly hedge funds and private equity groups). This paper is not concerned primarily with the damaging fiscal effects of this abuse of secrecy jurisdictions to 'advanced' economies or developing economies (c.f. Waris 2013; Leaman 2011) but, firstly about the scale of corporate activities, as a proportion of global GDP or global

[29] http://www.taxjustice.net/topics/inequality-democracy/inequality-tax-havens/

wealth) and, secondly about the centrality of abusive secrecy to the normal operations of banking institutions. 'Over half of international bank lending and approximately one-third of foreign direct investment is routed through tax havens' (Christensen 2009: 3). It is also estimated that over 50 percent of global trade is invoiced through tax havens (ibid.; Shaxson 2011) and it is financial institutions that facilitate the bulk of this invoicing, in the full knowledge that the real economic transaction (shipment of goods from a producer source to a client destination) takes place far away from the location where the invoice is raised. The same applies to the equally duplicitous 'round-tripping' of capital (Actionaid 2013: 11)

The secrecy of this highly complex web of transactions – clear to the beneficiaries, the international accountancy and law firms, but impenetrable to public fiscal or regulatory bodies – is rendered almost watertight by the use of special purpose entities (SPEs or special purpose vehicles, SPVs, or structured-investment vehicles, SIVs), predominantly in the legal form of Limited Liability Partnerships or Anonymous Trusts. These 'vehicles' are 'virtual' banks registered overwhelmingly in tax havens (Allen 2014: 109). Very often the identity of the beneficiary of an SPE or a trust is concealed in official registrations; there is widespread use of 'brass plate' addresses[30] as well as 'real' shell companies with dummy shareholders, directors and other chargeable extras (c.f. Figure 4). There are hundreds of companies worldwide, specialising in the sale of

[30] The most egregious examples of brass plate addresses are Ugland House on Grand Cayman, with over 18,000 registered companies and 1209 Orange Street in Wilmington, Delaware (US) which is home to over 200,000 companies, including over 6,500 corporations!

shell companies for the very purpose of concealment, tax evasion and tax avoidance.[31]

[31] For example: http://malaysia.businessesforsale.com/malaysian/search/Public-Shell-Companies-for-sale-in-Switzerland

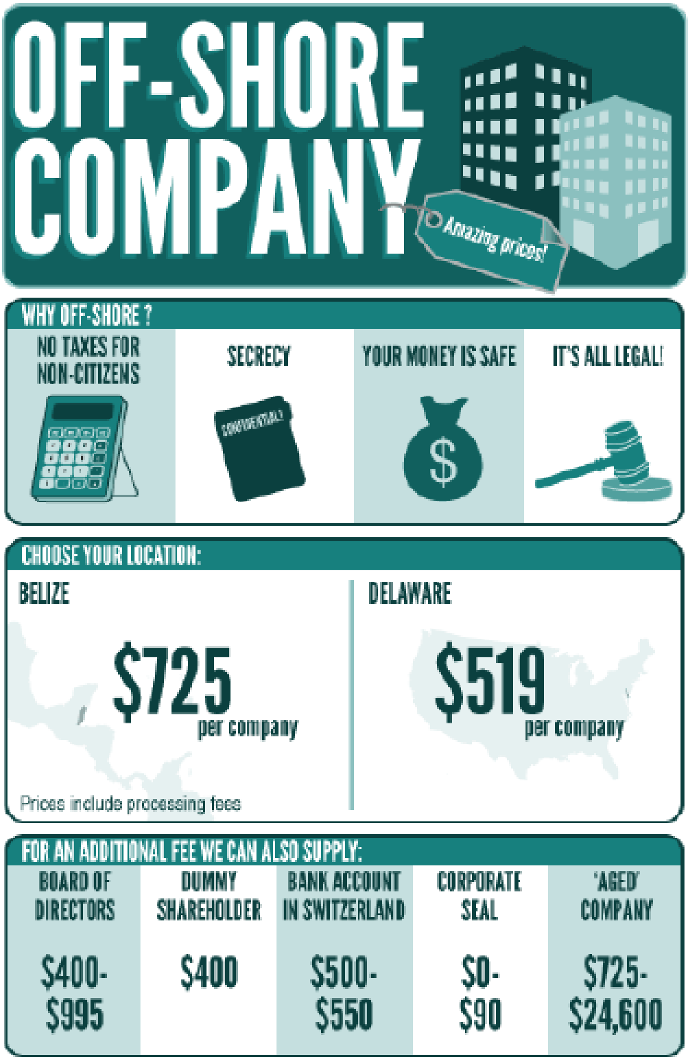


Figure 4: US Advertisement for Sale of Shell Company

A key function of SIVs for their parent banks was to remove liabilities from the banks' balance sheets, by allowing them to raise capital by selling short-term commercial paper and then purchasing longer-term securities. Offshore SIVs are considered by many to have exacerbated the 2008 crisis both through the facilitation of the specious securitization merry-go-round (see below) and by the deliberate strategy of concealment that was essential for its success and for the expansion of bank activities.

One of the key characteristics of the sub-prime crisis is that in the pre-crisis period banks funded a growing amount of long-term assets with short-term liabilities through the use of off-balance sheet vehicles, exposing themselves to credit and liquidity risk by providing credit facilities and guarantees to these vehicles (Kalemli-Ozcan et al. 2012: 8)

Securitization and Hyperleveraging

The new wave of securitization has very little in common with the simple holding by a bank of a claim against a borrower's asset ('buy and hold'). Modern securitization has involved the conversion of the original borrower's illiquid assets, like long-term mortgages, into a tradeable security, which is sold on to short-term investors at a lower rate of interest than is demanded for the repayments on the original mortgage(s).

In most recent historical cases, a 'pool of mortgages is transferred into a trust. The trust holds the mortgages as collateral for the bonds that the trust issues. The individual mortgages are backed by the homes and property of the borrowers. The bonds are backed by the mortgages. Thus these bonds are called "mortgage-backed securities". Like other bonds sold in the bond market, mortgage-backed securities carry ratings conferred by rating agencies such as Moody's or Standard & Poor's. The interest the bond pays comes on a pass-through basis from the monthly interest payments made on the mortgages' (Allen 2014: 105.

The holder of such securitized debt is most often very remote from the original asset and the original valuation by the originator or the originator's rating agency. This remoteness and the ‘bundling’ of tranches of – differently rated – debt compound the information deficit and weaken the foundations of a half-way reliable risk assessment. This remoteness from both holder and from state oversight agencies makes the role of the credit ratings oligopoly of Fitch, Moody’s and Standard Poor’s absolutely central in the perpetuation of securitization delusions (see below). Above all, the selling on of long-term debt, often to their own offshore SPVs, reduced the apparent debt-exposure of banks or shadow banks and set in motion the mechanism for further lending and borrowing between financial institutions in the interbank market, effectively piling debt on top of debt. The resulting leverage ratios were frequently around 50, i.e. the core capital of banks and shadow banks was sufficient to cover just 2 percent of liabilities (Wolf 2014: 240 etc). With such a thin cushion of real bank assets, the process of hyperleveraging could only be sustained by the origination of new debt, i.e. by persuading more and more (poorer) households to enter into new (re-)mortgage agreements, to take on more credit-card debt, to enter into more hire-purchase agreements with the retailers of consumer durables (cars, furniture, electrical goods), so that their resulting loan agreements could be sold on in securitized bundles, predicated on the future income streams from the loan repayments.

Securitization and hyperleveraging gave birth to what Kevin Phillips and others have termed ‘liquidity factories’ that ‘used latter-day magic wands to turn financial leverage into nonbank “candyfloss” money’ (Phillips 2008: 185). Above all, this colossal multiplication of debt claims within the financial system underscored the virtual powerlessness of national central banks and Europe’s one supranational central bank. The tragi-comedy of Europe’s policy architecture is dramatically evident in this ultimate triumph of market radicalism, namely ‘the privatisation of money’ (Mellor 2010: 31-57). For those that are prepared to see, the grand paraphernalia of monetarist macro-economic policy – inflation-targeting, interest-rate manipulation, open market transactions and money-stock control – was effectively torn to shreds by the self-regulating Lords of the Financial Universe in their orgy of debt (c.f.

Leaman 2011b: 229ff). Monetary policy, notably the manipulation of short-term interest rates, effectively only influenced the credit conditions of territorially bound SMEs and private households; transnational corporations were able, via global financial markets, to raise much cheaper capital, assuming, that is, that they needed it; as noted above, vast corporate reserves and cheap borrowing were deployed in increasing measure to fund (hostile) takeovers and mergers. Either way, monetary policy either acted as midwife to increased market concentration or was powerless to

The Fickle Owner: Monetary Accumulation and the Descent into High-Speed Trading

It is not necessary to illustrate exhaustively the effect that global financial liberalization has had on the velocity of circulation in all its relevant markets; this has been done effectively by others (c.f. above all Huffschmid 2002). What is central to the issue of deregulation/ reregulation is the way the dramatic acceleration of financial market transactions became divorced from processes of real accumulation and created the self-referential de-coupled realm of casino capitalism, fed – yes – by the search of high rates of return (ROR) in the real economy and ultimately rebounding on the real economy through the side-effects of its own meltdown, but nevertheless adrift in its own delusory play area. One brief illustration will suffice to demonstrate the process – and which continues. Foreign exchange markets historically, i.e. in the managed post-war global order, saw a relative correspondence of currency transactions to trade transactions, with a small but insignificant element of forward trading as a hedge against risk (relating to currencies outside the Bretton Woods system). The removal of exchange controls in the 1970s and 1980s saw a significant increase in the daily turnover of currency transactions in comparison with trade in goods and services, which proceeded to increase up to (and beyond) the 2008 crisis (Table 1)

Table 1. Global Currency Transactions 1979-2013 (Daily Turnover in $Trillions)

1979	1989	1992	1995	1998	2001	2007	2010	2013
0.12	0.59	0.82	1.19	1.49	1.21	3.3	4.0	5.3

Source: Bank for International Settlements

The increase in daily currency transactions from $120 billion in 1979 to $3.3 trillion in 2007 and most recently to $5.3 trillion in 2013 (annualised: 1979: $43.8 trillion, 2013: $1,934 trillion or $1.93 quadrillion) was due in large measure to short-term speculation on FOREX markets, with traders seeking short-term arbitrage gains on positions taken hours or minutes before; the velocity of (human mouse-click) trading is set to accelerate still further with the application of computerised high-frequency trading (HFC) in currencies or currency derivatives:

'Relatively light regulation and high volumes make the $5.3 trillion-a-day foreign-exchange market a prime target for high-frequency traders. More than 35 percent of spot currency volume in October was by speed traders, up from 9 percent five years earlier' (Bloomberg, April 17 2014)

The new attention by HFT to currency markets is arguably linked to the lessened volatility of global equity markets in 2013, reflecting the bubble features (and the delusions) of a bull market, where capital, in its desperate search for high returns, has migrated from sovereign bond markets to equities. Volatility provides potentially greater arbitrage gains, while an (irrationally strong) bull equity market doesn't. It is nevertheless significant that HFT still accounted for half the volume of equity trading in 2012 (Bloomberg 14 February 2014). HFT does not represent the key deficiency in trading markets; rather it is symptomatic of the extreme commodification and atomisation of financial services markets that no longer 'service' the real economy with the provision of capital funds, based on long-term risk-assessments of the commercial viability of producers and service-providers. This extreme commodification set in before the emergence of HFT, facilitated both by computerised global networks and the atomised, alienated mindset of gamblers, dedicated solely to squeezing value out of temporary market fluctuations. Long before the advent of HFT, this speculative mindset driving currency and equity markets was already deeply entrenched in the major banks of the world[32]. If one adds to the gambling mindset the documented criminal collusion between big banks in relation to both LIBOR-rates (interbank market rates of interest) and FOREX-markets, the need for reregulation becomes manifest.

Diversion of finance capital away from real to fictional investments

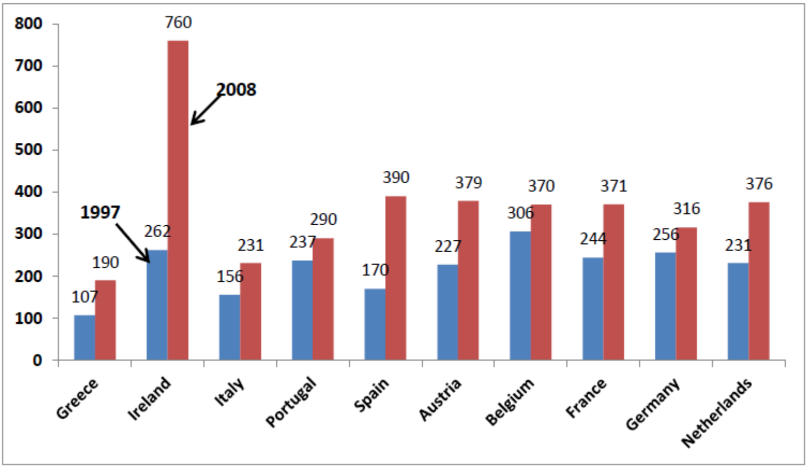
The hypertrophic growth of financial services reflected a number of critical developments in the global political economy, some of which have been outlined above. The crisis of Keynesian welfarism coincided with the end of the abnormal post-war boom, characterised by disproportionately high rates of growth, by high returns on capital, by rising labour productivity, real wages and private consumption and by high investment ratios. There were clear national disparities in all of the above factors, but the favourable trend continued until the second half of the 1960s, when the dynamic of both reconstruction and global trade growth weakened, full employment increased the power of labour to secure a higher share of national income and rates of return on capital began to decline; the benign compromise between capital and labour, which was characteristic of the post-war Keynesian consensus, was beginning to crumble. These existing and nationally differing tensions reinforced the macroeconomic and social effects of the two major shocks to the global political economy in the early seventies, the end of fixed exchange rates and the oil-price

[32] For a more detailed account of the evolution/ political facilitation of speculative short-term trading, see: Huffschmid (2002: 38ff; Coggan 1986: 136ff; Tett 2008)

shock. Above all, they contributed to the severe recessions of 1974/75, to the emergence of mass unemployment, to the divergent paths of national economies, national trade and payments balances, national currencies.

The new normality of economic relations within the OECD group of advanced economies thus included many of the features of the pre-war economy: distributional conflicts within national economies and international imbalances and rivalries. The next decade-and-a-half also witnessed very significant sectoral upheavals, with a continuing decline of the primary sector (agriculture and fisheries), a marked reduction in the contribution of industrial production to GDP and a consistent growth in the tertiary (service) sector. A major factor in the decline of European (and US) manufacturing was the emergence of Japan and South Korea as strongly mercantilist exponents of targeted industrial investment and 'laser'-export marketing (ship-building, steel, consumer electronics, motor vehicles) which, along with Third World textile manufacturers, undercut European and American producers. The gradual displacement of manufacturing corporations, as hitherto safe vehicles for social insurance funds, pension funds and other institutional investors, represented a colossal challenge for the valorisation of both traditional institutional investors and of new funds, associated with petro-dollars. The liberalization of national and global capital markets, which removed both limitations on the movement of capital (exchange controls) and tax penalties on short-term speculation, opened up seductively promising avenues of valorisation in financial markets. The new era of monetary accumulation was born.

Figure 5: Ratio of Bank Assets to GDP in selected Eurozone Countries



Source: European Central Bank

The diversion of resources from the real economy to financial markets is evident from a number of important indicators. The persistent decline in the GDP share of real investments in the advanced economies, while it has other determinants, can be correlated with the rise in the share of financial assets as a proportion of GDP, particularly in countries with above-average financial services, like the UK. Likewise, the changes in the investment portfolios of both the big investment funds and, significantly, industrial corporations shows a clear rise in the ratio of financial to non-financial assets (Leaman 2014). The investment ratio of all advanced economies fell from 19 percent of GDP in 1980 to 16.2 in 2005, while financial assets as a proportion of GDP rose worldwide to $194 trillion or 343 percent of GDP in 2007. The Eurozone showed a consistent bloating of its bank asset ratios, with Ireland standing out (760%) but key states (Germany, France, Netherlands, Spain) all exceeding 300% of GDP by 2008. In the United States (442 percent) and in the UK (550 percent), the centrality of financial services to these political economies showed an even greater and more dangerous asymmetry[33]. The composition of UK pension fund portfolios changed from a relatively high dependence on fixed income securities in the 1970s to a predominant focus on equities in the 1990s and 2000s (NAPF 2013: 4), driven above all by advent of the short-term time horizons of ‘shareholder value’ and the associated waves of aggressive takeovers (see above).

The (unfinished) era of financialised capitalism produced a serious misallocation of social resources (qua savings) to economic activities which, by and large, did not contribute to the improvement of social welfare. It was a clear case of collective over-commitment to an unsustainable and dangerously volatile sector. There is a growing consensus, even among economists closer to key institutions of the so-called Washington Consensus, that the expansion of banking and shadow banking in the 1990s and 2000s had, on balance, a negative rather than a positive effect on growth. Haldane (2010a) talks about the sector’s ability ‘to both invigorate and incapacitate large parts of the non-financial economy’ and concludes that its contribution to growth has been seriously overrated. Cecchetti and Kharroubi from the Bank for International Settlements conclude indeed that ‘financial sector growth is found to be a drag on productivity growth. Our interpretation is that because the financial sector competes with the rest of the economy for scarce resources, financial booms are not, in general, growth-enhancing. This evidence, together with recent experience during the financial crisis, leads us to conclude that there is a pressing need to reassess the relationship of finance and real growth in modern economic systems. More finance is definitely not always better’ (Cecchetti & Kharroubi 2012: 14). Adair Turner, head of the UK Financial Services Authority in 2009, famously pronounced

[33] Iceland according to IMF figures had a financial asset ratio to GDP of over 12:1 in 2008

large sections of the sector to be ‘socially useless’ (Daily Telegraph, 26 August 2009).

One of Cecchetti and Kharroubi’s key arguments is that financial services reduce productivity growth by absorbing a large number of highly qualified individuals into lucrative banking careers, individuals who would have been more productively deployed in innovative branches of the real economy (Cecchetti & Kharroubi 2012: 11f). With a global workforce of millions in banking, of 600,000 in the big four accountancy firms alone FIGURES, graduates of maths, physics, engineering and computer sciences have been key targets for bank recruiting (FIGURES). Cecchetti and Kharroubi take Ireland and Spain as case studies, where financial sector employment grew at an annual average of 4.1% and 1.4% between 2005 and 2009, and calculate ‘that if financial sector employment had been constant in these two countries, it would have shaved 1.4 percentage points from the decline in Ireland and 0.6 percentage points in Spain. In other words, by our reckoning financial sector growth accounts for one third of the decline in Irish output per worker and 40% of the drop in Spanish output per worker’ (12). In the context of the Lisbon Agenda and Europe 2020, this kind of misallocation of human resources is utterly counterproductive.

The Suspension of Judgement: Quality Control in Ponzi-Capitalism

All modern and emerging economies operate a system of quality checks on key materials, like precious metals, petro-chemicals and pharmaceuticals. The ‘assay offices’ test the quality and purity of silver, gold and platinum as definitive guides for both the vendor and the purchaser of these materials; they were introduced as statutory bodies to prevent the widespread adulteration of precious metals and coinage of the early modern era. They are indispensable to the operation of commercial law, based on reliable information, trust and predictability. The ‘products’ of the era of financialisation were subject, notoriously, to both light-touch regulation by public bodies and to 'self-regulation' by the banking and finance sector itself. Financial liberalisation turned out to be tantamount to putting alchemists in charge of the assay offices. The result was 'fraud and near fraud' (Wolf 2014: 323), ignored by complacent and well-paid public servants, like central bankers and the heads of financial oversight bodies, and generated by a colossal machine of dis-information and deception, run by monstrously over-paid and criminally negligent men (yes) of impeccable appearance and, in key instances, sociopathic tendencies.

The sector's 'assay' office was the astonishing oligopoly of three global credit rating agencies (Fitch, Standard and Poor's, Moody's). The preparedness of these CRAs to sanctify increasingly dubious bundles of collateralised debt obligations (CDOs) is now a well-established fact (Tett 2009: 118 talks about 'the AAA anointment'). It is explicable, firstly, in terms of charges that they levied on the originators of CDOs and other securities, which accounted for the bulk of their revenue (Allen 2014: 106f); Tett reports that the fee for rating one CDO sometimes 'commanded a fee of $100,000 a shot' (Tett 2009: 119). It is also explicable in terms of the information asymmetry, where the purchasers of complex securities had little idea what they were buying: this problem was compounded by the fact, like 'priests in the medieval church, ratings agency representatives spoke the equivalent of financial Latin, which few in their investor congregation actually understood' (Tett 2009: 118). Thirdly, the CRAs evidently trusted the complex and expensive algebraic models in which they had invested heavily (ibid. f) and which operated in an intellectual climate that trusted econometric modelling and the (absurd) relegation of awkward economic and social realities, that disturbed those models, to 'externalities'.

Fourthly, as Werner Rügemer has revealed, the CRAs were intricately entwined with other actors in the financial services sector, indeed in two cases under the direct or indirect ownership of key Wall Street Players; S&P through McGraw Hill is linked to Blackrock, Capital World Investors, Fidelity, Vanguard, State

Street, Morgan Stanley; Moody's is owned by Capital World Investors, Fidelity, Vanguard Group, State Street and Morgan Stanley, with Warren Buffet as largest shareholder; Fitch is controlled by the French family concern, Fimalac, currently led by Marc Ladreit de Lacharrière, who also sits on the advisory board of the Banque de France, and the boards of Renault/ Nissan and several other corporations. The independence of the three CRAs is thus spurious; they are dominated 'by the largest asset managers and institutional investors … of the world' (Rügemer 2010: 4). Tett nevertheless suggests that the parent banks, as originators of high risk securities, would not shy away from finessing their 'products' so that they would better fit the models employed by their CRA relations (Tett 2009: 119).

However,this interdependence of CRAs and the corporate world of finance and commerce may explain the complacent, wrong-headed and in part fraudulent valuations of spurious securities in the wild west years of financialisation, but it does not explain how the same CRAs were left wholly unpunished by investors or public oversight institutions. Above all, the apparent discrediting (sic) of these credit rating agencies has not resulted in their marginalisation in either financial centres or in the finance ministries and central banks of sovereign states; rather they were allowed, utterly inexplicably, to stand in judgement over the creditworthiness of sovereign debtors in Europe and elsewhere, ushering in a totally unnecessary sovereign debt crisis through the down-grading of the sovereign bonds of peripheral states in Europe, the only beneficiaries of which were the financial institutions which short-sold bonds and arbitraged bond spreads.

Financialisation and Growing Inequality

Concern about income and wealth inequality has entered the mainstream. Where, 'until recently, inequality was a deeply unfashionable topic among academics and policymakers' (Haldane 2014: 2), today the OECD (2011), the World Bank

(2013 etc), the IMF (2014 etc) and the European Union all have research departments devoted to inequality and poverty; the Davos World Economic Forum devoted special discussion to inequality in 2014. Even more remarkable is that senior representatives of the Bank of England and the Financial Times acknowledge the contribution of financial services to the widening of income and wealth disparities. Mark Carney, the new Governor of the Bank of England, in a speech in May 2014 talked explicitly about the culpability of banks that were too big to fail; their 'unjust sharing of risk and reward contributed directly to inequality but – more importantly – has had a corrosive effect on the broader social fabric of which finance is part and on which it relies (Carney 2014: 6). The chair of the BoE's Chief Economist, Andrew Haldane, concedes that the Occupy movement, active since 2011, was right in its diagnosis of inequality and the disproportionate benefits accruing to the 1% (Haldane 2014: 2ff). Likewise, Martin Wolf, senior columnist of the Financial Times, singles out the financial sector as 'a potent driver of inequality':

'*this sector has obtained a substantial proportion of corporate profits in high-income countries and it has probably had a role, along with trade and technological change, in the shift in labour incomes as well*' (Wolf 2014: 187).

