

# AT THE HARRIMAN INSTITUTE

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## Markets and Political Power: The European Response

“A few weeks ago an IMF report suggested that within the next five years, China would become the largest economy in the world,” stated Maria Damanaki, the European Commissioner on Maritime Affairs and Fisheries, who spoke at the Harriman Institute on September 12, 2011. As China’s economy grows, Western economies continue to decline, lamented Damanaki, reminding her audience that Standard & Poor’s has downgraded the longtime credit rating of the United States for the first time in history; Greece is on the brink of default; the Dow fell by nearly 15 percent this August in “one of the largest ten day drops since the fifties,” and European stocks have lost about 20 percent of their value since the beginning of the calendar year.

“European citizens are asking: what is going on with the markets? Who is managing this huge crisis? Are politicians still in charge?” According to Damanaki, the problem is that the relationship between financial markets and political power has been disrupted. “The financial markets discovered a lot of ways to make profits. They drifted away from their traditional mission and disconnected themselves from the real economy.”

Markets, which “are impatient by nature,” act quickly, while politicians have to filter their actions through a system of checks and balances. “Political power needs democratic legitimacy, which is something that financial markets can forego,” Damanaki said. In Europe, there has been a lot of discussion about whether financial markets are inherently “evil.” Damanaki does not think they are, because markets are not purposefully working to “rip off” the public. “But, in their quest to maximize profit,” she explained, “markets have certain advantages, over political power.”

The markets are not entirely to blame for the current situation, “the political class is also responsible. No one can deny this,” asserted Damanaki, stressing that neither the U.S. nor the European governments saw the impending crisis, and “did not set up the appropriate warning mechanisms.” She expressed disappointment at the lack of supervision of the financial sector, which had relaxed to a point where self-regulation was trusted “in an unprecedented way.” Meanwhile, the government allowed both public and private debt to accumulate too quickly, and when the crisis hit, “the reaction was slow and remains slow.”

Now politicians feel as though time is working against them. “The democratic process means that we should enable and open debate and reach a synthesis of multiple opinions and a socially acceptable outcome,” all processes that take a very long time. Damanaki emphasized that no matter how long these processes take, the EU government must continue to insist on a democratic system. “We have to work on how to simplify and improve it, but we cannot sacrifice democracy in the name of speeding up decisions.”

Damanaki, who began her political career in the early 1970s as an active member of the underground student opposition to the dictatorship in Greece, has been a long time proponent of the democratic system. “We have to keep our values, and I’m not saying this for ideological reasons, but because I insist that our system is best for the handling of this social and economic crisis.”

Damanaki went on to say that while the current system needs to remain in place, it must be restructured in such a way that will reinstate the balance between markets and politicians; that the needs of the market have

to be reconciled with the needs of the citizen majority, and a new system of market supervision must be enacted. “We have to accomplish a lot very quickly and we desperately need solid results.”

Damanaki is concerned about the state of the European Union, which has never been able to successfully coordinate the economies of its member states. “We established a currency before establishing a harmonized economic policy.” However she disagrees with the many critics who argue that it is time for the EU to stop expanding. “We have

realized in one year that the EU architecture has perhaps reached its limits.” she said, acknowledging the difficulty of further expansion, but maintained