Carney, Haldane, Wolf and others cite 'fairness' and the erosion of 'social capital' through increasing inequality in their analyses, but also share the pragmatic, if belated, insight that inequality is bad for economic growth. The IMF staff paper by Ostry, Berg and Tsangaridis (Ostry et al. 2014: 4) concludes that inequality tends to stifle growth and that 'lower net inequality is robustly correlated with faster and more durable growth'. Admittedly, this is an insight long established among heterodox economists and sociologists, but it does demonstrate the distance traveled by the IMF and other institutions of the Washington Consensus.

In fact the corrosive influence of global, regional and national disparities of income and wealth and the accelerated trend of the last thirty years are well established within the literature of radical political economy and sociology and within the policy community encompassing socialists and social democrats. The correlations between income, wealth, resource, health and educational inequalities and the most common forms of social breakdown and delinquency have been robustly demonstrated by Wilkinson and Pickett (2009), Dorling (2010), Piketty (2014) and others. These correlations do not need to be rehearsed here. However, it is important to assert the corresponsibility of (liberalised) financialised capitalism for both damaging inequalities and for the 'deformation' of Europe's political economy (Huffschmid 2007; Leaman 2014) and for the extreme demand asymmetries of advanced economies before the great crash 2008.

Inequality and Debt

One of the grim ironies of financialised capitalism, monetarism and neo-liberalism is that, by promoting profit growth at the expense of real wage growth, they weakened the fundamental engine of real economic activity, namely disposable income and private consumption. Weaker growth of disposable income means relatively weaker demand for the products and services of industrial and commercial entrepreneurs. Confronted by stagnating trends of consumer demand and the dangers of overcapacity (lower capacity utilisation), the same entrepreneurs are – on aggregate – far less likely to invest in additional or improved capacity. The ratio of company investment to turnover/share capital falls, as does the overall investment ratio of the macroeconomy; investment as arguably the most critical pre-condition for the future dynamic growth of firm/ national economy is thus weakened. If one adds to this cocktail of weaker demand (by households and by companies) the ideologically driven reduction of state-demand, characteristic of Thatcherite roll-back policies, of the Maastricht Treaty and of the Stability and Growth Pact, and one has the key factors which both reduced the dynamism of Europe's productive economy, and which encouraged the alchemists of financial services to ramp up the pace of hyperleveraging and increase the mountain of debt within financialised capitalism.

As noted above, the debt mountain depended on persuading ordinary consumers to extend their mortgage-borrowing (equity-release, second mortgages), their use of credit cards and retail consumer credit) as the basis for securitisation. It was this extension of household debt (Figure 6) and the banks' appeals to the easy and instant gratification of consumer wants that drove consumption in the pre-crisis bubble years; more pertinently, consumer debt replaced real income growth as a driver of private demand growth in many European countries . As such it reflected the ongoing redistribution of real income away from ordinary households in favour predominantly of the top traders in debt-based securities and their derivatives.

Figure 6. Household Debt as Substitute Driver of Growth 1981-2009

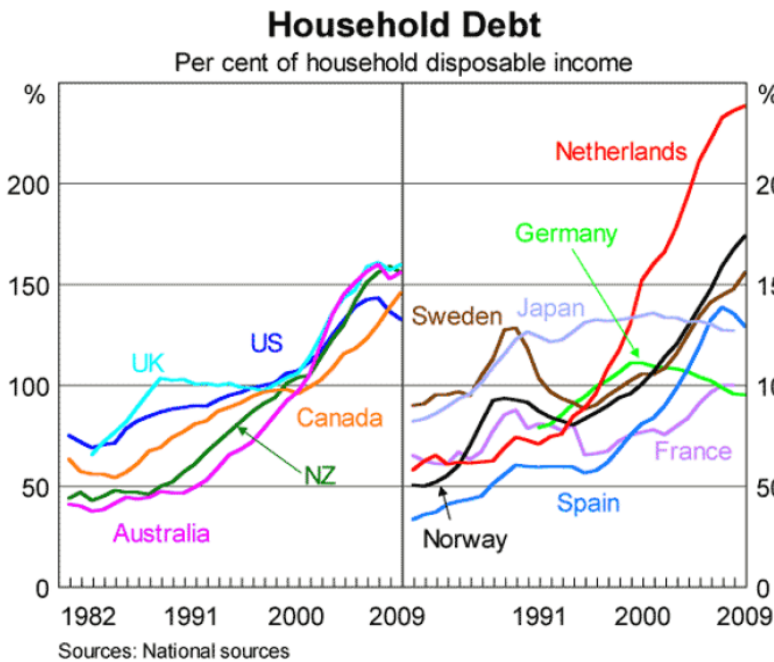


Figure 6 should be set against the well-known decline in the adjusted gross wages ratio (the proportion of wages and salaries to gross national income) which of course mirrors the equivalent rise in the gross profits ratio (Figure 7)

Figure 7; Gross Wages Ratio for Selected OECD Economies 1960-2011

New Norms of Economic Behaviour?

It is no coincidence that there has been an increased interest in behavioural economics and behavioural finance in recent years. The 2008 crisis should have buried the last traces of the efficient market hypothesis with its rational actors pursuing Pareto-maximising outcomes. Sifting through the debris of bad economics arguably demands the application of a range of analytical tools within the social sciences and should not be left just to economists to explain. This is not the context for exploring in detail the dramatic changes in social and economic behaviour that accompanied the critical paradigm shift of the last three decades, but the search for an alternative, re-regulated and sustainable political economy will require different norms and different mind-sets from those that allowed the worst multiple crisis in modern European economic history. The success of regulations depend critically on levels of compliance and thus on the degree to which the underlying norms of regulatory change have been embedded in economic and social culture. As studies in the fields of tax compliance (e.g. Braithwaite) demonstrate, variations in compliance cultures affect the overall success of particular tax jurisdictions and the degree to which cooperation between separate (European) tax jurisdictions can be achieved.

Beyond the irrational 'exuberance' of market behaviour (thus famously, Alan Greenspan; c.f. also Shiller 2009), exhibited in the 'herding instinct' and 'noise behaviour' of market actors, attention needs to be directed towards the erosion of the collective norms of social behaviour, to the emergence of socio-pathic trading (Enron, Subprime), of financial fraud (Ponzi-finance, LIBOR-fixing, insider-dealing, FOREX-fixing), of the immorality of tax and regulatory avoidance, the criminality of kleptocratic elites and of tax evasion, the normalisation of 'offshore' as the duty of corporate boards in promoting shareholders' interests, the ghettoisation of finance and financial/ corporate elites in high-security condominiums. Finally, the toleration by global elites (by and large) of extreme levels of poverty and social deprivation – behavioural patterns that are all too readily imitated by the new elites of emerging states in central and eastern Europe, in the BRIC economies and other varieties of authoritarian capitalism. REINVEST should certainly devote some of its research energies on the reeducation of current citizens as foundation for a sustainable, inclusive and fair set of societies.

The Core Tasks of Re-Regulation within the European Union and the Global Political Economy

For the sake of clarity, the recommendations for the re-regulation of financial markets and financial affairs will be organised around distinct (if clearly overlapping) categories;

- Banking and shadow banking

- Securities Trading

- Taxation and Social Levies

- A new international order of trade and payments

- A new regional macroeconomic framework for Europe

- Recalibrating economic relations, re-centering economies around welfare and use-values; ending the addiction to unsustainable financialised capitalism

Banking and Shadow Banking

The necessity of tighter banking controls is acknowledged by political elites, by mainstream and heterodox economists and by the populations of the advanced economies that have experienced directly (through bankruptcy, redundancy, foreclosure, destitution, migration), or indirectly, the results of the ongoing crisis in financial services and its wide-ranging tsunami side-effects. Several important reforms of banking supervision have been both put-into-effect or lined up for legislative approval. The European System of Financial Supervisors (ESFS) was established in 2011, with four specific bodies devoted to 1) banking supervision (the EBA/ European Bank Authority), 2) insurance and pensions (the EIOPA/ European Insurance and Occupational Pensions Authority), 3) securities markets (ESMA/ European Securities and Markets Authority) and 4) systemic risk (ESRB/ European Systemic Risk Board. However, to date none of these bodies has been equipped with effective powers, a process which requires unanimity among the EU28 member states and which could therefore be effectively blocked by the veto of individual member states.

Moves to increase the capital adequacy ratios of banks at the level of nation states and groups of states have been necessary and welcome. The status quo ante was self-evidently not an option. The overriding imperative of neutralising the risk of bank failure has encountered stiff opposition from the banking lobby and remains a major bone of contention in terms a) of the overall level of capital assets that banks must hold against, b) the quality of assets (their security/risk profile) and the ratio of, say common equity, Tier 1 or Tier 2 assets to the total stock of reserve assets, c) the timing of the gradual implementation of agreed changes and d) the role of credit ratings agencies (notably Moody's and Standard & Poor) in assessing the respective risk-profile of bank assets.

Basel III (the Third Basel Accord) is emerging as the lowest common denominator for CARs. It and its two predecessors represent voluntary standards for banking sector; Basel III looks set to be implemented inconsistently across developed economies, with a variety of contrasting interpretations of asset quality; states with a higher exposure to bank failure (Switzerland and the UK) look as if they will be stricter with the systemic shock-absorbers, going beyond Basel III's top guideline ratio of .15.5%. However, the Basel III timetable has been postponed from the original 2015 deadline for full implementation to 2019. A key argument used to justify delay has been the feared effect on real economic growth, which the OECD has estimated at between -0.05 and -0.15%; it would accordingly reinforce bank reluctance to lend, which – with state and household de-leveraging – is already contributing to the slump. Certainly, within the continued cluelessness of macro-economic policy across Europe, including arbitrary, untargeted injections of liquidity by central banks, any additional restrictions on banks will probably make recovery even more elusive. However, avoiding/ postponing radical restructuring of banks – even at this basic level of ensuring them against collapse – could accelerate a further a serious banking crisis and further recessions.

There is no clear consensus about the optimal CAR among independent critics of the banking sector; the banking lobby fears (rightly) that increases in CARs and reductions in leverage ratios will reduce revenue and profitability and thus affect the associated pay incentives of top managers and traders. This, however, is a very good argument for relatively draconian limits to the latitude of banks to borrow and lend. It is significant that a senior columnist in the Financial Times, Martin Wolf, suggests that an equity ratio of at least 20 percent is not unreasonable, agreeing with David Miles also that under 'certain not implausible assumptions the right level of capital might be 45 per cent of risk-weighted assets' (Wolf 2014: 242). Wolf also asserts that a leverage ratio of at most 10:1 or, 'in good times of six to one' would be a 'vastly safer system' (ibid. 252).This is radical stuff which acknowledges that 'the financial system is designed to fail' (256). The proximity of such strict limits to those proposed by Attac Deutschland (2013: 6) should be noted.

There was a fairly strong consensus among policy elites in the wake of the 2008-crisis that bank size and the combination of risky investment banking and risk-minimising retail banking under one roof should be addressed urgently to avoid the political (and economic) cost of 'too-big-to-fail'. However, the proposals of the UK Vickers Commission Report (2011) and the EU's Liikanen Report (2012) limit themselves to internal 'ring-fencing' of investment bank from retail bank operations, rather than legal separation. Both reports were swayed by the argument of the scale economies of large universal banks and the stability that diversity of activity provided. However, both reports arguably have the fingerprints of the banking lobby all over them and leave the inherited structural imbalances of the sector untouched, flying in the face of evidence pointing to the anti-competitive thrust of bank consolidation, the marked limits to bank efficiency gains from bank mergers (Haldane) and the historical advantages (pre-financialised capitalism) of a system with separate providers of diverse services (retail, mortgage, insurance, investment etc).

The case for both a radical separation of the banking services that are essential for the conduct of the cycle of saving/ investment/ production/ consumption from riskier speculative trading, and for the reduction in those aspects of investment banking that are 'socially useless' (Turner) is strong. In particular, the current role of investment banks in the wave of rent-seeking and tax-avoiding hostile mergers might be adjudged to be not just socially useless but economically detrimental; the most glaring, current example would be the manoeuvrings within the pharmaceutical sector, where research-intensive and commercially successful innovative companies are being put under huge pressure by hedge funds and asset-stripping rivals in highly leveraged takeover bids (See Crow & Ward 2014: 21). Providing both M&A advice and credit for economically destructive takeovers suggests the need for much more rigorous policing of mergers, both under the heading of ensuring competition and, in the case of the bio-sciences and pharmaceuticals, in the interests of promoting innovation. There is a growing body of evidence which indicates that mergers in key technological sectors reduce the R&D expenditure of the acquirer, increase the tendency to sweat newly acquired assets (qua IPRs) and blunt the thrust of innovation. The failure of both the Lisbon Agenda and Europe 2020 in their core objective of increasing R&D expenditure and innovation strengthens this case. (c.f. Mazzucato).

There is also a compelling case for the independent, democratically legitimated public monitoring of bank risk and compliance with regulatory statutes and norms, to replace the light-touch stance of the neo-liberal state and the permissive self-regulation by financial institutions and their branch associations. The particular role of CRAs as assessors of risk should be ruthlessly constrained, given a proven bad record, the opaqueness and unrealistic assumptions of their econometric models and the absurdity of seeking certainty of prediction in dynamic interdependent political economies. The substitution of private CRAs by a European Ratings Foundation, as proposed by the European Parliament, is a means of neutralising the formers' political influence but only with a corresponding acknowledgement of the limited heuristic value of any ratings.

The political case for the establishment of strong and state guaranteed public banks, with clearly defined roles for securing private savings and supporting targeted programs of investment in local and regional SMEs, supporting innovation, training and sustainable industrial policy, is persuasive, as a clear counterweight to anti-competitive, rent-seeking monopoly arrangements. This would specifically run counter to the ideologically informed campaign against state aids by the European Competition Directorate. This would also run parallel to a policy of returning privatised natural monopolies to public ownership.

Shadow banking, which evades regulatory control and avoids taxation through the abuse of offshore locations and vehicles, has no place in the management of the central tasks of economic and social reproduction. The hedge funds, private equity companies and special purpose entities which flout the norms of interdependent political economies for short-term, predatory gain should be marginalised or indeed banned.

Global stock markets are currently enjoying a 'bull-run', not because they reflect a new dynamism in global production and trade, but because the alternative haven of the bond market offers very modest yields for investment funds. The danger of an equity bubble is palpable. Apart from a renewed crash, stock markets are threatened by the increasing short-termism of share-trading, in particular by algorhythmic high velocity trading, and by the aggressive pursuit of shareholder-value through highly leveraged hostile takeovers by private equity companies, hedge funds and large corporations. Some stability could be restored to stock markets by deterring share speculation through reintroducing a high rate of capital gains tax on share-holdings below, say, 6 months, or by a blanket ban on high-speed trading platforms. The policing of insider-trading needs to be intensified, in particular through strong legal protection of 'whistleblowers' within the financial services or non-bank corporate sector. Such measures would require multilateral agreement among the advanced and emerging economies, as would the effective introduction of a long-overdue Financial Transactions Tax; the lack of pan-European support for the limited Eurozone FTT will arguably blunt its effectiveness.

The mayhem of global taxation remains perhaps the most important obstacle to effective reform of financial services, as described above. Tax evasion, tax avoidance and tax arbitrage have reached pandemic proportions within the corporate world, its high-net-worth individuals and its strategic mindset that makes radical political action, supported by global civil society, absolutely imperative. I have outlined key measures of taxation reform in several fora and provide here a bullet-point digest of key recommendations:

- States must agree collectively to minimum rates of corporate and personal income tax and to associated minimum standards for assessing taxable income and for managing tax-reliefs (e.g. a Common Consolidated Corporate Tax Base)

- States which complied with such conditions would be expected to exchange standard information about foreign registered companies and foreign bank-account-holders with their respective domestic tax jurisdictions. States which refuse to comply with such conditions (e.g. low- or zero-tax jurisdictions) should be subject to a punitive embargo regime

- Transnational corporations would be obliged to publish annual reports of key economic data relating to turnover, revenue, profits, royalties, transfer pricing etc. in an internationally monitored system of Country-by-Country-Reporting;

- The European Union should agree to a straightforward system of formulary apportionment of tax liabilities within individual member states, based on CbCR and CCCTB. This would address, at regional level, the key concern of the OECD around Base Erosion and Profit-Shifting (BEPS).

- The European Union would need to phase out the systems of 'flat taxation' currently in operation in several CEECs and reintroduce the principle of progressive income taxation; a tax convention governing harmonised tax rates for direct and indirect taxation would have to be added to the Acquis Communautaire, based on the acknowledgement, above all, that progressive taxation is the most effective means of adjusting income and wealth inequalities.

- The free-rider abuse of low corporation tax (Ireland, Baltic and Balkan member states; western Balkan candidates) would be neutralised;

- The tax dimension of 'offshore' would be eliminated; this includes the European headquarters of offshore arrangements (Luxembourg, Netherlands, London, Switzerland) and their respective dependencies and overseas territories.

- European and other advanced states should be committed to apply the principles of transparency and tax justice to trade and investment relations with the developing and emerging countries of the ACP group.

- Above all, the tax authorities of European and other states should simplify their harmonised tax arrangements, removing complexity, secrecy and opacity as the basis for wasteful and socially useless tax avoidance/ arbitrage activities by corporations, their accountants and their lawyers.

Conclusion

Financialised capitalism has generated the worst economic crisis in modern economic history as a result of deluded faith in 'market efficiencies' and an equally deluded belief in the dispensability of the state and of political mediation. The popularisation of market radicalism within policy elites and their academic supporters represents an intellectual and social catastrophe, the legacy of which will be felt for generations. What financialised capitalism above all achieved was a fatal addiction by the key economic actors in advanced states to an unsustainable mode of monetary accumulation which seemed able (temporarily) to provide higher returns on financial investments than those offered by the processes of the real productive economy (research, development, investment, production, service-provision, consumption, saving). The new system depended on a set of perverse incentives to survive: the constant generation of new debt, the dilution of real assets as collateral for debt, the colossal neglect of risk, indeed the sanctification of risk by worthless mathematical models, along with reward/ bonus structures which at best encouraged the neglect of risk and at worst encouraged criminal and sociopathic behaviour.

The seductive allure of high returns on Ponzi-style hyperleveraging and the chronic damage it has caused states and their citizens must, however, be seen in the broader context of the neo-liberal revolution and the degree to which the whole system of economic and social reproduction in the advanced economies has been deformed by permissive neglect and corporate 'licentiousness'. The privatisation of the natural monopolies of the advanced economies, held historically and for good reason in public ownership, provided the investors of the neo-liberal era with secure monopoly rents, guaranteed by generous regulatory regimes. At the same time, the growing concentration of key strategic sectors in the global economy (in mining, oil production and distribution, and in banking) was tolerated in the name of national or regional champions that could compete with other oligopolistic regional champions for investment and market share in the global economy. The monopoly rents facilitated by both privatisation and economic concentration compared favourably, by and large, with the returns from enterprises operating in a more competitive environment and with high R&D costs.

It is therefore unsurprising that investment funds (pension funds, social insurance funds, sovereign wealth funds, private asset management funds) grew to favour the higher returns of monopolies, oligopolies and monopsonies and were subsequently lured into the even more generous (but unbelievable) returns offered by the big banks, which – at the height of the boom – were talking blithely of RORs of 20-25 percent on capital. The fund portfolios thus manifested an increasing preference for the 'easier' returns; in the case of pension funds the revenue from higher yielding monopoly rents could be deployed to compensate for the growing demographic asymmetries of the advanced economies, most notably in Europe. Many pension funds have also ventured into the twilight zone of tax-avoiding hedge funds (c.f. Johnson & McCrum 2014)12.

The deformation of Europe's political economy (Huffschmid 2007) cannot therefore be reversed by financial reregulation alone. Corporate abuse of weak regulatory regimes is merely one element of an institutionally corrupted mode of accumulation which has manoeuvred millions of pensioners into a more intractable form of dependency. Recalibrating European capitalism, reversing the inequalities and underinvestment of the current system, will take considerably more imagination, solidarity and wise foresight than tightening up on bank regulation and international taxation, when that task will be challenging enough. Even more important is the need to neutralise the deformation and corruption of economic behaviour by nurturing individual capabilities within the dynamic framework of intra- and trans-generational global justice.[34]

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Discussion 2

Question: Don't you think that the collapse of Lehman Brothers was just a scapegoat tactics to save all the too big to fail banks? To preserve and get rid of this opportunity to totally reform and change financial architecture of the world?

J. Leaman: I don't subscribe to a kind of conspiracy theory there. There was a great deal of confusion within the US Treasury and the Federal Reserve. They have clearly mismanaged the subsequent process. They have capitulated to the banking lobby in not imposing rigorous controls on bank operations. Whether the Lehman Brothers collapse was part of a plot to pre-empt a more rigorous re-regulation, I couldn't say. Your guess is as good as mine.

Question: I find it amazing to hear from you as a UK professor a lot of measures like elimination of offshore, free-rider abuse, reduction of complexity and so on. It sounds like the socialist programme of Piketty which is not yet implemented in France and I think in England with Cameron, even the Tobin-tax could not be applied.

J. Leaman: I will admit to being slightly unrealistic here. What has happened so far in terms of re-regulations has been a set of measures that have been taken at a national level instead of a

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European level. The beginnings of a kind of European supervisory network has not produced any actual results. The proposed banking union will be a very weak beast. I am setting the stall-out to present the desirable. It is not just a problem of financialized capitalism. We have a form of capitalism which has become far too used to monopolized incomes, easy money and easy returns. The title of my paper is "A fatal addiction". It is not just a fatal addiction to casino capitalism and banking products, but also a fatal addiction to easy money offered by privatized utilities, monopolies, and concentrated wealth. All of these contribute to lower levels of investment and innovation. This is a critical problem with the whole nature of social reproduction and investment needs. I don't want to leave my grandchildren with the kind of mess we have at the moment. I tend towards achieving at least minimum standards within a decent capitalism as a starting point. But I agree that the challenges ahead are enormous and there are huge obstacles which are not made any better by the continuing austerity. This austerity breads fragmentation which leads to political resistance blaming the others. It does not promise well for the future of collective solutions. These are indispensable. We cannot do without harmonized standards which are collectively monitored.

Question: What institutions are you putting your hope on? The current policy with regard to regulating the banking sector, is that the ECB has this task as an add-on. There is a lot of discussion whether this can work.

J. Leaman: I think we need a new integrated policy architecture which links fiscal policy with monetary policy which subordinates monetary policy to democratic processes and obliges a monetary policy to observe the imperatives of fiscal poly and of a sustainable growth and employment. We cannot afford a separate monetary authority. The lack of coordination and the arbitrary way in which Draghi is buying securities on the open market does not promise well. So you would need a reform of those macro-institutions at a European level. You would also need some fairly radical solutions to the recovery process. You cannot have reform without recovery. This will only take place if something dramatic happens in the form of a debt jubilee of all debtors in Europe or helicopter money which is targeted, or State printed money that goes into the improvement of public goods and creates employment.

Question: How can we orientate savings towards productive real economy investments? Is it sufficient to ask banks for more transparency? Is it necessary to keep recently nationalized banks in the hands of the States?

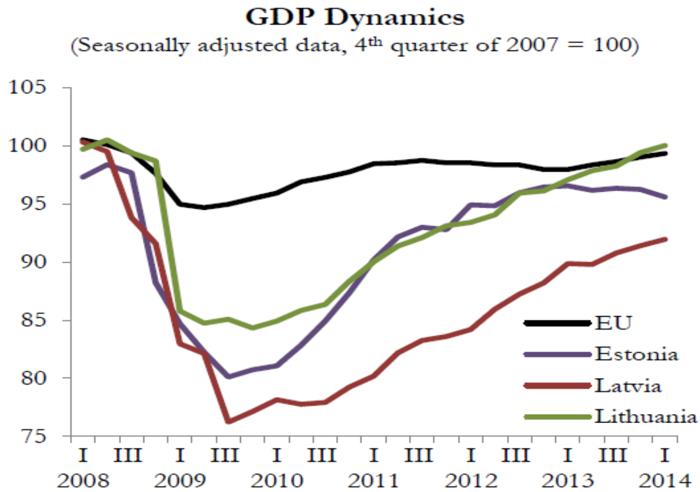
J. Leaman: The rechanneling of social savings into real investment is a big challenge. Hopefully it will be achieved by raising the price of speculative and unproductive banking activities. It could be done with a more targeted process using public banks and creating a strong preference within public banks to support small or medium size enterprises. However, it is a challenge that global savings which are currently being circulated around candy-floss markets, chasing easy returns, need to be rechanneled into those circuits which actually improve the base assets of a country or a region and improve the welfare of its citizens. Currently, the banks are producing the opposite. They channel it away from real investment and innovations. They encourage destructive activities instead of constructive activities.

The trend of liberalization in the new member states: The case of Latvia

Tana Lace, Riga Stradins University

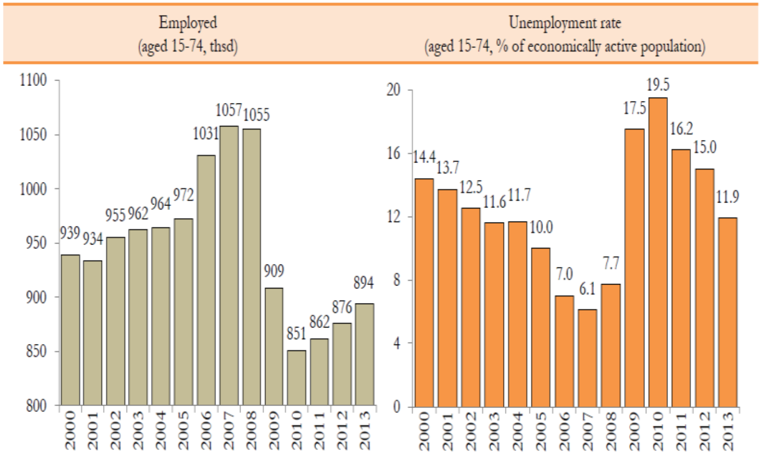
I will discuss the case of Latvia. Since we became independent in 1991, we had a strong path of liberalization. We have had right-wing governments all that time. That is not because our citizens are ideologically right, but because of our historical path and our ethnic divisions. The left-wing is associated with Russia, unfortunately, because the Russian ethnic group is more oriented towards Russia. This is not the case in reality, but it is the feeling and behaviour during the elections. Meanwhile, the Latvians, who are closer to Europe, are associated with the right-wing.

Latvia is quite a small country. At the beginning of 2014 there were 2 001 468 people permanently living in Latvia. In July 2014, this decreased to 1 995 600. During the time period from 2000 to 2013, 259 000 people emigrated from Latvia and have not returned. This is a big challenge for Latvia. Mostly working age people and young families are leaving. This is a problem for the market and the labour force. Before the 2008 crisis, our politicians were talking about the Latvian success story because we had a high GDP rating. This success story can be attributed to a demand that relied on credits in the banking sector and a construction bubble. This success story had very harsh consequences for most of the population. Our government again said that we are the fastest growing country in the EU. But, as you can see from this graph, our level is still low compared to our pre-crisis level.



The GDP does not explain everything, however. It does not reveal what is behind this statistic. On these two figures you can see the employment and the unemployment rate. It is said that we have a lower unemployment rate than before the crisis. In 2010, 19.5 percent of the economically active population was unemployed. This decreased to 11.9 percent in 2013. This is mainly due to the emigration of a great number of people. If all these people would have stayed, these figures would be very different.

Employment and Unemployment



During the crisis, they tried to keep the average gross monthly wages as low as possible. In order for its economy to be competitive, the government argued, Latvia required a cheap labour force. The labour force decided different and moved out of Latvia to other places. So our government started to think it over, and maybe it will change. Our minimum wage is kept very low. Due to the big flow of emigration, our government, in agreement with entrepreneurs, started to increase this bit by bit. This year, it is already increased, we have 320 euro per month.

In Latvia, we have very low regulations. Of course we have a taxation policy which is a strong instrument for regulation, but we have a very low untaxable minimum of around 70 euro per month. Moreover, we have a flat income tax rate of 24 percent which is taken from the minimum wage and the highest salaries alike. You also have to pay 11 percent in social taxes.

We have a very high proportion of people who are working on this minimum wage. It is now decreasing a little bit. Due to this taxation system, many private firms are not paying taxes. This has consequences for employment.

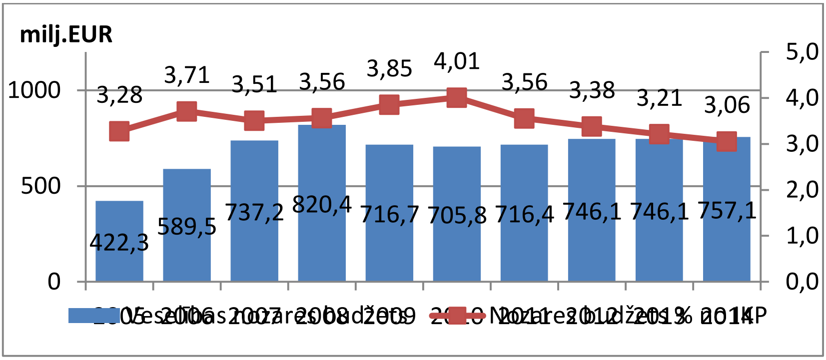
There were some useless discussions on progressive taxation systems. The politicians and parties in government are saying that progressive tax rates will drive people out of the country. People with the highest incomes are not paying income tax at all. This is defended because they have already contributed enough and their possible leaving the country poses a threat. That is quite a stupid explanation. “We cannot put high taxes on the wealthy people, because they will disappear.” That is how we use the taxation policy for the regulation of the market.

In social policy issues, our State tries to rely on an insurance system to a large extent. Unemployment, maternity leaves, sickness benefits, and pension system are mostly made on an insurance system. This means that when you are working and paying taxes, the duration of these benefits are the same for all, but the amount of the benefits depends on the taxes you pay.

Such a situation that puts more on insurance, shifts the focus from equality and solidarity towards individual responsibility. If you cannot rely on the insurance, then you can rely on an old law from before the Second World War stipulating that if you are not able to pay for different kinds of risk or social services, then your bread winner is responsible for that. If he or she is not able to pay, then the municipality is paying for the social services. Social services in Latvia is understood in very narrow ways: social care, social and occupational rehabilitation, and provision of assistive technological devices for people with disabilities. Child care, elderly care and such are not included in the responsibility of the municipality but are subject to the open market. The problem is that people cannot afford this care in the open market.

Our politicians were very happy when Romania and Bulgaria joined the EU because we were no longer the last one in the EU ranking. This reasoning is of course stupid since it does not improve our situation. Our politicians in government do not like to publish these figures and data concerning social exclusion and indications of poverty. The at-risk-of-poverty rate is 60 percent below the median incomes. In crisis situations this rate was lower of course. The government said that poverty was going down and the situation was improving. Another problem for analysts is that we still do not have statistics and comprehensive information about social services provided in local governments for groups at risk. We have statistics in a very limited way on gender and age groups. During the crisis all the budgets for research were taken away since social sciences were not deemed necessary. For economic growth we only need mathematics and similar sciences.

A good example of liberalization is the marketization of the health care sector. Health care is one of the top issues in public opinion polls on poor people questions. In the health care sector, what are the roles played by the state and the market? In this figure, the blue bars account for the GDP in million euros and the red dots for the percentage of GDP spent on health care. Even though our economy is supposedly growing fast and the situation is improving, they are decreasing the percentage spent on health care which is a critical issue for the entire population.



During the crisis, this situation was deteriorating. The consequences on the health sector were severe. In 2009 considerable changes were rapidly implemented in the health sector resulting in (1) a considerable reduction of the number of employees working in the health sector and of the number of institutions, (2) a minimum scale of health care services—which remains undefined and depends on the politicians' budgetary decisions—, and (3) the reduction of the state or municipality owned hospitals from 106 in 2006 to 39 in 2010.

This is not only a serious problem for poor people, but also for people with average incomes. According to EU-SILC data, there has been an increase in the ratio of individuals who did not undertake the required medical examinations due to the insufficient accessibility of health care–from 10.1% in 2008 to 16.2% in 2011. If in 2008 6.8% of the respondents recognised that the service was inaccessible due to its high price, then in 2011 this reason was mentioned already by 14.7% respondents.

Out-of-pocket payments are increasing. They amount to around 40 to 60 percent on top of the social tax of 11 percent. The main changes that can be associated with the shift towards a market-based provision of healthcare include (1) the reduction of the share of public financing in total healthcare financing, (2) the increasing role of private insurance schemes which most people cannot afford, and (3) out-of-pocket payments in addition to unofficial payments dating from the Soviet era for better care in operations.

Current discussions on the topic of healthcare evolve around the provision of health care for children, for elderly, and the kind of services that should be guaranteed for the people who do not pay taxes and are not able to work. Would working people who are not paying taxes be interested in paying taxes? A second topic of debate is the introduction of compulsory public health insurance. To quote from a proposal of our previous Prime Minister Dombrovskis, '*I believe that the only solution is to substitute the outdated system steeped in socialism with up-to-date health insurance that operates in the conditions of competition and a free market. The state will buy or at least in part finance the insurance policy for the socially vulnerable groups. There will be an additional opportunity to purchase policies of a higher class, in line with the demands and possibilities of each individual*.'

How can social services work with the market?

Patrick de Bucquois, President of CEDAG, the European Council for Non Profit Organizations, and member of Social Platform and Social Services Europe

Introduction

First of all, let me thank the organisers for having invited me one more time to join your group in this very important and interesting “Alliances” project.

In order to clarify the point of view I am speaking from, let me speak a little bit about my own background. As a lawyer and an economist, I feel at home with the kind of exchanges we had today. I think it is always useful to have a dialogue between those two areas. I have also been working six years as a researcher, and here again, I can only appreciate the dialogue we are having today between researchers and practitioners.

Finally, I shall speak rather from this last point of view, i.e. as a “practitioner”. Although I have a full-time appointment in Caritas Belgium, I am also a member of UNISOC and UNIPSO, two Belgian federations bringing together the employers of the non-profit (or rather “social profit”) sector.

I am also a member of CEDAG, the European umbrella representing the cross-sectoral interests of the non-profit sector, as well as of Social Services Europe, which represents most specifically the non-profit service providers.

I plan to divide my presentation in three parts :

- Setting the scene : how do we define “poverty”, what are the evolutions in this respect ?

- Some “building blocks” : how do we define the “market(s)” ? What are the specificities of non-profit organisations (NPO’s) in general, and those providing social services in particular ?
- Finally, I shall advance some elements of an answer to the very broad question “How can social services work with the market ?”

Poverty, social cohesion and convergence

Poverty is a multidimensional phenomenon indeed, and any attempt at giving it a clear-cut definition is due to fail. However, I believe we also need to define it, however unsatisfactory such a definition might be, if we want it to become a political issue - and I take for granted that is also what we want, at least us in this room.

Such a definition has been agreed on at European level, even if it has evolved over time.

Originally, as you may know, the definition adopted was based on the “poverty count”, i.e. the proportion of (legally residing) people whose income does not reach a threshold amounting to 60 % of the median income, while taking into account the family situation. This was defined as the “At Risk Of Poverty” indicator (“AROP”).

Later on, two extensions were given to this definition :

- People living in “material deprivation” (i.e. lacking a number of “basic” items) ;

- People living in “jobless” households (i.e. with “low work intensity”).

With these two extensions, the indicator has become “At Risk Of Poverty and social Exclusion” (“AROPE”).

I shall not enter here into the debates on those definitions – let me just recall that one of the 5 headline targets of the so-called EU "2020" strategy aimed at reducing the number of people at risk of poverty and social exclusion from 80 to 60 million from 2010 (2008 data) to 2020 (2018 data), i.e. a 20 million, or 25 % decrease. Instead, this number increased with 7 million between 2010 and 2012.

But this is only one aspect of a much more worrying general evolution. Among the "fundamentals" of the European project is the objective of an "Ever closer union between the people of Europe", as stated in the preamble of the Rome Treaty. This ever closer union can be considered as an aspect of social cohesion and can also be translated, in quantitative terms, into "convergence". "Convergence" means a joint progression towards more and better "achievements", to adopt Amartya Sen's terminology, with the worse-off "catching up" without necessarily having to deprive the better-off of their wealth.

Convergence can be assessed between people, between Regions and between member States. The worrying point is that since a couple of years, and for the first time since the creation of the European Economic Community, we now have divergence instead of convergence at all three levels. This represents a major threat to the whole European project, as we can only convince people to jump into it if it can offer them reasonable perspectives of a better life.

If we now turn to the world at large, the picture is slightly different. As you know, some progress could be booked according to the "Millenium Development Goals", mostly because of the improvements of the living standards in large countries such as China. But globally speaking, it seems there is convergence at global level indeed.

The question thus is: why and how did we fail, as Europeans ? And what is the role of social services in this respect ?

This leads me to the second part of my presentation.

Social services, non-profit organisations and the market

Like poverty, social services are not easy to define. NACE codes offer a possible categorization, but they have their limits as well. And once again, I shall not enter here into this debate in order to concentrate on the main issue.

Let me rather refer to an important European initiative adopted a couple of years ago, i.e. the "Active inclusion" strategy . According to the communication which defines it, "active inclusion" is based on three pillars :

- Adequate income support
- Access to quality services (including social services)
- Inclusive labor markets.

Social services can be provided by public, private non-profit (NPO's) or private for-profit organisations.

In principle, NPO's share a common feature: they are key drivers of citizenship and democracy, as they provide one of the most important and accessible space where citizens can meet and exchange on social issues. Of course, this is an ideal view, and we are all aware of the extreme diversity in this field, with many "fake" NPO's behaving like private for-profit companies or, at the other extreme, as mere instruments in the hands of public bodies. In many cases as well, financial or other challenges are requiring a huge energy, leaving little space for such exchanges. However, it remains true that the very way of working, the very "DNA" of NPO's makes them key contributors to civil dialogue, not the least because of their (in principle) democratic decision-making process.

On top of their contribution to citizenship, many NPO's are also major employers and service providers. Each country has its specificities in this respect. In Belgium, for instance, we succeeded in creating cross-sectoral platforms grouping together all main employer organisations and federations of public and non-profit social services, among which UNIPSO and UNISOC , and those platforms are now fully recognized as partners in the bi-partite social dialogue at national and regional level.

At European level, hardly anything has been done in this respect.

On the contrary, a new concept is now focusing attention, i.e. "Social enterprises", as illustrated again by the so-called "social business initiative" .

According to the official narrative of the EU Commission, "Social enterprises" is a broad concept encompassing not only the whole field of social economy enterprises, particularly non-profit organizations, cooperatives and mutualities, but also other for-profit private enterprises claiming to engage in social activities.

In concrete terms, however, we can only notice that out of the three concrete strands of this initiative, i.e. "access to finance", "visibility" and "new legal instruments", only one is applicable to non-profit service providers, i.e. visibility. They are totally absent from the other two, much more important strands. Knowing NPO's are representing 80 % of social economy enterprises, it is hard to understand that they are indeed "encompassed" in this initiative.

Even worse, there is no willingness from the European Commission to even recognize this major role of NPO's in the European social model. CEDAG's main "raison d'être" is the adoption of an European statute for NPO's, as was the case for European companies ("Societas Europaea") and for cooperatives.

This priority can be justified in two respects :

- The first one is more practical : two years after the adoption of the statute for European companies, only six such companies were created. In the non-profit sector, there are thousands of such organisations working cross-border, especially in border regions, and the diversity of national statutes is a source of complexity as well as of additional costs. There is thus clearly an economic case for an European statute, which is, by the way, optional ;

- The second one is more important, as it deals with concepts and representations, which Jean De Munck rightly mentioned this morning as a major function of legislation. This function should never be overlooked. I am always struck by the illiteracy not only of the population at large, but also of high-level European civil servants, about the definition and role of NPO's. Very often, people think such organizations cannot make profits – which is absolute non-sense, as it would condemn them to marginality. The point is, that NPO's are fully living up to the so-called "non-distribution" constraint, which is also called "asset lock". This means the assets of such organizations may never benefit their members. Such a constraint is fully binding for NPO's, less so for cooperatives. Why is this so important?

An explanation can be found in the presentation made earlier today by Jeremy Leaman, i.e. a major share of the surpluses of today's capitalist societies does not occur anymore on the markets for products and services, but on the (meta) market of mergers and acquisitions.

The reason why the "non-distribution" constraint is so important is that it immunizes almost fully NPO's against the risk of hostile take overs, which is not the case for other so-called "social enterprises". The threat of such hostile take-overs is a major obstacle against any serious involvement of a traditional company in the field of social services, which provide, by definition, very small return on investment (ROI). Of course, the picture is more in “nuances of grey” than black and white, but it remains true that the very legal structure of NPO’s put them a position to fully deliver on their potential. This provides a first answer to the question asked before : NPO’s can work on the market by remaining, to a large extent, “outside” the (second tier or meta) market of mergers and acquisitions, securing their position and their independence for the implementation of their key missions.

How can social services work with the market?

To end up, we should also define more precisely what we mean by « market ».

We heard today a very impressive presentation by Laurence Fontaine, on which I can hardly expand. Michel Debruyne, also mentioned the famous French historian Fernand Braudel, who also provided authoritative definitions of “Capitalism” and “Market”, to which we could also add “Liberalism” to complete the picture.

Once again, I shall not expand on this, but rather mention a series of issues and processes which in which we can address this question in a more specific way.

The first one took place a couple of years ago at EU level with the developments about the notion of “(Social) Services of General (Economic) Interest” (SGI’s), of which an important subgroup clearly matches what we are here talking about. SGI’s are sometimes also called “public services”, but this might be misleading as SGI’s may not be defined from an “organic”, but from a “functional” point of view. In other terms, their “public” nature does not derive from the fact that they are provided by public bodies, but from their mission, which is of general (or public) interest.

Those communications were published in a context where the social dimension of the European Union was taken much more seriously than has been the case during the last 10 years. It triggered major progress on the conceptual as well as on the practical level. It also helped to make more clearly the case for social services during major debates such as the regulations on State aid, on public procurement or on services in the internal market (the famous "Bolkestein" directive).

Unfortunately, this very expression has almost disappeared from most official EU documents, which shows the absence of a strategy and the lack of ambition or the previous European Commission in this respect.

Another more recent and promising initiative was taken by the former Commissioner for employment and social affairs, Laszlo Andor, the Social Investment Package (SIP).

In his communication, he clearly makes the case for a more positive vision of social spending as a possible "investment" in "human capital" (whatever you think of this expression…). NPO's are major providers of health, education and social services, most of which can be regarded indeed as "investments" rather than mere current expenses. However, we should remain careful with such an approach which has its limits, not the least because it could also justify cuts in social services that would less obviously qualify as "investments", such as the care for the elderly.

Finally, I would also like to stress an initiative aiming at promoting social dialogue in the field of social services at EU level, led by the member organisations of Social Services Europe , the PESSIS project, Two phases of this project have already been funded by the European Commission. Social and health services are indeed the main sector where no social dialogue takes place at EU level, and this is a source of concern for many. It appears now that progress could be made in this respect at sectoral as well as at cross-sectoral level, possibly in collaboration with CEEP which is one of the two cross-sector representative of employers at EU level and is considering expanding its remit to NPO's.

To come back on the issue of re- or deregulation mentioned earlier today, we need to pay attention to the "better regulation" agenda of the European Commission which too often (and probably purposely) amounts to "deregulate" rather than "better" regulate. However, I do not agree with Robert, he said that regulations should be simple, as they can only mirror the complexity of the evolutions they intend to regulate. This is particularly clear in the field of financial services, where innovation has led to such complex instruments that it is impossible to enact meaningful regulations without a serious strategy and a proper investment in skills and expertise.

Finally, an important contribution to the promotion of social services lies in a renewed investment in the social dimension of the European Union, especially through more integration and a re-balancing of economic governance with social governance. We have to make sure that the forthcoming Commission will be more receptive in this respect than the previous one. A positive evolution also lies in the reinforced role that is likely to be played by the European Parliament, which succeeded in taking the lead in the process leading to the appointment of the new Commission at the expense of the European Council.

Other initiatives need to be launched at global level, as the European Union is an ever smaller part of the whole picture : the post-2015 agenda, OECD's initiatives on tax havens, the Transatlantic Trade and Investment Partnership (TTIP) are some challenges which can have huge consequences for social services in the European Union. But this is another story.

Question: are not NPO's acting as "Trojan horses" of privatization ? Should social movements redefine their relations to NPO's and, if yes, how ?

P. de Bucquois: As said earlier, we should not be naïve about NPO's, which may not live up to their responsibilities. However, blaming the whole sector will never help. We should rather invest time, competence and energy in a reinforced dialogue between social actors, not the least through social dialogue. Such a dialogue can only be mutually reinforcing. Another example is the issue of migration where, as was also mentioned earlier today, a lot remains to be done in some trade unions.

Finally, I can only insist on the need to invest better and more in information and communication, as Amartya Sen once more explained very convincingly in his famous "Poverty and famines" : he showed that, at the time of the big famine of 1943 in Bengal, there was enough food for the whole population. The main reason why the situation has never been properly assessed by decision-makers was the absence of political accountability, which, in turn, resulted from the absence of a free press. Free press is thus a key determinant of democracy as well as of prosperity. We therefore also need to invest more in this direction.

Democratization of the market

Renaat Hanssens, ACV-Research Department[35]

I will discuss three questions: (1) What are the main threats in marketization in your country? (2) What are the consequences for households and the rights of workers? (3) What are possible remedies: what kind of regulation is necessary?

What are the main threats in marketization in your country?

In almost every country we see that the market module is abused in fields where other approaches have proven to lead to better results. An example of this is public transport. In the European Commission there is a liberal, not to say neoliberal, ideology dictating that privatization is always desirable. Public transport is an example that proves this kind of reasoning wrong. If you think of public transport in the UK, it has huge problems. Also in Belgium this liberalization has provoked huge problems by splitting up infrastructure and the transportation company. A very bad example is also the tendency of marketization of health care in the Netherlands. In Belgium, we now have governments at the regional and federal levels. At the regional level, the first goal in the declaration of government is to go for 'prospering enterprises'. Prospering enterprises, in the government's view, will trickle down to benefit society at large. The market believers forget that besides market relations other principles such as solidarity and citizenship are important. The market model is usurping areas in society where other models should prevail.

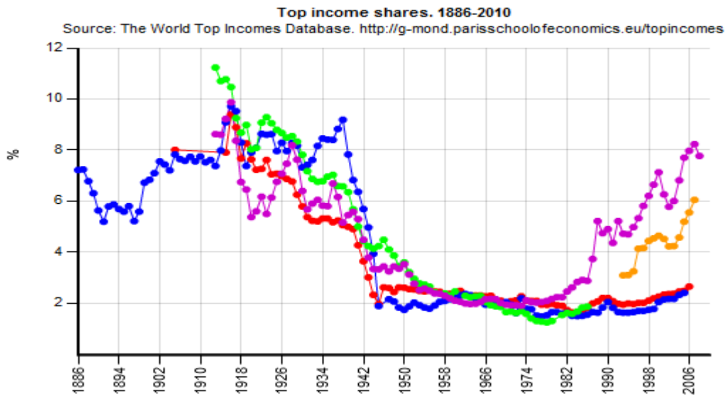
[35] ACV is the Flemisch Christian trade union

If we narrow the discussion on the market down to the economic sphere—the domain for which it is meant—, it is evident that you need economic regulation. Examples of classic economic regulation are access to professions, licenses, anti-trust regulation, accounting rules, food safety rules and so on. It is less evident that we also need regulation where economic power distorts the function of the market. What we see, for instance, is that big supermarkets have the power to set prices at the expense of small producers. The electricity market is a very good example of markets that do not function well without decent regulations. The labour market is another clear example. To conclude provisionally, the market model must be limited to the field it is meant for and it needs regulation to function properly. There is economic power embodied by lobbies and big capital that tends to distort the market. Finally, regulation must be targeted. According to Adam Smith, over-regulation of the market results in distortions as well. Regulations should not protect narrow group interests and create a duality between insiders and outsiders. In Greece for example, there were quite some examples of over-regulated market niches.

Threats in marketization: the labour market

Power threatens equality in consumers and producers markets as we have seen. In the labour market, power threatens equality even more. From the very start, there is no equality between those who have only their talents and work capacity to earn a living and the possessors of capital. Within the group of workers, talents are also unevenly divided. Marx analysed this in a thorough manner. This imbalance is common knowledge in Western societies. Yet, there are still people who are convinced that Marx had nothing much to say. These liberal economists think that you can rely on pure market principles to regulate the labour market. After 150 years of social history in industrialized countries, liberal economists still rely mainly on the pure market model to make recommendations on the labour market. Of course, they are heavily applauded by corporate lobbies and the academic mainstream. You can say that economists at the European Commission who are supposed to be smart, are short-sighted. Pure market mechanisms in the labour market leads to inequality as is evident by the graph which shows the share of income going to the top 0.1 percent.

Share of income going to top 0.1% (1886-2010)



Consequently, if people start at an unequal position in the labour market with an advantaged position for capital possessors over common workers, you need to protect the latter. The labour movement struggled for labour rights and collective bargaining and other key victories in the social struggles of the last 130 years. If you look at the Troika record in crisis countries like Greece and Portugal, we see (1) that sectoral and inter-professional collective bargaining are under threat, (2) the abrogation of sectoral agreements, and (3) the promotion of individual and firm level bargaining. We also see that the European Commission stubbornly refuses to include enforceable labour clauses in trade and investment agreements because this is important for the trade partners of the EU as the labour rights in the rest of the world are less developed. The European Commission only looks for mechanisms to have discussions when there are problems. For instance, Korea has a free trade agreement with the EU which contains a sustainable development chapter that includes the promotion of the core labour conventions of the ILO. However, the lack of sanctions on this chapter makes this a very weak instrument. The EU cannot sanction the Korean government for its continued oppression of unions in an aggressive way. The EU can only talk about this.

In the wording of DG ECFIN you find clear examples of its public servants' way of thinking. The following quote opens the eyes, "Higher replacement rates and longer duration of unemployment benefits may increase bargaining power of unions, leading to higher wages." This is quite a clear example of how some people at the Commission think: you should lower unemployment benefits in amount and duration in order to decrease the power unions and wages. The same goes for the Commission's opinion of Employment Protection Legislation (EPL) which holds that good EPL raises the bargaining power of the employed and their ability to resist wage cuts. You could wonder who is speaking here: Business Europe or the European Commission? They are quite close sometimes. So it's an ideological approach which is also reflected in the "country specific recommendations" (CSR). In the CSR for Belgium last June we found a very clear recommendation to change—they want to say abolish—the indexation system which is a sectoral agreement, not a law. So, they want to get rid of this sectoral agreement. They also suggested improving professional mobility. Although they don't explicitly state this, I am sure they want to add "by diminishing labour protection". What we also see, apart from what the European Commission does, is a direct attack on the right to strike by employers organizations at the ILO. In contrast with the right to unionize and collectively bargain, the right to strike is not included in the core labour conventions. For social philosophers and lawyers, it is clear that you have the right to strike which is an important tool for unions to make a point. For our union it is the last weapon we use when employers or the government as an employer is very stubborn, we need the right to strike. Otherwise we lose one of our most important arms.

The Flemish government and the Belgian government—both exclusively made up of right-wing parties—reproduce the discourse of the European Commission. Our wage indexation system is under pressure, collective bargaining at a firm level is favoured which results in a lack of negotiations in plenty of Small and Medium Sized Enterprises, and there are very aggressive attacks on trade unions as a counter power in the labour market. Until now we had unlimited unemployment benefits which are under pressure. They want to limit unemployment insurance to reinforce a flexible supply of labour. The unions, in their view, hamper flexibility and introduce rigidity. Their power must be diminished in order for the labour market to flourish with more flexible wages and jobs.

The European Commission launched the REFIT-programme to investigate the necessity of regulations which companies have to deal with, in particular in the field of safety and health at work. In the meantime, new regulations have been frozen: a concluded hairdressers' collective agreement on health and safety has been blocked, as well as the recognition of new carcinogen products.

A final example of threats of marketization is the TTIP. In the spirit of employers, the ultimate goal is to create one transatlantic free trade zone with as much harmonization as possible between Europe and the US in as many fields as possible. This harmonization is expected to result in new rules in between European "severity" and US "laxity". We, as unions, think there should be some harmonization, but the US should then firstly ratify all the core labour conventions, since we consider them basic human rights. If this harmonization does not occur, however, European norms are under pressure because EU companies will have to compete more strongly with US companies which enjoy less regulations and lower paid labour forces.

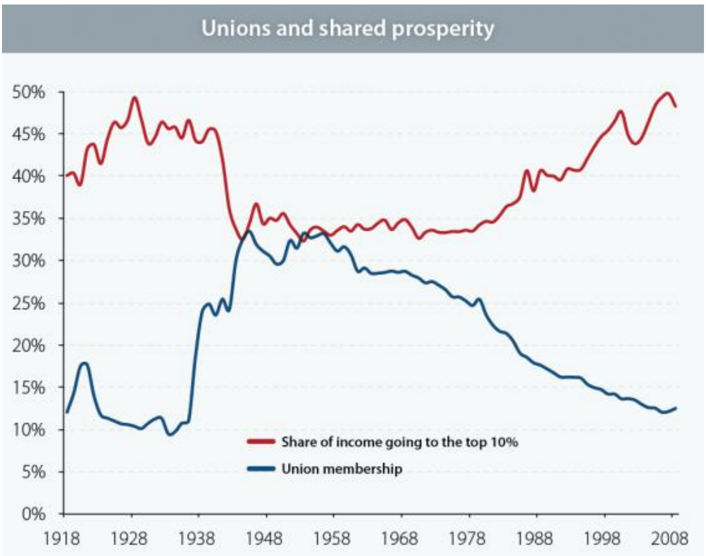
Consequences for households and rights of workers

Basic instruments to protect workers in the jungle of the free labour market such as the right to collective bargaining at the central level and the freedom of association are under pressure. This will result in a depressed aggregate demand. This is what we have seen in the US and Japan: a vicious circle of low wages leading to permanent economic stagnation, high unemployment and a permanent pressure on wage growth.

Possible remedies

First of all, we demand an unequivocal recognition of the necessary role of unions as counterweight to the power of capital. This blind spot of the EC-bureaucrats must be healed. Universal unions are a second possible remedy. In Belgium, in contrast with many other countries, we have quite good unions because we have the right to defend both the employed and unemployed, and we pay the unemployment benefits. In most other countries, unions defend only the interests of workers. As they are democratic institutions, they have to serve the interest of their (employed) members above all. Consequently, there is a risk that the voice of outsiders is not taken into account properly. This is one of the reasons for the dualization of the labour market in many countries. Who defends the mini-jobbers in Germany, for example?

The important role of strong unions should not be underestimated. It is very obvious that there is a direct link between the degree of unionization and equality. The following two graphs show this correlation. The first one is based on data from 16 OECD countries between 1966 and 1994. The second graph reveals the inverse relationship between the degree of unionization and the share of income going to the top 10 percent in the US.



Apart from strong unions which guarantee a limited inequality of market income, a redistributive tax policy is key to construct societies with a large degree of net income equality. Democratic political process must remediate market failures. Redistribution alone is not enough: 'society of equal opportunities' requires strong government, creating equal chances for all, through well-functioning education system, public health, accessible public utilities (transport, water and energy supply, affordable participation in sports and culture…). A redistributional system built to foster an inclusive society implies the supply of these public goods. Redistribution always consists in a large degree in 'redistribution in kind' by free or cheap supply of public goods.

Societies with more equality, more decent jobs, integration policy are better societies. Decent work, a job for everyone who wants a job is far more important for society than skyrocketing GDP especially if the '1%' appropriates an ever larger part of it. Democratic politics hardly need to reign in market principle and give power back to the people, not to Capital.

To regulate or not to regulate? Or an economist's dilemma

Robert Szewczyk, Ph. D., International Department of Solidarnosc

"*No society can surely be flourishing and happy, of which the greater part of the members are poor and miserably*", Adam Smith argued in his *Wealth of Nations.* This quote is not exactly in line with what people think about him. If you read the lines, not even between the lines, it comes out that Adam Smith was not that SOB that invented modern capitalism, but had quite deep insights in not only the mechanisms of economy but also on the position of specific groups and layers of the society in the market.

A short glimpse on the last quarter of the century in Poland

In Poland, we had to shift almost overnight from a centrally planned economy to "free market". It was a shock therapy. We had to switch from this Marxist economic system—"Marxist economic system" is kind of an oxymoron, because what can you say about an economic system where toilet paper is a rare commodity?—to this "free market" economy. It was the last moment of reagonomics. These were the people that came to Poland as advisors. This is why we had in Poland an overnight shock therapy and switch to free market. It was followed by a mass restructuring, bankruptcy, closures, redundancies and unemployment for the first time after almost 50 years of bogus full employment. You were given a job—like it or not—against your will or ambitions, this was the designated place you worked in. Reduction of social protection below norms was imminent. The social nets—if they were present—were full of holes and social cushions were thin. Everything was mass reformed, though not always in good directions. It was generally perceived that 'national' equals with 'bad' because it proved inefficient and ineffective economically. So, we had to privatize, privatize and privatize no matter the outcome. The material substance, however, was insufficient. There was evident short blanket syndrome, due to the last four decades of communist economic thinking. Poland was one of the countries that was hit the most severely by the Second World War. The material substance in the country had not been recreated in comparison with half a century earlier. Almost as fast as the process of transformation went, the top rich group showed up. Most of them were former communists; managers, directors, high profile people who knew perfectly well all of a sudden how to run a company, restructure it, lay off anybody, destroy the trade unions and atomize people in the company. They were perfect at it.

These domestic processes all took place against a background of international changes. The collapse of the Iron Curtain changed all the economic, social and geopolitical rules. Moreover, international capital and corporatism were set loose. Accelerated by the IT-revolution, this was the starting point of our current economic system. The intention of Poland and other Post-Soviet countries was clear: membership in the EU and NATO. In 1992, however, the European Community adopted the Maastricht Treaty and turned into the EU. Bureaucracy skyrocketed and it changed the goal where we were going yet again. We were aiming at that entity that was present in the 1970s-80s. In the beginning of the 1990s it was not the same thing anymore.

Free Market – the 21st century version

In the free market we live in now, there is a constant pressure on work standards. There is a race to the bottom everywhere. There is an all-out assault on trade unions which is even more accelerated by the post-fordist models of production and capital domination. We see a crawling departure from the "social pact" and tripartism, for example in the ILO. One of the biggest forces in Ireland of its pre-crisis economic success was exactly the tripartism. The fact that government, employers and employees sat down every year to discuss and negotiate, and everybody came out with a win-win situation. Now, we can see an alliance between the employers and the governments against the third party of employees. In Poland, it has been the third year since the suspension of the tripartite commission. Actually, it was the trade union that kicked the table, because we did not want to continue talking without real outcome while the employers and government are in bed together, working openly against the public interest. Except for Germany, entire countries were de-industrialized. Germany is the only country that knows what it is doing by keeping its industry and manufacturing power intact. The service sector only cannot keep the European engine running. The economic crisis of 2008 hit everywhere. The Chomsky principle was obvious: all losses were socialized while all profits were immediately privatized. There were talks about changing the business as usual and adjusting the financial architecture. Six years later, nothing has changed. There is a domination of huge private or state-owned corporations in energy, telecommunication and so on. They are omnipresent and behave the same, ruthless way. There is a tyranny of the financial sector. We see state protectionism showing up especially during the crisis where we protect those who are too big to fail. I would prefer to see them die and rot. Their actual failure would maybe accelerate a thorough restructuring of the economy.

Let us take the energy sector. The protectionism should be maintained, especially if we consider the threat from the East at the moment. We should join forces on that. The EU should cooperate on this specific matter, but they don't. Of course, we have a new Golden Calf every two or three years which is "Let's go green" this time around. Now, I am not mocking this idea. I am not against the protection of the environment, keeping the country and the air clean. All these things should be followed. However, at this very moment, it's of course the big corporations that make huge profits on admission quota, on production and transfer of technology, of renewable energy, and many other processes which were designed originally to improve the environmental situation, but was a perfect opportunity to make a huge profit for the big companies.

Social environment

In Poland, as everywhere, the atomization of society is at work. We see dog eat dog and rat race scenarios everywhere. We see a vicious cycle of impoverishment, insecurity and precariousness. One accelerates another. You don't have a job or a you have a precarious one, so you don't feel secure. So you don't have children or you can't afford a house and don't get married. You get into a spiral and become poorer and poorer. You can't get out of it because of the atomization of society as a whole: my home is my castle, you can let everybody else rot. There is no more collective, only individuals. This is a great advantage for the employers. We encounter a David (employers) versus Goliath (employees) situation with the alternative ending: David never wins. So, it's either the employer's way, or the highway. Another point is total surveillance: Big Brother is still watching you with improved means. Of course they will tell you that surveillance devices are there to protect you from terrorism, keep you secure and so on. As Benjamin Franklin said, any nation that gives up a little bit of freedom for a little bit of security, deserves neither and will lose both. They are watching. They know what you are buying and what you are checking on Google. They know everything. We are under control all the time. In Poland, we are witnessing a demographic disaster. It stems from migration that happened after the enlargement of the EU and from the vicious circle of impoverishment, insecurity and precariousness. About two million Poles left the country to Ireland, the UK, the Northern countries with the dream to go to countries where the streets are paved with gold. When they arrived there, they realized the streets were not paved at all, and that they had to pave them. A true brain drain occurred. Many educated people left to wash the dishes and do the catering in hotels. There were of course a few exceptions who made a career. In general, however, they found a working security system. They found a job for which they were paid weekly. That was security for them. Even though the wages were not that high, they are still much higher than in Poland. We observe a generation gap. We leave the people aged over 50 to their fate. They are considered simply too young to die, but too old to work.

Regulation

Poland has already been through a regulation of everything and felt the consequential pain. Regulating everything is not a solution. What kind of rule of law should we strive for? National law? EU law? World law? Too much laws and regulation are not solutions. One of the solutions is to harness the big capital. Either let them fail and collapse, or divide them. A great opportunity was wasted after the 2008 crisis to do so. One case of the winners and losers of this, was my home region Gdansk. It was once a very strong ship-building area. Many shipyards were constructing high-quality vessels. The government made a mistake. It did not give money, but guarantees of credit to those shipyards to get contracts and continue production. In 2009, this was questioned by Neelie Kroes, the EU Commissioner of Competition. She said it was not possible. The amount was roughly 100 million euro which the shipyard had to pay back without having received the money in the first place. They went down. With those shipyards, all the subcontractors, suppliers and so on went down with them. In total about 100 thousand jobs were lost. At the very same time, some 5 billion euro was pumped in a Dutch bank. It was no threat to competition at all. You perceive the double standards in that matter. The laws and regulations are, from the very start, designed to tinker with, to omit and undermine. From my point of view, the solution is transparency and simplicity. As Jeremy Leaman argued, these regulations should be kept simple. It seems that the solution is not in economics, but in ethics, in respect and common sense. At schools, universities, business schools or law school, students have very packed and huge programmes of everything with only one hour a week for five months of ethics. So, they don’t know anything about how to behave. As I have said, Smith’s invisible hand is cut off. It does not exist. But the hands that take from the masses, from everybody, are very visible and greedy. Both of them, the big capital and the government, help only one—privileged—side.

A syndicalist view on the democratization of the market

Bruno Teixeira, UGT Portugal

I will focus on three major impacts of marketization: (1) the impact of the Troika and (2) the neoliberal model which is adjacent to the Troika policies, and (3) the blocking of social dialogue.

Socioeconomic situation: the impact of the Troika

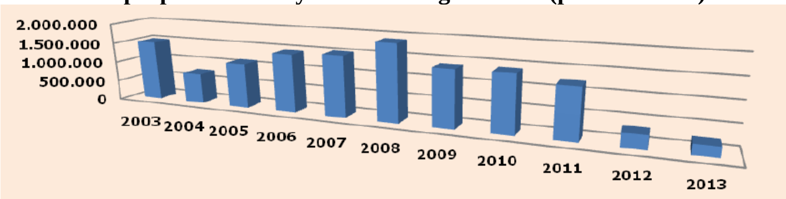
In order to understand the intervention policies of the Troika, we must understand what has triggered the implementation of these measures. We are made to believe that the public debt was a major wrongdoer in society and that we had to reduce it. Once the debt is reduced, society and business will flourish again, and we will all retrace our way to prosperity. I give you some figures to elucidate the situation of Portugal. In 2010, the public debt was 84 percent of the GDP, so we had to implement austerity measures. Initially, this policy intended to draw a number of millions into the economy, and at the end we doubled that figure. Officially, Portugal's policies continue to follow whatever the Troika had proposed. The debt increased to 129 percent in 2013, and it continuously increases. So, the obtained results were the exact opposite of the intended goal of the policies. The employment rate decreased from 4.800.000 in 2010 to 4.200.000 in 2013. Portugal's degree of unemployment increased from 10.8 percent in 2010 to 16.2 percent in 2013. During the same period, the degree of youth unemployment increased from 22.4 percent to 38.1 percent. Nowadays, there is a slight decrease which is not linked to economic growth, but rather to emigration of many unemployed people. Especially the young and highest qualified part of the population is emigrating to find a better future elsewhere. Another major problem is the long-term unemployment which has surged from 327.000 in 2010 to 543.000 in 2013. This is one of the major structural problems of the country. A final point is the diminution of the active population from 5.8 to 5.2 million during that period due to emigration. It is strange that at the beginning of these programmes, one of the major consequences was that the interest rates on the public were enormous in the capital market, while today these interest rates are lower.

Competitiveness versus wages: the neoliberal model

We have to ask ourselves: what was really behind this financial adjustment programme? What was their reasoning? How were they going to improve the country's competitiveness? Two principles are challenged: value and price. The value of something is linked to factors external to society. Price is defined by four factors: cost of labour, energy cost, technology cost and capital cost. Energy cost and technology cost require investments. You can gain a competitive edge by using the elements of science, technology and efficiency. Then we have the labour cost and capital cost. The main question is the capital cost. We live in a model where we accept that the capital cost and interest rates are acquired. We accept as a model that the investors may have a return of 9 to 11 percent on their loans and investments. Then there is the labour cost. Contrary to the capital cost, this is the only factor left where government can easily play a part and gain a competitive edge. The austerity model is concentrating on this labour cost. We try to gain a competitive edge by reducing the labour cost. So, this is a political choice. We could perfectly well tax capital revenue in order to come up with better interest on investments in energy and technology. However, we decided to continue our emphasis on the labour cost.

Another element that has to do with democratizing the market, is the blocking of the social dialogue. The figure below shows that in 2008, about 2 million workers were covered in the private sector. In 2013, this has decreased incredibly. This was a way to break the trade unions and the collective bargaining agreements.

Number of people covered by Collective Agreements (private sector)



The resulting individualization of labour relations had consequences for the families and the workers. The workers' rights regressed. We lived through seven revisions in the past three years. All these revisions were meant to reduce the rights of the workers and to facilitate the discharge of people, the dwindling of public sector salaries and pensions and higher taxations on the public servants. In the private sector, this facilitated a salary reduction which was pushed by the augmenting unemployment.

The average wage decreased from 850 euro to 750 euro over the last three years. The major decrease is a consequence of the increasing number of people who lost their jobs and want to regain access to the labour market. They—even the most qualified workers—are willing to work for about 500-600 euro. Another result of the Troika policies is the privatization of public services such as education and health, leading to an increasing price of public services of a lesser quality. We see a transfer of public funds from public schools to private schools. We also see a reduction in purchasing power and an increasing risk of poverty. Moreover, we see the phenomenon of poor workers throughout Europe which is a tough phenomenon. As we have said, people can find dignity in work, but this is no longer the case because you still risk social exclusion despite having a job.

The figures below show an increasing risk of poverty and social exclusion as of 2010-2011. We are at 27.4 percent in 2013. The second table below shows the tendency after transfer of social contributions. This table shows that thanks to the social contributions, we manage to push back poverty and social exclusion. Generally speaking, society as a whole is benefitting from such transfers. We must try to change the idea that everybody who is living from social benefits is seeking those profits and avoiding work. We see, moreover, that the average annual revenue is dwindling in Portugal.

%

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
UE28	:	:	:	:	:	:	23,7	24,3	24,8	:
UE27	:	25,7	25,3	24,4	23,7	23,2	23,7	24,3	24,8	:
Euro area	:	21,7	22,0	21,8	21,7	21,4	21,9	22,9	23,4	:
Portugal	27,5	26,1	25,0	25,0	26,0	24,9	25,3	24,4	25,3	27,4

%

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
UE28	:	:	:	:	:	:	16,5	16,9	16,9	:
UE27	:	16,4	16,5	16,5	16,5	16,4	16,4	16,9	16,9	:
Euro area	:	15,3	15,6	16,3	16,1	16,0	16,2	16,9	17,0	:
Portugal	20,4	19,4	18,5	18,1	18,5	17,9	17,9	18,0	17,9	:

The figures below show the number of people at risk of poverty and social exclusion. I am convinced that the figures of 2013 will be as bad or worse, although they are not yet available. It is precisely end 2013-beginning 2014, that we see that people are nearing the end of their unemployment benefits. They became unemployed in 2011 for instance, after which they got benefits for a year. A large part of the unemployed will lose their benefits now. 56 percent of the unemployed do not get anything at all. This poses a serious threat of social exclusion.

Employed

	2010	2011	2012	2013
UE28	10,1	10,6	11,4	:
UE27	8,3	9,1	10,2	:
Euro area	8,7	9,5	10,3	:
Portugal	10,7	10,1	11,1	:

%

Unemployed

	2010	2011	2012	2013
UE28	64,3	65,4	66,9	:
UE27	64,3	65,5	67,0	:
Euro area	64,0	65,1	66,9	:
Portugal	54,3	54,2	59,4	:

%

Possible solutions

First of all, we have to democratize the market and strengthen the social dialogue which is the very basis of a democratic society. Moreover, we have to define social policies. Minimum wages are an important matter. A minor positive note is that we managed to have the government sign a tripartite agreement increasing the minimum wage from 485 to 505 euro. The European Commission immediately reacted that the government should not have taken this measure and should have implemented austerity measures. Social revenues should be increased. The average social revenue is about 210 euro per family and 87 euro per person. Living with these revenues is incredibly hard. The pensions were also cut. Even the lowest pensions are under threat now. All social policies are being withdrawn from the state and transferred to private solidarity associations and Non-Profit Organizations. Thirdly, we need to reinforce the quality of labour. We need adequate revenue policies. we have to fight underemployment and precariousness.

There are major disparities in Portugal that need to be solved. It is one of the EU countries with the highest inequalities. There is a need for European solidarity. Nowadays, there is a kind of North-South reasoning within Europe. The rich North considers the poor South as leeches. Moreover, we require a fiscal harmonization to some extent at the European level. We have countries that are moving towards social dumping in order to attract companies at a very high social cost. This is a downward spiral which we have to break. This requires a European re-industrialization and economic revival project based on real economy and trans-actionable goods. We need to get rid of this absolute madness of capital gains through stock market games.

Discussion 3

Comment: I'm French and I've heard about Portugal. For 12 years I lived in Africa and all the African countries have known austerity policies with the same consequences of course. At the end the World Bank said we have to change this policy of austerity and work towards a fight against poverty and a new growth. When we look at the Portuguese situation we wonder how did they get where they are now. Everybody is against the French because we don't want to follow that track. The Dutch government has tried to reduce the debt, but not much. Public expenses, just like in Portugal, are a huge compensation for inequalities and poverty. Actually about 40% to 50% is helping against inequality and poverty. But everybody is criticizing what we are doing in France and that we are not agreeing to a policy of austerity. Hearing the Portuguese situation just leaves me flabbergasted.

Comment: I'm impressed by the large picture. I wonder whether or not there is still a possibility for the trade unions to do something in Europe. I want to ask you: what about the social dialogue? I understand that the European Commission doesn't open the field for social dialogue. Thus the governments don't want it at the European level. Nevertheless we need it at any cost and immediately. The opening of the global competition in Europe with the single market and so on means the necessity to unite and organize workers. It is sure and it is the tradition of trade unions. In our situation I believe for many politicians and deep reasons that it is impossible without the support of civil societies. Beyond the union associations, consumers, churches and so on: can you tell us something about that? What do we need to promote social dialogue? A European strike? If not, an institutional change at the level of Europe or the economic committee for instance? It is a very important structure, but don't have power at the moment. I just want to know something about your minds after this very dark picture about the possibility of resilience of social dialogue.

Answer: Strike on the European level, we would be happy to do so, but I think that wouldn't be possible. Even in Germany you can't have political strikes. I think there is a little bit hope with the new Commission. The worst of the crisis is behind us. The analysis of all the mistakes and the failures that have been taken are there. The IMF has criticized, also the OECD criticized the Commission. The politics of austerity even have changed a little bit. France has been given some space to moderate the rhythm of austerity. We have a Commission with the president coming from the same party, but he's coming from the left wing of the Christian Democratic group (the EPP). I don't think Barroso was of the central or left wing. I think with this Commission we have some chances to lobby with more success. The Germany government is aware that wages have been moderated for too long time. We see wages raising in Germany and for Belgium it is important because we look at the German wage level. There are little signs, we won't see a revolution, but we can see some change. And we should do all we can to enforce and stimulate this change.

Comment: The trade unions have lost their teeth. Trade unions in Europe are united in the ETUC (European Trade Union Confederation). They are mingled and very much involved in a whole spectrum, a hundred of topics, in which some of the most important ones like organizing members, fighting for social agreements and negotiations are not on the top of the list. The unions rather don't organize political strikes, because we play by the book. Even though the others don't. I don't think it's possible to mobilize the European Labour Movement to organize one joint action. Because there will always be a country, a group or a trade union organization that would say that is not their business. Some trade unions say 'why do you export your jobs to China and maintain contacts with Chinese trade unions which are totally state controlled and obviously so called yellow unions'. That is there good business. We are not at the 1905 level unity at this moment. We are civilized, tamed.

Comment: The question is about the link between the growth of non-private organizations and privatization across Europe. This is very important because non-private organizations historically fulfilled a very important role. For example you have better organization in Europe in 18th – 19th century developing to very important support system. Or mutual organization in the UK like building societies etc. There is a room for non-profit organization to emerge out of the daily struggle. In modern times there is the development of NGO's, some of it for advocacies, some of it because of the development of privatization in certain ages they have emerged. Recent years, changing management in the structure of public sector has led to development of non-profit organizations. For example, running schools could be privatized trough the non-profit organizations. And in my view we have to be careful, the main job of non-profit which is putting public interest first has been through advocacy more than anything else. Delivered support from the public sector, I just checked the Oxfam budget of last year and 40% of their budget comes from public sources, one billion. Whereas the budget of the UKAID is 15 billion euros, Oxfam's budget is 1 billion. Oxfam is one of the biggest in the world. Caritas had 500 million last year. We are talking about big money spent by the state on aid and social services which is much bigger. The budget of the non-profit organization is extremely small. In my view we must know the links and secondly advocacy is the most important mission of the non-profit organizations especially in the developing countries. Their main job is advocacy and their biggest impact is through delivering support from state, national government and foreign resources to do things.

Answer: I would say there is a link between the privatization and the non-profit sector by definition. But it doesn't mean that the non-profit sector has more influence because of that. And I will give 2 examples of that. In Sweden, which used to have a very publicly driven social sector, privatization doesn't happen really by way of developing non-profit organizations but the very hard private sector, the multinational companies. Especially in the elderly care. It's a general trend in Europe that privatization of elderly care is coming through profit making companies, a small part of it through non-profit organizations. My message is that if I listen to the very dark landscape that was pictured now, which is I'm afraid quite real, I have a little bit the feeling that if we look at the ideal part of the non-profit sector, the one I try to promote and to represent, I fully recognize the same. If you look for instance at what is happening on the European level, we see that people are just not interested in trans-sectoral public interest and just advocating. The important point is to a large extent that the fight has to be led by social organizations that are driven by trade unions, is very close to defy that the genuine non-profit sectors are making. We really have to build bridges between both. There is a long history of lack of mutual trust. The trade unions say they are the Trojan horse of privatization. Off course I would say I can agree because in some respects that is the case but we can find solutions for that. There is a practical example of it in Germany. If you are non-profit you can benefit tax exemption only if you prove that you have used the money you collected for social or public purposes. In Belgium we would only recognize tax cuts it they prove that they use this budget accordingly.

When we speak about the European Union, I think we have to be aware that the federal budget in the US is about 25% of national income and Europe it is only 1% of the overall national income. In this percentage one third is common agricultural policy so it goes back to the member state and another third is sectorial and social funds going back to the member states. The real cost of the European Union is peanuts. I agree when you spoke about bureaucracy because it may provoke, it may boost bureaucracy especially in the member states if you have bad loans at the European level. If you as people what the influence is of European rules, it is difficult to put a figure. People would answer 70% of the influence, so that's huge. It's really necessary to act on that level, because what you do on that level will have a huge influence on the whole.

Finally, a message to the trade unions. We have to cope the tendency to look inside our small realities, to be afraid of building alliances and bridges because we say we have so much to do and we don't have time to deal with other organizations. To go at the very proximity level, but that's good, we have to be very concrete but it is also true that if everybody only wants to take care of their own small garden and we don't succeed in building communities to advocate together on common goals, we will reach nothing. It is difficult for the trade unions, of which the workers have a lot of concerns for themselves, to look for the migrants for example, but we have to do that. The last thing is that the key for poverty is freedom of information. The most famous book was about poverty in Bengal. He said: why was there poverty? Because there wasn't enough food? No, there was enough food, but the food was not distributed: by the lack of governance, no accountability of the government because there was no free press. The rule of freedom of information was really the key. I'm not expert at all in information and communication but I think that is one of the major driver we can have to have comment on our information and communication circuits.

The housing market, the necessity of regulation?

Housing, welfare and the market: an impossible combination?

Pascal De Decker, HaUS, Faculty of Architecture KU Leuven

Housing, welfare and market should today be an obvious policy topic. On the other hand, when we look back at the time when Thatcher and Reagan introduced their policies, I always had and still have the impression that since then politicians tried and try to solve the problems with the system (mechanisms) that caused the problems. I will talk about some trends with respect to policy and the consequences of the housing crisis.

Warning

If we talk about housing markets and economies in Europe, we should stress that there is a major divergence between countries. When I was studying in the 1980s, there was a theory of Harlow which held that in the end all countries with respect to housing evolve to the same end: a majority dominated by home ownership, and private renting and social renting will only be a residual housing market sector. This convergence thesis was countered by another thesis which held that there was convergence in Europe was going on, but the differences lasted. This led to the path dependency theory which I follow. This is important to understand. Decisions that are often taken very long time ago are working through. For instance, in the Belgian housing system, the first law was introduced in 1889 as a reaction to the industrialization. The basic ideas of that law are still working today. There are important differences between countries up until today. There are also differences within countries. Housing markets function very differently in rural areas than in urban areas. If you look at capital cities, they have booming populations and housing prices.

In housing research, like in many other fields, we often use the Esping-Andersen classification to compare housing markets. This is a problematic classification. He recognized three systems at the time: a social democratic one (Scandinavia), a corporatist one (e.g. Belgium and the Netherlands) and a more liberal one (e.g. UK). For housing research this is very problematic. Housing policies are often older than welfare state policies. Basically, if we try to understand housing markets, his classification does not fit very well. Within the types, there are huge differences. If you look at Scandinavia, everyone will say that they have social democratic welfare states with huge state involvement. But if you look at the housing situation, it is very different. Finland and Norway were homeownership countries, whereas Sweden and Denmark were renting countries. If you look at the corporatist state, you have Belgium which is a homeownership country whereas the Netherlands was a social renting country and Germany was a private renting country. So the Esping-Andersen classification is problematic in this respect. It also does not include Southern or Eastern Europe. So, we should look more nuanced and take complexity into account. What I will tell is from the perspective of poor people. I won't use the poor people concept very often. But the arguments I have constructed are with the results for poor people in the back of my head.

Major (policy) trends

Among the major policy trends is the evolution from a period of decommodification (postwar-1989, partly in some countries; extreme in Eastern Europe) towards recommodification (post-1980s, nearly everywhere). During the decommodification period, housing allocation was cut off from the labour market. Because housing was seen as so important to society, that it could not be provided in an adequate way through the market. That changed in the 1980s when we observe a recommodification of housing. Housing markets were deregulated which is the second trend. This led to more market-led production and allocation of housing. Before it was often done by the state in some countries, in Netherlands for example 80 percent of the new house construction was done by social housing companies (corporations). In Eastern Europe this was even more. Even in England local authorities produced the most new housing. That was changed completely at the end of the 1980s. A third important trend is promotion of home ownership in nearly all countries with the consequential decline of the share of social renting. Another important development is the trend to replace bricks and mortar subsidies by housing allowances. The former are subsidies given by the central state either to social housing corporations or local authorities to construct social dwellings which are put for sale or renting at rates lower than the market prices. This has changed. In a lot of countries this has been replaced by housing allowances which are basically subsidies which are given to the individual households directly. The important consequence of individual subsidies is that they do not necessarily have consequences on the construction of new houses. This resulted in a drop of new house constructions. This squeezed the housing markets in nearly all countries. A last major trend is the growing "obsession" with tenure or homeownership.

Homeownership and an asset-based society is basically an Anglo-Saxon 'thing' which is also taking over in the Netherlands and Hungary. The argument is that if you have a large share of homeowners, they can provide for themselves when they grow old because you can sell your house or take a second mortgage on your house. This promotion of homeownership is not a new thing. In a lot of countries it has existed for a long time. In Belgium, for instance, when the first housing law was voted, it already promoted homeownership. This was also the case in many other countries. Why this promotion of homeownership in recent times? Historically, since the end of the 19th century, the objective of this promotion was to discipline the workers and give them a stake in society. If you own a home, you have to pay the mortgage and you won't strike or vote socialist. Today, it has more to do with building equity. This was a very interesting story as long as the housing prices increased. It also helps people to achieve their preferred housing dream or tenure. The idea is that if you empower people through homeownership, you create better citizens and they are more involved in neighbourhoods. This is the positive side of the story. The reality is that, if you promote homeownership and you don't have to provide for social housing or allowances, the idea is that you can reduce government involvement.

The state of the art with respect to home ownership is shown figure 1. The more red the countries are, the more homeowners we have. We don't have information for the black spots. You have very high figures in some Eastern European countries, Belgium, Spain and Italy. On average we have countries like the UK, Ireland, Sweden and Poland and rather low figures in Germany, the Netherlands, Denmark and so on. Two important non-ownership countries are Germany and Switzerland. There are alternative systems functioning.

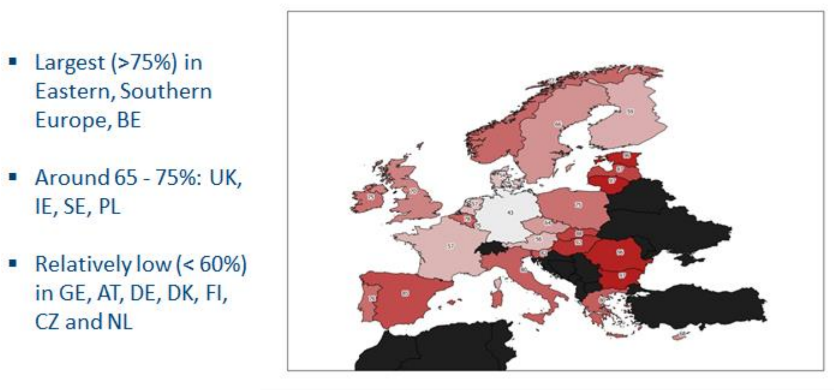


Figure 1 Europe, share of homeownership

Figures 2 and 3 show the long-term evolvement. You can see that all lines go up. In Western-Europe in the long run since the fifties and in Eastern-Europe since the 1990s, we see a rise in homeownership.

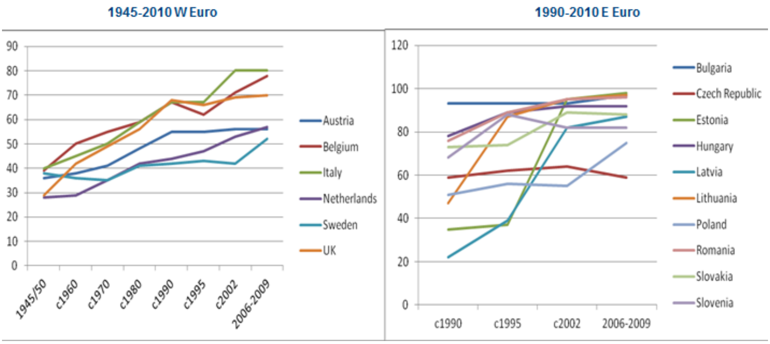


Fig. 2 (left) & Fig. 3. European countries, longterm evolution of the share of owner-occupation

Figure 4 shows that the higher your income is, the more likely you will be homeowner. The fourth quartile are the people with the higher incomes and more homeowners.

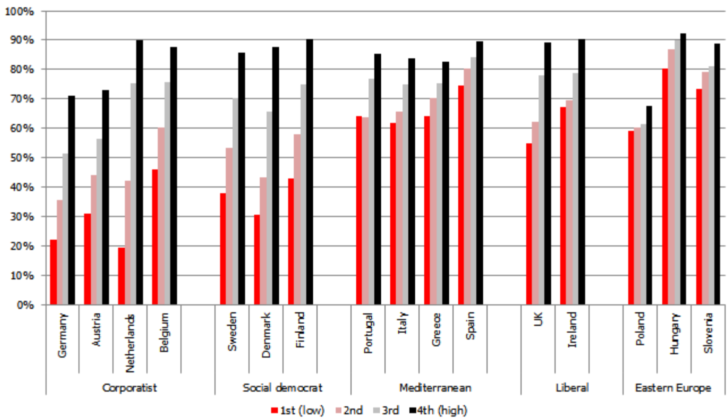


Fig. 4. European countries, relation between level of homeowners and income

Figure 5 compares the share of rentals altogether with the income per household. The rentals are classified from high to low. We can see there is no direct correlation between the share of homeownership and the share of rentals.

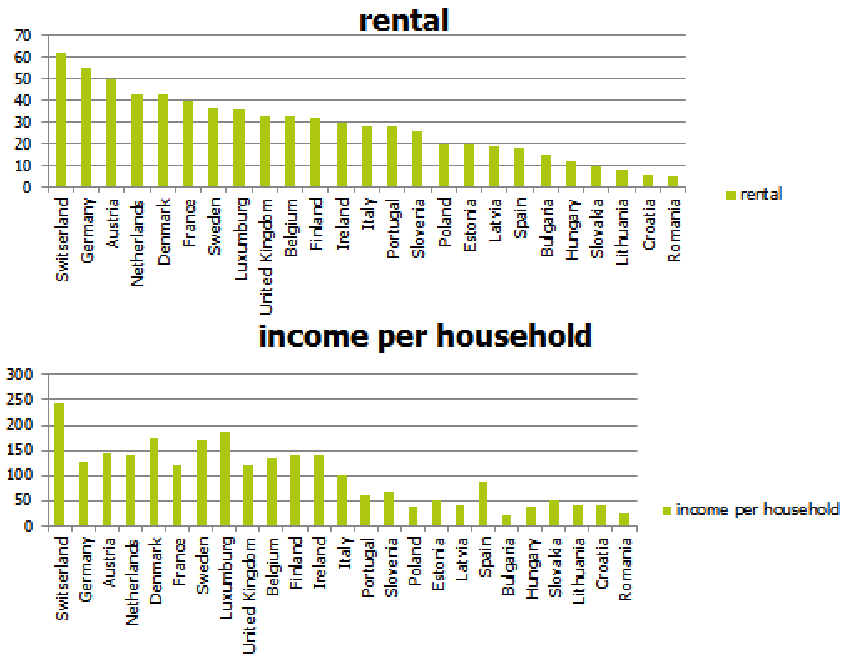


Fig. 5. European countries, relationship between income and the share of rental housing

From these figures we can take along that countries with a higher income do not necessarily have high homeownership rates. On the contrary, countries like Germany and Switzerland have low homeownership rates. The conclusion is also that homeownership cannot be a solution for all households. So if we let the market work, in the end not everyone will be a homeowner. Flanders is an interesting case. In 2005, a new tax exemption scheme was introduced. People who became home owner could deduce more than before from the income taxes when they became homeowner. We had surveys in 2005 and 2013[36]. During this period, we see that the homeownership rate dropped (from approx. 75% to 71%). We had, during this period,

[36] Winters, S. et. Al (2015) Wonen in Vlaanderen anno 2013. Antwerpen: Garant.

the lowest interest rates since World War 2. Thanks to this new tax exemption scheme, we had the highest government support ever. We still have a large supply of building land and we have a conservative mortgage legislation. We were not hit by exotic mortgage products. These four criteria together show a fertile ground for raising homeownership. Yet, it dropped. I think the maximum level has been reached. Home ownership is seen by governments today as a superior tenure. We can say there are strong beliefs and weak evidence that this is the case. It is important though, that once this idea is established, it is very deeply ingrained in society. It is nearly impossible to change this.

Steering features of the housing crisis were low interest rates and deregulation which led to the creation of all kinds of financial products which seduced people to take on mortgages. The consequence was a boom of housing finance. A lot of money, in the form of debt, came into the market and exotic products spread widely. The idea was that all went well until the economic problems changed. Unemployment started to raise, people could not pay their mortgages back and the whole system collapsed. In fig. 6, you see the evolution of the interest rates in the long run from the 1980s onwards. In the 1980s you had very high interest rates which steadily declined until this moment. Money is still very cheap. The consequence is that without paying a larger share of your income, you can have much bigger loans. This explains the race in housing prices.

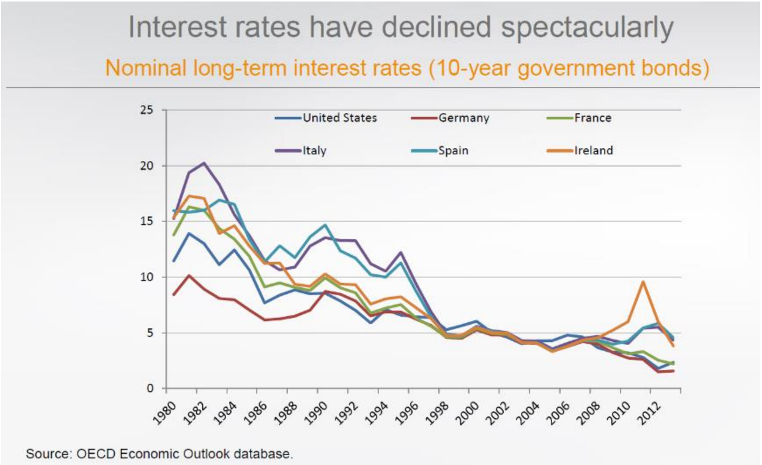


Figure 6

Mortgage market innovations have flourished. We had an extension of loan terms. In a country like Belgium, an average loan is twenty years in the minds of people, in reality it was less (15 or 17 years). Now, it is more than twenty years. So, people take up longer mortgage rates and bring more money into the housing market. An important trend is the increased share of adjustable-rate mortgages. In Belgium, an average household has a fixed rate. If you have variable rates, it can go up which can result in problems. There are also higher loan-to-value ratios. In the old days you needed some capital of your own (10-20 percent). In a lot of countries you could have a mortgage of 110 or 120 percent of the value of your house and there was a speculation that prices would rise, so there was no big deal in giving more money. Then we have some strange products such as interest-only mortgages in which you only pay the interest and the capital you pay within 30 years. The consequence is that at the end of the term you have to repay the capital which requires taking up a new loan or selling the house. Again, there is speculating on the rising housing prices. In the US it was even that crazy that the first two years you did not have to pay anything. The idea was that a client unable to pay the loan back, could sell the house and repay because the housing prices were going to rise. The house was also mortgaged for consumption in some countries like the Netherlands and the UK. People bought a car without having the money. So, they backed up the loan for the car by the house. You also have the subprime loans which were given to people without money. Finally you have the securitization system. The important thing is that during the boom, all these things played at the same time. By playing simultaneously, these factors together boomed the housing prices. In 2007 in the UK, 49 percent of the clients took a mortgage without having their income verified. 32 percent were interest-only mortgages. We saw very high loan-to-value and loan-to-income ratios. This is the kind of strange things that was happening. Fig. 7 shows the consequences of two mechanisms at the same time: the effect of low interest rates and the longer terms of your contract. In the minimum scenario, a 12% interest rate for a 20 years loan, you have to pay off 75.000 euro, and for a 50-year loan at 4 percent rate, you can have a loan for 215.000 euro.

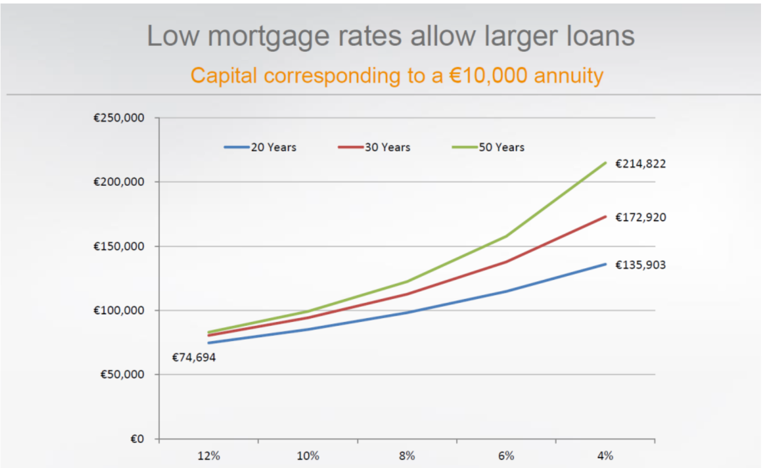


Figure 7

In nearly all countries, the mortgaged debt increased compared to the GDP. There are very spectacular changes in Denmark and the Netherlands which completely changed its housing policies after the 1990s (fig. 8).

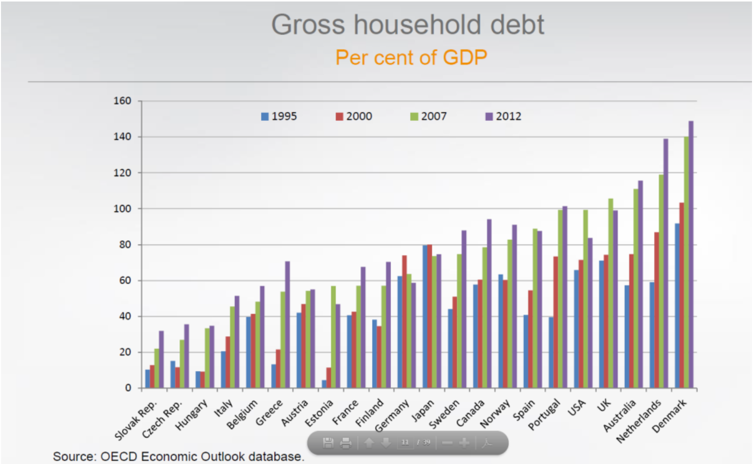


Figure 8

Fig. 9 presents the real housing prices in the long run. Until 1995, we had some booms and busts which are very equal, but after the boom, the prices rose spectacularly.

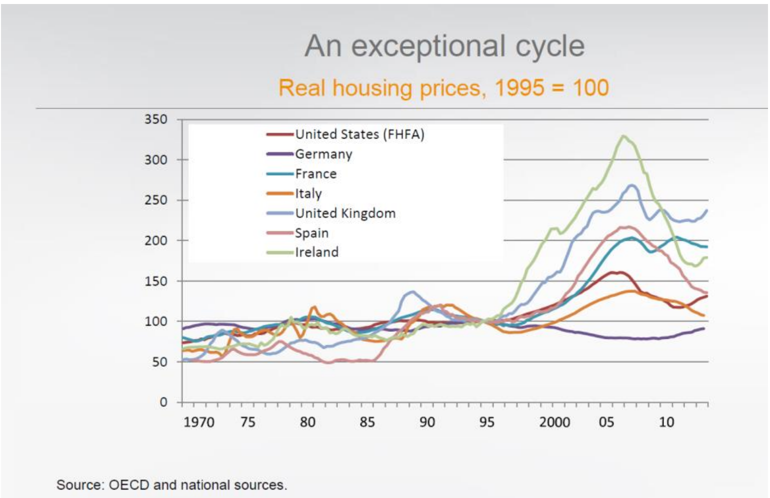


Figure 9

After the crisis, the house prices have fallen in a lot of countries except for Germany, Belgium and France. The housing crisis led to a financial crisis which led to an economic crisis. Older policies of bricks and mortar that had changed to housing allowances had the consequence of a drop in house construction that even further dropped after the housing crisis. So, we are constructing far too little houses to deal with affordability. We have numerous people in arrears and repossessions. And the housing costs are rising for people at the bottom end of the market. Very important is that the drop in new constructions squeezed the housing market. Fig. 10 shows the share of people who pay more than 40 percent of their income for housing. For those who could stay in ownership, little changed. For the others, this became problematic. It is not the case for social housing. If you could stay in social housing, it is also very affordable to some extent. Problems are transferred to the private rental sector. In nearly all countries, you see high shares of households in private renting who are paying more than 40 percent of their income. They are blocked in private renting because it is so expensive that they cannot save to become homeowners. Some countries are trying to revive private renting, while in the long run it went down in nearly all countries.

Housing cost overburden rate by tenure status, 2012

Percentage of the population living in a household where the total cost of housing exceeds 40% of equivalised disposable income

	Total population	Owner occupied, with mortgage or loan	Owner occupied, no outstanding mortgage or housing loan	Tenant — rent at market price	Tenant — rent at reduced price or free
EU-28 (1)	11.2	8.3	6.8	26.2	11.7
Euro area (1)	11.7	8.9	5.3	26.5	11.9
Belgium	11.0	3.6	3.9	37.4	15.1
Bulgaria	14.5	8.0	13.5	48.2	19.7
Czech Republic	10.0	4.0	6.8	28.2	20.9
Denmark (2)	18.2	9.6	8.5	33.9	50.4
Germany	16.6	11.9	10.2	23.7	19.4
Estonia	7.9	8.4	6.4	27.9	9.4
Ireland	:	:	:	:	:
Greece	33.1	21.6	29.1	53.0	42.1
Spain	14.3	15.0	4.3	50.4	13.0
France	5.2	1.4	0.5	16.2	8.6
Croatia	6.8	13.6	5.9	33.1	9.3
Italy	7.9	5.6	2.3	33.5	9.7
Cyprus	3.3	4.0	0.2	19.9	1.1
Latvia	11.2	21.0	9.1	18.0	12.1
Lithuania	8.9	6.8	7.6	55.7	17.4
Luxembourg	4.9	1.1	0.6	17.1	1.7
Hungary	13.5	28.1	7.4	38.9	19.3
Malta	2.6	4.1	1.4	21.1	3.1
Netherlands	14.4	13.0	3.8	19.7	0.0
Austria	7.0	2.6	2.0	17.3	7.1
Poland	10.5	12.7	8.5	27.1	14.5
Portugal	8.3	7.2	2.8	35.9	5.6
Romania	16.5	42.1	15.7	76.3	21.4
Slovenia	5.2	8.7	2.8	26.6	6.1
Slovakia	8.4	24.8	5.7	15.1	8.7
Finland	4.5	2.5	2.6	11.8	9.1
Sweden (2)	7.6	3.7	11.3	16.7	20.3
United Kingdom	7.4	5.1	1.7	23.1	7.4
Iceland	9.0	7.7	4.0	18.1	14.0
Norway	9.9	8.5	3.8	30.9	14.5
Switzerland	12.0	6.7	8.8	16.6	10.0

(1) Estimated data
(2) Tenants — rent at reduced price or free: unreliable

Source: Eurostat.

Figure 10

Conclusion

Policy changes are political choices. Recent choices led to 'more market'. This resulted in pretty bad performances. This shouldn't be too surprising. As Galbraith[37] wrote in the early 1990s, "in no highly economically advanced country—a sadly neglected matter—does the market build houses that the poor can afford." And this is a structural fact; it is there to stay.

We should be realistic about the role and position of the market and "market-led thinking" has in our society. We should be realistic about what markets are, can and do. Markets exists, but free markets do not exist. Free markets are only text book realities. Markets are social institutions[38], built up and modified over time. It is a social construction which we all together make and it is based on political choices. Markets are not perfect. Since the 1980s we have tried to solve problems with the systems that create the problems. Markets in themselves are not perfect. These imperfections are intensified by inequalities in society. Volatility is a big problem. You see in the UK that there were different crises in different times. The volatility is very big if you let the market play because insecurity is a structuring element of the market.

From the perspective of poor people, markets even fail if they are successful. Markets produce what makes most profit, not cheap houses for poor people for instance. If we have rising homeownership rates and housing prices, governments say that they are doing well like they did before the crisis. Yet, they were not doing well, because a lot of people could not afford these houses. The important thing is that, if you have a house, on every step of construction on that house, there are people working who want to make money. You have an accumulation of a huge amount of people who want to make money. In the end, that is

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[37] Galbraith, J.K. (1992) The culture of contentment. Boston: Houghton Mifflin Harcourt.

[38] Barlow, J. & S. Duncan (1994) Success and failure in housing provision. European systems compared. Oxford: Pergamon

the total cost of a house. People with low incomes cannot afford this[39].

Social factors further intensify market failures. Housing problems are deeply ingrained in the operation of our economic system and in ways in which society functions. We have income inequality of course which will create rising housing problems. We have ongoing discrimination. We just finished a research in Belgium on discrimination[40]. Migrants and single parents experience huge discrimination. They have to go to the private rental market and it is problematic for them. Another factor is the dependence of the housing market on debt and the resulting market dominance of financial institutions. It is also intensified by inadequate policies. A very important structuring feature on the market is that politics very often ignore inelasticity of housing markets in the short run. So, if prices rise, there is not immediately a response by the supply side to build new houses. This requires time. But in that period, more money comes into the market so people can pay more. Basically they increase the income of the people, so the prices will rise. Very often we use strange indicators. Very important is that we are evolving to a housing market without alternatives. We promote homeownership with the argument of choice, but the consequence is that there is no choice because you have no sound social or private renting alternative.

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[39] Bratt, R.G. et. al (2006) Why are right to housing is needed and make sense: editors' introduction. In Tighe, J.R. & E.J. Mueller (eds.) The Affordable housing reader. London: Routledge, 54-71.

[40] Loopmans, M., Esam Awuh, H., De Decker, P., Heylen, K., Meeus, B., Minon, C., Marjan Moris, M., Perrin, N., Winters, S., Spijkers, F., Teller, J., Vandenbroucke, S., Van den Broeck, K., Verstraete, J. (2014). Onderzoek van de private huisvestingsmarkt in België in het kader van de Diversiteitsbarometer. In: Interfederaal Gelijkekansencentrum (Eds.), *Diversiteitsbarometer Huisvesting* (pp. 136-245). Brussel: Interfederaal Gelijkekansencentrum.

What now? ***Housing is too important to leave to the market alone.*** It is more than an investment. Is it even an investment? This is linked to the asset-based society. People are very much aware of the value of their house, but they do nothing with it. A majority stays in the house until they die. Can you call this an investment? Or is it a home where you want to live? It is a basic necessity. It is critical to life. It is central to people's lives. It is a building block for a range of benefits: health, safety, work, education, economic security, raising children, self-image, outward sight, status…

We should try to have a return of state involvement. We need better criteria. The thing is that we know what works. The market has been a religion the last 20 years, but we know what works. Social rental has worked in a lot of countries for a long time and even today in some countries. We have to learn some lessons in the field of design, architecture and location, but we can take these lessons along. Social housing is still a good thing for people with a low income. They are paying a rent that is linked to their income, we have housing security, with the ageing of the population we can bring care more easily and so on. In some countries we have seen that private renting works under certain conditions for example in Switzerland and Germany. We also see the rise of new intermediaries that function. There are alternatives that we can use to have a sound housing policy. Basically, we need to recreate good alternatives and we need mixed policies.

Homeownership should be sustainable. It is sustainable when households that become homeowner, can stay homeowner and the others have a sound, valuable alternative. The level of homeownership can also not be dependent on economic crisis and if it should survive long-term economic developments. Moreover, it is sustainable if no subsidies are necessary to protect its stability and affordability. You should not have policies against homeownership but in favour of sustainable homeownership[41].

[41] Origins of the figures

Figures 1 to 5 are taken Marja Elsinga (2014) Home ownership, a European dream? Presentation to the 9th European Research Conference of FEANTSA, Warsaw, 19 September.

Figures 6 to 10 are taken from Christophe ANDRÉ (2014) Understanding the challenge: changing housing systems. Presentation to the Housing Rights Watch – FEANTSA expert workshop, Madrid, 13 June.

Housing in Romania: It's still crowded in here

Ramona Sinca , The Open network

I will talk about the housing situation in Romania. Some argue that there is no social housing in Romania. So why talk about it? Do you know the joke about the elephant and the fridge? How do you put an elephant in a fridge? You open the door and stuff the elephant in it. But of course for the elephant it is a cold, small house. How does the Romanian state solve the home issue of an elephant in a fridge? It doesn't. It gives him the key and says: "you are the owner, you manage it."

In a nutshell

In Romania, the existing housing stock comprises 8 million houses, in private ownership of almost 95 percent. Almost all Romanians own their houses. The living area in a Romanian house is the smallest in Europe and the feeling of being crowded is the main reason Romanians would be in search of a home. 56% of the stock on the market is in a poor condition, 27% of the houses have a guarantee for maximum 20 years and only 17% are guaranteed to last longer. But most of the existing house stock was built in 1960 to 1980. Only 10 percent of the houses was built after 1990. There is a need for approximately 800.000 to 1 million houses, but in the past 15 years only 466.000 houses were built. The estimated housing demand per year is 200.000. This amount should be built to cover the demand. However, only 30.000 houses per year are built. Indeed, for the poor there is no case. The social housing for the homeless is not a priority. The pressure on the government and its priority is to offer houses for the rest of the people.

Underlying causes

Why is that? After the communist regime, the state of Romania—as in the joke—gave the ownership to the people. Before 1990, the state owned most of the stock. After 1990 the flats were privatized. All people who were able to buy the houses they lived in, could buy their houses for prices sometimes as low as 1000 dollars. So, people bought their houses and that is how we got at the 95 percent ownership. There is a lack of state intervention in developing the housing market. After withdrawing from the housing market, the state left it open for a lot of abuses by companies that built overpriced houses. The badly designed and bad quality buildings have disused infrastructure, and high density of residents. Thus, the property becomes a burden for a lot of households. Because the state is not subsidizing the maintenance of the houses which were built with low-quality materials during the communist era, it has become a burden. The expense for a household in Romania is 45 percent of the income. The high rate of housing ownership resulted in some unexpected problems. You have segregation processes in the block areas, and the formation of possible slums. In the centre of Bucharest, you will see people living there are usually the governmental functionaries who have access to the best places on the market. When the privatization happened, they kept their houses and sometimes received an extra house. The poor people were pushed towards the limits of the living area. Nowadays, residential complexes are built around the towns which enhances the segregation. This is a problem because people in poor neighbourhoods will not have access to better living conditions. They are not priorities for investments by the local government. So, the situation continues to degenerate. The culture of ownership and the attachment to property is another problem. A lot of Romanians believe that “everything that is common belongs to nobody” and “every accomplished individual owns his place”. This puts a lot of pressure on the youngsters who don’t have that option. The former neighbourhoods laying on solidarity ceased to exist moreover. In urban areas, you do have tenants associations, but they are just structures set in place by authorities to have means to collect taxes. They are not a real representation structure. Something quite tricky in Romania: if you rent an apartment in a block, you do not have a say in what happens in the block. This also affected the neighbourhood. Another issue is the black market of rentals. Once the privatization happened, a lot of people who had the means could afford to buy one or two flats.

After that, they rented them on the black market. When the crisis hit the housing market, the rentals were not affected because they happened on the black market. Why lower the price if you can go on without paying taxes. Another issue is the complete fall-out (social, economic, educational exclusion) of the most vulnerable (homeless people, victims of forced eviction from nationalized houses, failure to pay maintenance costs/public utilities, poverty, irresponsible sale of housing, mental illness, separation/divorce). If these people do not make a visible collective problem, they do not become a priority. Individuals were evicted because they were not a collectivity and did not represent a big percentage of the population so there was no security net for them. The same occurred with the people who failed to pay maintenance costs. The only solution is to go to friends or family if the solidarity net is in place, or to find a cheaper place to rent and to make sure that they do not get into the same situation of failing to pay maintenance and become available for social housing. If you have a proven track of not paying your maintenance cost for two years, you are not eligible for a social house. The more you wait in the waiting list, the more extra points you get. So it is a vicious circle.

Governmental support

How do stakeholders sort this out? Governmental support programmes, *the prima casa*, or "the first home" was launched in 2009 and supports people who for the first time acquire a home and have not benefited in the past from a mortgage. Through this program, the government guarantees 80% of the loan to purchase the house. The maximum credit varies between 60,000 (for old houses) and 75,000 euro (for new houses). There is no age limit for beneficiaries. The basic conditions are that you cover 5% of the credit, paid up-front and maintain the contract for 5 years. This programme raised the price of the stock market. If the companies could rent an old house for 60.000 euros, why not? Below 10 percent of the population qualifies for the project. Moreover, the programme reinforces the ownership social norm: to buy a home is the best way. This is one of the solutions of the government for the homeless. However, there is no social housing, no legal framework for the right of the tenants and no stimulations to establish a renting system. The rental housing programme for young people allows people between 18 and 35 to rent new homes at a modest rate, with the prospect that, in time, they can become owners. The National Housing Agency is implementing this process. They have completed and handed over to local authorities 31.124 homes for young people to rent. Most of them are already being used. However, there is a long waiting list for this programme and a lot of files to fill in. But what to do you do if you are digitally illiterate, if you do not know where to start or file your folder and so on? When you submit as a youngster for this programme, your file goes to the NHA for evaluation. Your file is then send to local authorities who decide if they give you the house.

Another support programme is the NHA housing mortgage credit. This programme sells houses and gives a mortgage credit to buy one. This is again targeted mainly for youngsters. They have an available stock of 10.000 homes and sold only 4.330 of them. They settle the price for these units quite low. It is the lowest price on the market today. The documents that a client needs to buy, require ICT-knowledge and banking-savviness. The following quote by NHA officials is quite relevant, "Since 2009, the economic crisis, banks have tightened their mortgage lending and, consequently, the number of housing beneficiaries who obtained financing from banks dropped dramatically. On the other hand, there was a slight increase in applications for individual dwellings (house type) from the middle-income persons or above average while domestic demands in collective property (flat type) dropped significantly."

I turn now to the bank loan situation in Romania and the access to financing solutions. 96% of the Romanian people in need for a new home and manifesting interest to either buy it or build it do not have all the financial means to pursue their intentions. Moreover, two thirds of Romanians don't have any savings for this purpose whatsoever; those who do, can afford to cover only about 20% of the estimated cost of a house. Banks offer loans at a rate of 8-9% (while in other EU countries, the interest varies around 2-3%). Young people, people with higher education and the wealthy earners are the ones that use bank loans to buy a house. Average contracts are established for 30-40 years. The young overestimate their possibilities and therefore risk a lot to conform to the strong social pressure. There is also an extra ingredient that comes into the picture. The employment market is very unreliable. Even though a lot of people with higher education or wealthy earners contracted loans being sure they would be able to pay, there are, often, situations when they lost their jobs and can no longer afford to pay it.

Possible solutions

This is not really my thought, but are things being discussed in Romania as possible solutions. It is said right now that housing policies should focus on building new houses rather than subsidizing the reconditioning of the existing stock. Also, cultural components play a key role here. There was a programme that subsidized the reconditioning of the stock that was a complete failure. Why? Because a lot of Romanians are convinced that they do not have to recondition the blocks they live in, because that should be the main concern of the local authorities. Also, the tenants associations do not have the mechanisms or the competence or the prestige to mobilize the tenants. Another possible solution that is suggested, is a lower Value Added Tax for private investors in residential complexes to support the building of new houses. But there is also a lot of emphasis on the effort to avoid residential segregation. Let's not make quartiers for Roma people, but let's create inclusive communities so that the solidarity net can be re-established. There are also debates whether this can be combined with a system of incentives. Another discussion is about transparency in the allocation of social houses. There is a gap between who analyses the applications for social housing and who makes the decisions. If it is the national agency that decides, there is no transparency or mechanism to see how the decision is taken locally regarding the distribution of social houses. A final debate centres around new social norms. It revolves around the importance of building the capacity of the local people to join the dialogue on housing policies. The policies should be developed bottom up, but if people don't have the capacity to articulate their opinions and advocate for themselves, then dialogue will fail.

In conclusion, the view on the problem is very different depending on the point of view. We do know about the best practices at the UN level, but it is really important that we start discussing with all the stakeholders. Of course, there is not just one solution, but more questions arise. Let's hope that we find the answers.

The Housing Market – the necessity of regulation?

Mike Allen, President of FEANTSA and Director of advocacy Focus Ireland

Introduction

What I want to talk about and uniquely bringing to this question is the perspective of the point of view of homelessness. Obviously housing is something which every citizen needs, but considered from the point of view of homeless policy and people who are excluded from housing it'll give you a particular sort of issues it will rise. I will talk about why housing is important to homelessness. Secondly I will talk about housing and rights, and housing and markets, and if regulation is the answer.

Housing and homeless

Historically there are in general two different ways of looking at homelessness. Some people look at homelessness as caused by human frailty. It's because people drink too much or because of the weakness in people and therefore they can't maintain their home. From a similar perspective we might see it as a moral failure and they are in some sense bad or broken people and it is very strong in our society and very often the homeless people are undeserving poor. Other people think it's not that at all, and people are homeless because there are insufficient houses, the rents are high and because of underlying poverty. Those are seen as structural causes. I think in recent periods, certainly in progressive organisations, there is a recognition that there's interaction between those two factors. We don't take the moral failure point of view, but people become homeless because of an interaction in their lives between structural problems and problems they are facing as individual or within families. That is important understanding the position people have reached and how homelessness arises.

The second thing which is important for modern or current understanding of homelessness is the traditional view of who are the homeless people as the people on the streets who have a drug- or alcohol problem, usually men, and are sleeping rough. In actual fact, every country where homelessness is effectively looked at, with good data, shows a very large number of people experiencing a period of homelessness in our societies and most of them moved out of homelessness without very much assistance at all. It’s a much more common phenomenon in people’s career or life than in the traditional view. There are certain people who get caught in homelessness. They experience homelessness and end up in long-term homelessness and maybe enter in those stereotypes that we have of it. In a sense it is a lot more like unemployment than we used to think it was. We are quite familiar now with the idea that lots of people lose their job, but only a certain percentage of them become trapped in long term unemployment.

We can look at what happens to some people that prevents them from escaping while other people do escape. I think that’s an important insight and a completely different way of looking at homelessness than looking at it like it is almost a social disease which is the traditional way. In lot of European countries it still is and you find that homelessness interventions are funded by the mental health organisations and they’re a concern of mental health institutions rather than housing institutions.

If people are homeless, some of them can move out of homelessness without support but in many cases, and that is what homeless organisations tend to do, we need to work with people who require support to move out of homelessness. It could be for example mental health support, general tenancy sustainment support and so on. Some exits from homelessness require support, but all exits from homelessness require a home and that constantly gets lost in discussion. If you concentrate on ‘this person is homeless because he drinks too much’ you forget the fact that lots of people drink too much and have a home. We have a different perspective because somebody is homeless and it forgets the importance of homes and housing policy. No matter what we do about homelessness, we cannot solve it unless there are sufficient homes. So an adequate supply of affordable housing is the more effective preventative measure against causes of homelessness and essential to any solution of homelessness.

Housing and homeless

Second thing to say is that housing is a right: an economic, social and cultural right recognised by the United Nations. It is not just another right, it is, like food, a fundamental right without which all the other rights (education, health, family etc…) are meaningless. In some jurisdictions in Europe it is a constitutional right, in other countries, like France, it is a legal right. But from the data I have seen, there’s no correlation between levels of homelessness and it being a right. There are some countries were it being a right has made a huge difference but there are other countries where it is a right and it’s hard to see that being a right has made a difference in terms of homelessness.

Housing and markets

Will a free market provide affordable housing? Pascal De Decker points out that there is no such a thing as a free market. If the market is divided into three different types (labour market, product market and financial market) and those are the only three types than housing must be in the product market. That is problematic because housing is a fundamental right. Is there a fourth type of market where we should be looking at housing and what are the dynamics and the specialties of that?

Without social support, capacity to act in the housing market depends upon the value of labour on the labour market. The worker is selling his labour on the labour market and the same citizen having sold his labour on the labour market is using his income from that to buy their accommodation on the housing market. And there is no reason why any given individual necessarily has the earning capacity in the market to necessarily be able to buy adequate housing in the housing market. If you allow them to live anywhere, and this is where regulation comes in, in a shanti or in a tent, than obviously that would be a totally free market. But in a developed society we certainly set some standards below which people shouldn't fall. So I can't see how you can make a case that housing would automatically be provided by free market.

Regulation and home ownership

Does regulation provide the answer? Regulation doesn't necessarily have the effect that we think it has. There is a cultural and political drive to home ownership as preferred tenure in many countries is led by government. Households are driven to borrow too much in order to get on the property ladder and we see housing frequently as a speculative commodity rather than a place to live. Pascal De Decker outlined that good regulation has the effect of preventing people who can't afford to buy a house from buying it. Bad regulation has encouraged people who really can't afford it, to get in beyond their debt. People who are homeless or people who are becoming homeless are unlikely to be able to buy their own home in the immediate future. The home ownership market and regulation of it does nothing to us for dealing with the problem of homelessness and these people.

Regulation and the private rental market

There is a correlation between more people in the rental sector and wealthier people and that is the opposite of what our government tells us. Increasingly homeless organisations across Europa have seen the private rental market as the root out of homelessness, but paradoxically have seen an increase in the chance of people becoming homeless having formerly lived in the private rental market. And the reason we're looking primarily at the private rental market as an exit route from homelessness is because there aren't any other exit routes because the social housing has closed off to us in most European countries. But if we ask the question if regulation improves circumstances for people who are at the margins of housing market in terms of ending their homelessness, the first thing we have to ask is whether we are regulating the market in the way people interact with each other (contract…), are we regulating standards (size of the room, must have a kitchen), are we regulating tenure (you can rent for four years or ten years) or are we regulating prices? Those things are very significant differences when discussing regulation.

Standard regulation which is common across Europe and recently increased in Ireland (for example: you couldn't rent a traditional bedsits, there has to be a bathroom in the flat you are renting). That sort of regulation excludes certain housing units from the market. So if you are on the margins of the housing market and just to afford the bottom run of the ladder, well-meaning liberals coming along and saying "see the bottom run of the ladder is not good enough for you" isn't very helpful if you can't get on the next run of the ladder. I had a difficult conversation recently with a woman who was living in one of these bedsits and her bathroom and toilet was across the corridor from where she was living and this unit was being closed down by regulation. The only place she could go was to a homeless shelter where there were drug users. The society decides that you can't live in that bedsit because it's not good enough for you, so go down to a homeless shelter. And that goes right to the heart of regulation, if you just look at regulation in the sector in isolation from other policies that is often the effect. I put out that boarding houses is a big issue in the United States in terms of large levels of homelessness. They have large number of single room boarding houses which will close down for a number of reasons. Some of them progressive some of them about gentrification, but the end result is large number of single men ending up on the streets instead of in in the boarding houses.

Similarly, there are preserve effects for price regulation. If you simply prevent the rents to go up, in a crude way people who could be landlords will not become landlords anymore and do something else with their money. In Ireland, there is no rent control. There are several taxation regimes where an individual who wants to invest in property will get bigger return for investing in office property than they will investing in residential property and they get their hassle from the office property. For the moment there is a housing crisis in Ireland and yet there is a tax benefit if you want to invest in property investing in offices.

Similarly, if you bring in price control on its own, the net result is that it makes it even less attractive. What you see from my reading of the literature on the area is that rent control is often brought in as an emergency response to housing shortage and left at that. Prices are going up too fast, throwing people out of the market, rent control is implemented and people leave it like that. The net result is that there isn't an increase in available rental supply because it's not worth for landlords to invest and eventually you end up with a long term problem of homelessness. There is a lot of debate about how strong that linkage is. The correlation is very weak but there is nobody who argues that rent control is a solution to homelessness.

Regulation isn't giving a sufficient answer. Basically, you are asking the wrong question: "We have markets and they are able to fulfil a range of human needs, from working till housing. If the markets aren't working, should we regulate?" I agree that regulation is needed, but it needs to be good regulation. However, it isn't a sufficient response to the market failure.

Beyond regulation

De Bucquois referred to an Amartya Sen's book about famine and to the fact that the famine in Bengal wouldn't have happened if there would have been a proper price. Famine is more a maldistribution of an existing resource than a shortage. There has been no famine in a democracy. If we take that as true, obviously food is the fundamental human need, the next need is shelter. If famine hasn't happened in a democracy, the next thing that can happen is homelessness and that happens in a democracy all the time. It happens on the main streets of our richest cities and we walk past the people.

So why is it? According to de Bucquois public protest can redistribute badly distributed fundamental goods like food and people can see the effect of that. Homelessness doesn't happen because there aren't enough places to live. There are enough places to live but they are maldistributed and unaffordable. We don't, even in democracy, respond to that sort of horror and do something about it. And that to me, is a fundamental question about cultural and attitudinal things and I don't have an answer to it. I constantly keep that in my mind as a challenge in the work that I do. I would like to be in the position that my idea of where we want to be as a homeless organization is when there is the same aberration of homelessness that we will ultimately say that we can't abide homelessness in a democracy. If I'm saying that regulation of the market isn't going to work, I think we need to move on to talk about the need to reinvest in social housing. And there are serious challenges in that that needs to be addressed. We can't just say 'social housing was good and we need to go back to the good old days just after the war when we were investing in social housing'. Major challenges to it, and they became worse, are about stigma and residualization of social housing. In a lot of European countries homeless people would be excluded from social housing and in the United States and Canada specifically they rule out social housing as an exit route from homelessness because it's so bad. FEANTSA looked at the development of social housing in recent time where it's funded by private finance because the state will no longer invest in social housing. Social housing organizations get their finance from the private market. You there have the marketization of social housing and social housing associations will not accept tenants who haven't got good records of paying their rents, but homeless people haven't got records of paying rents. So they can't get in public housing because the public housing body has to pay back the banker.

Conclusions

Housing markets are very complex. Interacting, not behaving like a text book at all, long delays and unintended con-sequences of all interventions. They seem to be even more prevalent than interventions in housing markets which isn't the same as saying that we shouldn't do them.

But the outcomes of housing markets and provision for housing for people fundamentally define the quality of human experience in the societies we live in, the communities we live in, the way our children grow up and the way our children are socially formed and so on. It's fundamental to us.

But the regulations have unpredicted impacts. In the labour market discussion you tend to get a sort of view, because the trade unions are strong and have truthful positions, there are bad regulations imposed which employers push for and there are good regulations which trade unions work for. Sometimes you get things wrong, but basically you know who's pulling and who's trying to do what. In the housing market quiet a lot of things that were done for apparently good reason, have really negative effects. It's harder to find goodies in the question of regulation of the housing market than the baddies.

Public, non-market investment is essential. The free market is not going to solve the problem, even if you regulate it to the best of your extent. There needs to be public investment and it needs to be some form of public or social housing funded in a non-market way for people whose earning or other incomes is not sufficient to be able to pay all the people, as Pascal De Decker described, from the architect to the landowner, to the guy who puts the bricks up to guy who puts the electricity, all of whom need to make their living or their profit out of building their house. You won’t necessarily be able to afford the house at the end, unless there is some form of subsidy or public provision.

Regulation of housing in France

Manuel Domergue, Abbé-Pierre Foundation

Introduction

The Abbé-Pierre Foundation is an organization that collects money from private donors, about millions of euros every year. We distribute them among associations that help the homeless and use it to issue out reports every year to waken the public opinion on the causes and the consequences of bad housing. We have our social activities but are also active in the field of communication with regard to housing such as the debate we had this morning about regulation and deregulation of housing. In Europe it is an interesting debate, but in order to understand it, you have to understand the local context. These debates on regulation have to be understood within a certain context or framework.

Recent French law

France has tried to do much in the field of housing and there were many attempts, many successes and many failures. There is an ongoing debate in France. In 2012 the left came into the parliament and they promised to really regulate the housing market. There was a law, approved by a green minister and it took over the Abbé-Pierre Foundation proposal. We were satisfied and enthusiastic about it. Some weeks ago the prime minister, who is still of the left wing, said that this law will not be implemented. So there will be no framework, no regulation of the housing market at all. It's just an example to make you understand the challenges of it all, where we come from in France and what is the state of the real estate and the crisis of the housing.

Comparison to Spain

There are some specifics of France as compared to Spain, UK etc. France had a strong real estate bubble and went through a housing crisis. The purchase prices in France are more than doubled, sometimes tripled in certain places. Especially in the major cities, such as in Paris today the average price square meter is 8000 euro to get a house or an apartment. Not only in Paris, but in all the other major cities in France, off course not for the same level as in Paris. The increase is the same and is just as visible as in all the other cities. That makes a lot of people concerned by the real estate bubble or the crisis. A bit different as compared to Spain, there is the real estate crisis and together with the economic crisis the prices did not go down, they did not decrease. They decreased a bit in 2008, went up in 2011 and increased again this year a number of percentage. Why? People have been more careful than in Spain. We've talked about careful banking. And in France these careful banking rules were respected overall.

Access to housing

Especially because of the demographic mixture there is a high demand of housing in France. We need about 350 000 houses every year just to meet the new demographics. So 350 000 houses to be built and apart from that about 1 000 000 million houses missing just to make sure that everyone has a decent housing. So that means that we are talking about a 500 000 new houses per year and that is an extraordinary challenge. Even though France is building a huge amount of houses per year, it still has not met the present demand. So this has a certain social impact and it's a tough nut to crack of course.

People can have access to expensive housing if they can afford it and even benefit of that investment, their portfolio has become impressive. Poorer people have to live in houses smaller than they used to live, have to go back or call on family or friends, have to live on camping sites, in social hotels or sometimes just in the streets. We think that about 3.4 million people are very badly housed and then other are still vulnerable, because they are threatened by expulsion or they live with too many people in one house. This inequality is even increased and it is strengthened.

Intervention of the state or free market?

We all agree on that and nobody is happy with a rise of prices. Since 2007 we have been looking for solutions to bring down the prices for houses and for renting. Now the debate is getting even more complex. In general we regret the regulation of the market of finance. The fact is that the state is not fully playing its part and the Abbé-Pierre Foundation agrees on that. If we look at housing market, is it a deregulated market, is it a free market? No, it is not, even the inverse.

Expenses in housing

France is one of the countries where a lot of the public expenses go to housing (billions of euros): 50 million euro per state subvention, extraordinary amounts. This has an impact on the housing market of course. You just don't throw 50 million euro out in nature and then not expect any benefits of it. The consequences of it are bad consequences at least if you look at France in comparison with other countries, spending most and still the prices are the highest. There must be a problem somewhere. What is happening with that money? Is it badly spent? Anyway, some expenses are quite legitimate and we need them, helping the badly housed, for instance.

France is one of the countries where there is an important social house park, together with the Netherlands, and that is a positive thing. In social housing a lot of people are not touched by the housing crisis because they find themselves in social houses.

We have encouraged people to have access to buy a house and in recent years this has strengthened the crisis. We have been more careful than other countries because the banks have respected the banking rules and we didn't encourage just about everyone. The state has invested a lot of public money in order to encourage people to buy an apartment or a house and this has an impact on the inflation of the prices. Eventually you might wonder who was helped. The owners who can then sell at higher prices or did it help people to have access to a house?

We have many ideas, to help people paying their rent for instance, 18 billion euros were spent to help individuals. And the principle of this individual help is that we helped people with the construction of their house or social houses ('60s). In the '70s there was a housing crisis, we have built houses, the market was okay, but some people did not have access to this market. These people which have insufficient resources, we are going to help them to have access to the social housing market and help them to pay their rent. But today rents have gone up so much, more than 50 percent, that finally these individual subventions have also increased and have actually helped to increase rents. So you might wonder, was it a good thing to do to spend all that money for helping out individuals? Thus there is now this kind of debate: are we going to try to save money in this particularly field, then we have to cut. If we diminish these subventions to individuals, probably the rents will not go down, but people with the modest incomes will not have the money to pay their rent and they will be expulsed, so we are blocked somewhere.

Controlling the rental market

The solution in order to help the people is to control rents and rent prices. For a certain time we allowed renting prices to go up, quite quickly, without actually having a public impact on the rises. So what can the state do now is the question. Are we going to make sure that the market is functioning? It is not functioning well all by itself. The market is a social or human construction, a political construction actually, and it has taken ages to become what it is. So are we going to make sure that people have access to decent housing? How are we going to intervene in the market? Because the market itself does not come up with a solution. My answer is that the French state is not sufficiently intervening to help the market function well. It is not functioning sufficiently well because we need a market where everybody can have its own assets.

From a liberal standpoint you might say: the state can play a better part. Secondly even a minimalist approach is insufficient. A different framework and regulations are needed. In Paris, a minister could say that people will not pay more than 25 percent of their income for housing, but that would not be realistic. But different types of regulations are possible. How can the state make sure that the market is functioning well, from a rather liberal view point, if the market has been deregulated and prices have risen as they have? It is because people could invest sufficient money in the market to buy a house. Those people that inherited a house were helped by the family to have access to a house, so there's accumulative impact and the more the house prices rise, they still have access to it because they got it from their parents. That's one of liberal forms of the equality of chances of people on the housing market which means that people had equal opportunities to have access to the market and that they all start with a certain amount. Because now there are people starting on the market with 100 000 euros, and others who have nothing at all. So we have make sure that there are equal chances.

Information

Secondly, we need reliable information. If you go the market you have to know exactly what a house costs and what the rents are. We are aware in France, and probably in other countries too, that we don't have reliable information. One of the reasons why Prime Minister Manuel Valls has refused the framework law is because we were unable to say what the average amount for rents in Paris is and in the major French cities. We were unable to have access to that information. And that is the public authorities confessing this lack of information. If we had more information everybody might have better access to public goods. It might also allow us to detect strong disparities, for example people who are paying different rents for the same type of house, because quite often they are badly informed and the information is bad. Houses are all different, it's not like another consumer good, so you have to compare neighbourhoods, cities, regions etc.

Again from a liberal standpoint, the state ought to leave it to the individual to choose what kind of house he wants to live in and what kind of status he wants (private renter, collective house, owner). Today there is a debate, especially under Sarkozy, that everyone has to own a house. We have seen in Spain for example that is not necessarily a good idea. The authorities wanted to encourage people to own a house, they are not going to choose it in place of the owners. They are not going to impose a status on the individuals.

Mobility

From a liberal viewpoint, the state has to guarantee mobility in the housing market, they have to be able to change houses to adapt to new family situations or job situations and moving from one city to another etc. But in France there are many obstacles to this mobility, for instance taxes when people change houses, high taxes are levied. About 10 percent of the price. So if you pay 300 000 euro, you have to pay 30 000 euro to the state just to move houses what of course puts a break on the mobility. You might make sure for instance that everyone is taxed in the same way on the real estate: you pay every year on the real estate a certain amount to the local collective so why not impose a taxation to that amount on the mobility. It's not an Abbé-Pierre Foundation idea, it's from the state, just to make sure that the market functions better.

Access to renting housing

On the renting it's exactly the same thing: rents are regulated but at all the good rents and good formulas you tend to stay and not to move. For example you need three months ahead of moving. I'm provoking you a bit. We're not supposed to say that the market should function better but we still think that the state has a role to play. Its role is to create better access to the renting market, a lot of people don't have access to the renting market for three reasons. Either they don't have the right of access, for instance people who are in an irregular administrative situation who don't have the necessary documents and have no access to the regular renting market so they find alternative solutions. Second category, even a larger category: people who don't have guarantees, in France and in other countries the owner asks guarantees of the renter and quite often parents or friends have to guarantee payment. So even if you have sufficient and correct resources and you pay your rent, still you have to ask your parents or friends to put up a guarantee or warranty. And if they do not have that, they will not have access.

The state could intervene of course. The law was voted but will not be applied. There was an interesting idea, they were not going to abolish the market or fix the rent instead of the owners. There would be a public guarantee instead of your family or friends. It is not fair or even humiliating for people to ask for money. The state would pay instead of you and that means for an owner when people stop paying their rent that instead of waiting for a year the state plays a reassuring part and if somebody is not paying the state will pay you up front for the loss of money. It's a matter of transparency and trust and it was incorporated in the law, but it won't be applied. The state will not intervene in the relationship between the owner and the renter. It was a free guarantee but for ideological reasons it was refused, it might have helped the market to function better, but the state was not supposed to intervene although first it was accepted.

I'm going to stop defending the market. The market can have a liberating impact and can help people to get out of the informal environment. Now even with the help of the authorities, there is a guarantee from the state and even if the state helps to fight discrimination, if you're black or an Arab, it's not easy to get an apartment in France. But basically, if you don't have the money, you don't have the money. Even if the state is ensuring a good function of the market, they have to intervene and that is where there is still a lot of work still needs to be done. They have to make sure that rents are on a correct level and not doubling or tripling because that would exclude a large part of the population.

Framework for private housing

There are 10 ideas I wanted to launch, but especially one I want to develop here. The others I will pass over them rapidly. First there is the framework for private housing. 22 percent of the houses in France are privately owned, the others are social housing or people that own their own houses. So we talk about one third of the housing. For forty years now the rent cannot be raised year after year when a person is living there, only increased with the inflation rate which is about 1 percent. Once you live somewhere, it can rise with 1 or 2 percent. But people move, they get out of this particular framework and suddenly they end up paying higher rent. People who have stayed 30/40 years pay less for the same space or environment. Why do people who are in a house for a longer time pay less than those who just occupied the house? That's not fair.

In 2012, with the left wing government, there was a promise and it was implemented this time, that when people move, the rent cannot be higher than the rent they paid in the former house. It is a very simple formula but it allowed a lot of people to move without suffering a steep increase of their rent. It's good, but it's not enough and it's too late. In Paris you pay 25 euro per square meter for renting. If they had done it 10 years ago, it might have been efficient. What they are doing is limiting the increase of rent. If you are already paying high rent it doesn't change this particular rent. It still maintains the inequalities between people. Those that benefitted from a lower rent, they keep this rent and the others who're just arriving paying a higher rent. That is a problem with this legislative framework.

We're not talking about new houses that are put on the market for the first time. If it's put up for rent for the first time, there is complete freedom as far as rent prices are concerned. This is what the debate is focused on.

The government says that we are going to do like they do in Germany. We are going to have a rent mirror, we are going to take the average rent in certain neighbourhoods, and there will a margin on that of minus 30 percent and plus 20 percent. So it was not a stringent measure, there were certain liberties, certain margins of manoeuvre. The state was not saying that the rent was a certain amount per square metre, it was a more flexible formula. This was strongly opposed, arguments said that this was going to lower the rent profits and that the owner was going to suffer, to stop invest, to maintain their property and that the quality of the properties was going to go down.

There is another argument in France about a law of 1948 which was a particular type of measure. We left a very stringent framework, between the two wars, and the law of 1948 made sure that we could leave that framework. If works had been undertaken in the house, the rents could be changed. There was a two stage development: the houses where people remained and no work has been undertaken and the houses and apartments where work was undertaken that could completely change the rent. People remained in their old houses for tens of years and then of course the owner never undertook any work because the rent was blocked anyway. Now we want to work on all rents of any houses and apartments. Sometimes rent was increased by a jacuzzi or a view on the Eiffel tower.

The second argument: will the rent profits go down with a stringent framework? Economists have made simulations of Lyon. Someone calculated the revenues of the properties based on the profits worth table. The owner checks what he receives but also the added value is taken into account (it's the added value generated by time and has to do with the interest on investment). The landlords are still making interesting profits even when diminishing their rents. So slightly diminishing rents will not change the property yields.

Another observation of a philosophical nature is that if the house market works well, the rents are interesting and that should encourage people to construct more houses to benefit from this. If the price of a bottle of water triples you'll put more on the market. Now building a house takes 3 to 5 years and sometimes you need a license to build houses. It's not an easy market and in Paris you can't built as many houses you might need because Paris is too densely populated and we can't build any new houses in Paris. The demand is quite vivid and so we cannot wait for the offer to increase. So in cases where the offer is originally framed, you need a completely different framework or approach. The lobby of the owners was stronger than the lobby of the Abbé-Pierre Foundation. They're getting back to it in a way, so it is an ongoing debate.

We try to show that the German example was an encouraging one. In Europe, Germany has the highest private renting market. Private landlords are not encouraged by a new framework because it gives them instability and an instability of rent. That is why if you have in the same law a guarantee against people not paying and a bracket for rents was a good solution, but it didn't work. In France it is difficult to talk to the private owners, because it is a specific group of people. They are individuals, not business people or investors. They are small landlords who have one, two or three houses and they do not have a professional attitude. They are amateurs actually and very much worried about rents and strangers living in their apartments. Their reactions are rather instinctive, even contra productive. That is why we're having a problem to have a constructive dialogue with this group of people. So that is the major part of the framework. You might think of two types of framework for renting.

We're not talking about prices, rents are difficult and there are certain tools that have put it in place, but purchasing prices are even more complicated. The rent framework had an impact on the purchasing prices. You have a framework for rents and the purchasing prices were also adapted. This is a historical evolution. You know that in the coming years you will not be able to continue increasing the rent prices and that you are not willing to buy a house at any price to put it for rent because you know that you cannot raise your rent indefinitely. There is a kind of adaptation and the purchasing price is corrected downwards. It's a different phenomenon and has been proved in different countries. So a framework for private renting also allows to decrease the purchasing prices.

Something else that is happening in France is that for a numbers of years, local politicians say that they are going to build on a certain venue and we are going to set offices and parks. They are also going to decide upon a housing program, including social housing. For instance private investors are obligated to make sure that for example 20 percent of the houses they'll be building are social houses. They have to adapt the prices downwards. There is no such a thing as a theoretical price in real estate that is imposed on the investor, there is something else. The investor will see at what price he was going to sell, he adds a margin to it, adds the construction cost and then he can determine the price he is willing to pay for the ground he is going to build on. This 25 percent of social housing can allow a decrease of an overall price and in this way you can get a better social and housing mix in France.

Another idea is to tax the real estate. How can you impose taxes on the real estate and make sure that it remains accessible?

Taxing added value is quiet a complex matter. In France, for instance, taxes on the real estate added value, the longer you wait, the lower the taxes will be. It encourages people to wait for 20 or 30 years to resell their properties. And that is also one of the reasons why we don't build because people are encouraged to wait for prices to rise before selling. We ought to inverse that tendency to make sure that we have a lower taxation in the beginning and higher later on. So someone who has good ground where you can build on and the local communities say that you have to build on the ground then the owner cannot refuse that. I know in the Netherlands that it is one of the ways for the authorities to control what is happening to grounds. If you would lose your added benefits if you don't sell now, it would make building grounds more available. Another idea is that it also generates resources for the community because this added value is for the community. Because the community is building or organising public utilities for the building on a certain ground. So this added value should not go entirely to the investor, a part should go to community. That means that the community can collect money and build social houses for instance. That is an interesting type of intervention in the building market that is not too authoritarian.

Conclusion

It is difficult to fix renting prices just about everywhere. On the other hand we can intervene as far as the private renting is concerned. We can generate resources to do something about the social housing and we can intervene quite local in the renting prices.

The market and housing: the necessity of regulation. The case of Spain

Patricia Berzunartea, Rais Fundación

Introduction

First, I have to say that the Spanish situation is far away from the French situation. We don't have this political decisions taken and we're in a very different situation. I work on the national level for Rais Fundacion, a Spanish foundation that works with extreme poverty and focuses on homelessness. But we also participating in a working group at the national level related to housing under the umbrella of the platform of social action organizations. This group is led by EAPN Spain and we have made a report with a diagnosis on the situation and also some proposals that we make to the state without a lot of success at this moment.

Framing the issue

I have to say that the presentations we've heard this morning explained very well from a social and housing point of view how and why we are now in this situation in Spain. We all agree that housing is a human right and that it is necessarily to maintain a decent life. Everyone has said so and we agree on that and it is widely recognized in many international treaties. I have to say that the UN has spread their concerns about the housing situation in Spain as it is not considered a fundamental right in the constitution. It is a basic right of the citizens, but not constitutionally protected for everyone. Education, for example, is a constitutional right and the government has to supply it for everybody, but housing isn't. Our constitution says it urges authorities to promote conditions for realizing that right, and to regulate the use of land in accordance with general interest to prevent speculation. That is exactly the other way around of what they have done, not this government, but the previous one. What is left now is the consequence of not regulating things according to the general interest and to promote speculation and even getting involved in speculation by politicians themselves. In Spain there is an absolute predominance of ownership tenure, not as much as in Romania as we heard this morning. It is more than 82 percent in 2012. Rent is a residual option and it's very common to hear Spanish parents saying to their children to not rent a house because for the price you pay for rent you can loan a house. This morning we have been told how these things get deep into society, how difficult it is to get rid of them.

Some input data/reflections...

We have 3.4 million empty houses in Spain, it is 14 % of the total amount of houses we have available. But at the same time conditions of access to decent, affordable housing remains difficult, almost impossible, for a large part of the population. So we have both situations at the same time. Two out of five empty homes are placed in buildings constructed in the 10 years previous to the crisis. There is coincidence with a law of 1997 that liberalized the land. Property is an asset for pure economic exchange in Spain, when people earned a little bit of money or they have some money to invest, everybody put this money on buying new houses. Because houses were seen as a secure investment and its social function or the constitutional mandate is rarely considered.

But then came the crisis, everything went down and the housing and the economy collapsed. This caused changes in society and people now look to the situation in a different way, but politicians keep on regulating in the traditional way.

We also have structural presence of housing exclusion. We were talking about poverty before and during the crisis and we have the same rates of poverty, bigger ones. But with the Spanish economic boom we weren’t able to reduce poverty. Now we are increasing it, we had the opportunity to do things in a different way, but we didn’t. And now we have the housing exclusion but it is worsened by housing conditions, over-indebtedness which is the problem for the majority of debtors and a big rate of unemployment, more than 24% general unemployment and 53% for young people. There is lack of attention from public authorities and big cuts in social protection systems. People who are evicted from housing, don’t have any place to go. There are no public institutions to help to solve their problems. We have comprehensive and inclusive policies. Housing is the most visible and the most traumatic trouble, but it is not alone. There are educational problems, health problems and many others. In our politics housing is a part of everything else.

Loss of housing is a major risk for large sectors of the population. We see evictions everyday on television and people are worried about this situation. We are gold medallist in empty houses in Europe. Together with some houses in Portugal or France we could solve the homeless problems all over Europe. This is nonsense and very strange, but actually happening in Spain.

Housing and financial bubbles in Spain

We had both housing and financial bubbles, the financial bubble was probably together with all of you. Housing in Spain is a very specific situation. The reasons why we had housing bubbles are: lowering interest rates, increased competition in mortgage market, worst banking practices in lending and speculation and voices that warned of the danger of bubbles were not heard. We’ve heard many times that we were in danger and that the situation wasn’t sustainable, but everyone said that it was impossible that the system would collapse and it did. Another reason is the deregulation, both housing and financial. There is an act of 1997 with measures to legalize the land which was not the origin, because there was a former problem, but the reason why the problem was impossible to face.

The consequences were a strong imbalance between housing prices and disposable income which is the main problem for tenants and a dramatic increase of evictions. There were almost five times more evictions than before the crisis, almost 400 000 since 2008. This has been a very interesting issue in Spain because housing has been the reason why people are mobilizing. There was a big movement to demand the government to make things really about housing and about cuts. People in Spain are exhausted of the politicians and the bankers.

What has the government done?

The government hasn't done anything really effective. Requirements of different governmental initiatives leave out an important part of the debtors and the social alarm is increasing more and more. If you read the names of the laws, you see that the urgency is increasing. First 'Measures to support mortgage holders', second one 'Urgent measures to protect mortgage holders without resources' and the third one 'Urgent measures to strengthen protection for mortgage holders', but there was no protection at all. In three years from 2011 to 2013 there were 4 laws related to housing and protection of debtors, but the situation remained more or less the same as it used to be.

The second one, the Royal Decree law of 2012 'Urgent measures to protect mortgage holders without resources' introduces a code of good practices. Financial institutions could join this code of good practices on voluntary basis of course. Three phases were provided: loan restructuring, release of debt and duration in payment. There are 44 cases of loan restructuring and 8 cases of duration in payment until now. Now the requirements are more flexible and people are using these initiatives more and more. The government set a 2-year moratorium for eviction, but that doesn't solve the problem for the people already evicted and it doesn't make an end to their debts. People are not taken effectively out of their houses but their debts are increasing. In 2013 there was a new act 'Measures to strengthen the protection to mortgage debtors, debt restructuring and social rent' which was the result of a popular legislative initiative that got 1 500 000 signatures in order to change all these initiatives. It didn't get a lot of result and didn't provide a solution for people previously evicted.

Large and intense social movement

This was an initiative of the platform of people affected by mortgages who led a large and intense social movement in Spain. All the changes in law politics are caused by this big social movement. It is more than a housing demand, it is a way how Spanish people have canalized their frustrations about previous situations. They launched a popular legislative initiative, it was declared admissible but poorly taken into account by the government. The slogan is 'Yes, we can'. They have three demands, they are insistently demanding: retroactive duration in payment, stop evictions and social rent for people affected by evictions.

Social housing fund

The social housing fund is another initiative in which national and regional authorities, bank, and other stakeholders participate. At the very last moment they invited the last sector. Their main goal is the social use of empty houses owned by banks. The thing is that the banks provoked evictions of many people and then they wanted to use these houses to take the people back again and let them rent their own houses. But previously they sent people away and then they called them to come back and let them rent a house. The first year there were almost 70 000 evictions and this fund had 6 000 available houses. There were 750 applications, not because people did not submit but because of the requirements. There were only 400 deliveries, out of 6000 available houses. The conditions are restrictive and it is not a widespread solution for everyone. We, as a third sector, made proposals to flexibilize the requirements. As it was difficult to understand for the Spanish society why they had so many empty houses and so few people in these houses, they accepted this flexibilization in 2014. There are more flexible access conditions now.

Rent is the great forgotten

In Spain, as was said before, rent is a great forgotten. Because of the cultural believe that buying a house is the solution for everything, rent is not promoted and is not regulated. A large percentage of evictions is due to unpaid rent. In 2013 there was an act ‘Measures to ease and promote housing rental market’. I have a reflection to make here. Of course we need regulation, but for whom are we regulating? Who are the beneficiaries of the regulation? In Spain the beneficiaries are the people who are supposed to demonize the economy or who the government thinks will take us out of the crisis. All these measure do not benefit vulnerable people. This law penalizes an unprotected tenant. It insists on the idea of housing as a speculative good, not as a right. They think if you make things easier to householders, they are going to make their flats more available to the population, lower the rates etc. There is a need for rental policies to really promote the use of empty houses. The banks, most of them rescued with the money of all of us during the crisis, own between 200 000 and 600 000 empty houses.

Public housing: limited, expensive, poorly planned

Public housing is limited, expensive and poorly planned. It has never been a political priority. National and regional governments are in the process of selling their housing stock because they need money most of them to investment funds. So people who are in this public housing situation now are paying their rents to investment funds instead of the local authority or the municipal authority. At this moment, due to rental market price adjustment, social rent is more expensive than private. Since 2008, the value of free market housing has gone down more than 20% and social housing only 2%. There is a clear downward trend in social/public housing and we need to adopt a public policy that boosts social housing. We have to convince people who run the government that social housing is a need.

Housing exclusion, a problem with many faces

Housing is a pre-condition for a decent life and for inclusion. If we don't have it, even if we make a big effort, it is very difficult to be in society. In Spain housing exclusion includes different groups: homeless people that had no houses before but now the horizon of having access to a house is far away, Roma population with their problems with settlement, older people, single parent families, young people with more than 50 % of unemployment you can imagine that it is impossible to have access to rent, immigrants and especially those who are in an irregular administrative situation, people with disabilities and other disadvantaged groups.

We are facing problems of residential discrimination such as prejudices, irregular conditions imposed by banks (abuses to older people, not well-speaking Spanish people, they have made them sign illegal things), a lack of information and a lack or weakness of the social networks. The housing situation has to deal with overcrowding, substandard housing, settlements, segregation etc.

It is not only a problem of housing tenure, even people who can keep their houses are in a big energy poverty problem. It's not only a matter of keeping the house but also of living conditions for those who still have a house. There was 24.4% of unemployment in august 2014 and almost 54% of unemployment in youth under the 25. And of course because of the crisis we had a systematic reduction of wages. Spain is in the group of three with the largest reduction of wages and of course a loss of purchasing power of people.

There is a stamp that people of the platform put on the empty houses which says 'Casa sin gente, gente sin casa'. This means 'House without people, people without houses', it's a way to denounce what is going on in Spain. There lot of empty houses and a lot of people without houses and a government that is unable to give a solution.

Housing, poverty and regulations in Scotland

Peter Kelly, Director of The Poverty Alliance

Introduction

I think I want take off where the last speaker left off. How do we meet housing policy and regulation as though people mattered rather than property and profit mattered. That's the key question I want to get to. There has been a long history of debate about affordable and adequate housing in Scotland and it's really central in debates about social justice. All our debates about social justice come down to housing: can we access housing? If we can, how can we move forward on making our society more socially just. I guess the question I want to ask is: is there a different regime of regulation and do we have a different regime of regulation that allows unmet needs for people who are vulnerable? How can we make housing more effective for social justice?

Scotland: examples

I will very briefly illustrate why those debates have been central in the last hundred years. The heart of all these debates is the social justice. And one of the things we didn't talk a lot about so far is about the people behind this, not in numbers but the real people. One of the first things, and it is going back to 1915 during the rent strikes in Glasgow organized by women during the First World War. I thought this banner was particularly important which says 'Defending our homes against Landlord Tyranny'. This was the problem of profiteering during the First World War where women organized the rent strike that would only leave the rent they were due to pay and not the increase and they won. Scotland has had a notorious history in times of housing and its housing policy is going back to the treaty of union perhaps, definitely going back a long time. The people who have taken forward housing policy in Scotland, have been people struggling against the conditions from which they defend themselves. So an important point in the pre-Second World War period was the start of the real struggle for improved housing.

Looking at the post-war period, this is the Gorbals in Glasgow which is a notorious part of the city. Not typical housing, but certainly not untypical tenement housing, that is what we call the back core which is in the state of complete disrepair. This type of housing, this slum housing, in Glasgow in particular, where levels of overcrowding were significant in the post-war period, led to demands for change. And those demands for change were fulfilled by the public housing by and large, not by the private sector.

This was the social housing response, based on popular struggles in 18 communities in 18 labour movements that demanded change. This was another attempt to intervene in the market where there was clear market failure and they did that with providing housing. We had a lot of other kinds of housing provided, I focus on Glasgow because that is where I come from. That was another phase of intervention or regulation of Scotland to change the housing market.

Right to buy was an important value, very fundamental to Thatcher. One of the most important elements of Thatcher's regime was allowing people to purchase social housing. Mosspark is the most beautiful housing you can imagine with none of the problems associated with social housing: well-paid people and working class communities, well-paid jobs often linked to teaching or lower middle class professions, really good housing stock. If you would drive through Mosspark which is a lovely leafy part of Glasgow, you would see it's all gone. None of it is social housing anymore, it is all private owned. It's social housing as residual housing, it is something that is left over for the poor. And that is what Thatcher's attempts to democratize housing because property in democracy ensured that social housing was housing of last resort for many people.

Another big move, more recently, in the last 10 years, has been stock transfer. An attempt to release equity into social housing, what we have seen in some parts in Scotland: attempts to sell off public housing to community owned housing associations. There is one in Glasgow, a particular successful housing transfer. It was very controversial and opposed by a lot of community organizations, but ultimately successful. The tenants voted to have this transfer. It released a great deal of capital and resources to what is called now the Glasgow Housing Association, to build new housing. This is redwood flats, the tallest housing accommodation in Western Europe at the time they were built. These will go down, some of them are down already, and will be replaced by housing where people want to actually live in.

These examples represent the importance of social housing and regulation in Scotland. And some are just phases of interventions in the market in Scotland. Historically, we have had a greater share of social housing than other parts of the UK. However, social housing has declined significantly in the last 20 years. The rates of owner occupation have increased since the 1970s, particularly over the last 20 years. In common with other presentations, if we compare the rates of 1991 with those of 2011, the big chance is that the percentage of social rent went down from 41% to 24%, but more important private rent has gone up from 7% to 14%. Owned occupation has gone up, either owned outright or owned with mortgage. The change in terms of 10 years in social renting and private renting is important in terms of our discussion about regulation.

Housing and Poverty in Scotland

There is a changing profile of poverty and social housing in Scotland. In the past, the majority of people in poverty lived in social housing, but that has changed. Previously 60% of people in poverty lived in social housing. This went down to 40%. The proportion of people living in poverty living in private rented accommodation has increased from 10% to 25% over the last 10 years, which is quite a dramatic change and again emphasising the change in the profile and the change in what we need to do to address poverty and to address inequalities in housing.

Social rents in Scotland are cheaper than in other parts of the UK because of the control over social housing, since the Scottish parliament (1999) and before as well. That has been a fundamental and important part of keeping our rates of poverty lower than they are in the rest of the UK. Housing is absolutely critical in addressing wider problems of poverty. Private rent rates are significantly higher than the social rent rates. The average private rent in Scotland is 86% higher than social rent and that is a bigger gap than in other parts of the UK. The increase in private renting poses some real problems for regulation. The benefit that is paid to support housing, increased significantly the last 5 years for people who are living in the private renting sector.

Scottish Approach to Regulation

Is there a Scottish approach to regulation? When talking about housing, it is complicated. A wide variety of factors have an impact on the regulation regime–the current housing market itself and the differences within the housing market in comparison to the rest of the UK, the welfare system which we don't have full control over, all the local and regional factors which local politicians working on local level take into account–, and can make it difficult to identify a clear approach to intervention and regulation.

One of the key elements in the Scottish approach has been the Homelessness Scotland Act 2003 which set an ambitious target of ending homelessness by 2012. More important than the ambitious target is that it focused policy makers' minds on what they are doing, not only on leaving homelessness but also on preventing it. It allowed local authorities to do more to address homelessness. Scotland is late with the prevention agenda but the Homelessness Act helped moving towards that. Homelessness has fallen in Scotland from a peak around 2005 – 2006 of 15 000 new notifications per quarter to less than 10 000 more recently. Rough sleeping, partly because of the Homelessness Act and other factors, has been significantly reduced, but some cases remain. The government would say effectively or adequate, but I would not agree with that. And not only about availability of housing but all other services that are being ran to tackle homelessness.

Scotland has, to some extent, developed a different approach to addressing affordability and access and tackling problems of housing access overall. Something that was done was for example allowing more generous grants than in the other parts of the UK for housing associations to develop new housing. A more recent measurement and a more important thing is restricting and ultimately ending the 'right to buy', because we've lost tens of thousands of local authority homes the last 10 years.

We have also come fairly late to making better use of planning rules to increase the availability of affordable housing, insuring that any new developments have an affordable housing element within them. Regulation has also prompted the improvement in existing and new housing stock to address fuel poverty. Even with all that new activity we have more than 600,000 homes classed as fuel poor.

One of the main points about the Scottish approach is that it is stronger in principle support for social housing, but despite that many of the measurements reflect a desire to see increased home ownership and reflects many of the policies on the UK level. One of the Scottish measurements is 'Help to buy' which gives discounted rates of mortgages to people entering the housing market.

Despite the support for social housing, new buildings from private sector dominate: 10 686 new housing compared to 2 911 for social renting and 974 for the local authority. The private renting sector is an area that hasn't really been addressed by regulation at the moment. Housing charities like Shelter are very keen to see more activity around the private renting sector. The sector is at the moment very difficult to legislate particularly around quality of housing. The measures to address fuel poverty has largely left many old private renting sector accommodation without any coverage at all. In terms of cost there are no caps on private rented housing.

Conclusions: the role of the market and the state

The post-war period has shown the necessity and effectiveness of intervention in the housing market. It can make a difference. Regulation, that kind of regulation (state regulation, public acts of support for housing) is the most effective way to ensure access to housing, to improve quality and to control costs. And one of the key messages to come out the UK is that opening up of the housing market from the 1980s has not led to increased security or access to housing, but has meant that many either cannot access reliable, secure and affordable housing or only at a very high cost.

Discussion 4

Comment: Manuel Domerguez highlighted that some boundary conditions for a correct functioning of the market were not fulfilled due to a concentration of power and the fact that housing is a market where the cycle of investment is longer. It is a very complex economic phenomenon. I'm returning home with a very qualified view on what needs to be done. In some respects I would say we need more market or better functioning market and this requires regulation. That is the idea of a socially corrected market. There is one point which maybe was not enough emphasized and that is the link between the housing market and the capital market. In the Spanish market it is more than obvious. One of the causes of the disruption of the housing market is the malfunctioning of the capital market.

My question to the specialists in the housing market is: should we not in all proposals about the housing market also include the proposal of the reorganization of the capital market and the link between them? Last year I heard a presentation by Saskia Sassen, an American sociologist, about international financial concentration capitalism. One of the things she said that this new capitalism (that is looking for rates of return that exceeds the normal rates of return) is jumping onto segments like the housing market, the land market and is exploiting that thanks to their concentration of power. Breaking the power of the international financial capitalism is a necessary condition to make the housing market better. It's a hard ambition, but it is something we need to say. There is a link between the international financial capitalism and exploitation of the housing market and increasing poverty.

Answer: I think policies will always be mixed. I think we should be aware of the fact that creating a better market has huge consequences. A lot of money is going into these markets that are badly regulated. All tax exemptions should be taken out of the market, because they disturb market functioning. Consequences are that the prices will drop to realistic levels but that is for the politicians not a realistic story. Another thing is that we should distinguish regulation and investment and define both concepts clearly.

And with respect to the capital market, we had good systems, all countries had at some point in time savings and loans banks. There was a complete separation between banks who provided for the local people and the investment banks. In the 1990s the international regulation changed and they merged to general banks and then all problems started. Before the 1990s all countries had the kind of savings and loans banks which were very prudent. They gave prudently money and as a consequence we had very stable homeownership rates. It has existed and functioned well. Besides that we need regulation for private renting and social housing. We threw this all down the drain.

Comment: There was pointed to Germany as a good example and it is just to state that last week the German government has made the decision to introduce rent controls. I'm not sure that this will work and like Mike Allen said we have to be very careful and it is often not the right solution. We have a lot of problems in Germany in the urban sector driven by several factors. One of them is the fact that there are more and more single households and I believe that this is a trend we notice all over Europe. There is a trend to move to certain cities, to certain urban areas. Because of this trend it is also seen as a good investment. There are rich people moving into certain quarters, new owners and investors. The people who lived there have to move out and move to another quarter. The Mietspiegel is done by private companies, private consultancies so there was not agreed about methodology and of course the used data are in part publicly provided. The private companies do this on behalf of the local government but it is not done by the government itself. I don't know whether there is a lot of research done on how to do it in a good way.

Answer: The 'success' of the private renting sector in Germany is a combination of measures. The Mietspiegel is one, you have tenure security and tax exemptions for those who invest. It is not a single measure that makes it ‘successful’, it is a combination of measures.

Comment: What is the relation between housing and household expenditure? The poor who can’t afford a house because they are poor. From those who can afford a house, a large percentage of their money goes to housing. Controlling housing expenditure is thus controlling poverty. This is essential. Up to 50% of the household expenditure goes to housing what leaves very little room for other things.

I would like to hear more about variation in the housing problem because housing conditions in Brussels are different than in Paris. This is related to the development in needs for housing over time. And that brings me to the issue of land. Land wasn’t part of the discussion, only Manuel Domerguez talked about it in France. Laws covering land in Europe go back to the Middle Ages if not the Roman time. Laws covering housing are recent. We have to adapt. Regulation of the land market is crucial, because houses have to be built on the land. In the Netherlands there are houses on the water, and they are developed because of the lack of access to the land. Houses on water need infrastructure for water, electricity and sewage which are land-based. The point is that we need land policies to deal with the law covering land.

Housing is not just about buildings but it is about communities, formation of families, demographics, number of people, average age, migration, schooling, education etc. When we talk about housing policy, we are talking about social policy. Try to think about the linkages between the housing market and other social policy areas bringing in the issues and the financial side of it. Unless there is a revolution, the property market is not going to change in the close future. The financial market and the regulation of it has an important role. The linking of speculation and securitization of mortgages, which happened in the case of Spain and United States, from the housing needs at a social level and changing the landlords.

Comment: If land is privately owned it can be a way to make money with. I think there are differentiations within the housing problems and you can link it to intervention of Germany and new regulation because of problems in big cities. I think there is a real differentiation in housing problems with big cities, especially capitals, and the rest of the country. It has also to do with the availability of money. 5 or 10 years ago there was a lot of money in the world and it had to be invested somewhere. And in combination with urban politics, it was invested in cities. In the cities the land is privately owned, a way to make money out of it, and a government attracting investors and money to their city and that will inflate prices. Examples from Paris are astonishing. Because with a completely free market and the government as an engine with all the gentrification projects, the huge city projects, they inflate prices of the free market.

An urgent call for a social, democratic and sustainable Europe

Alliances to fight poverty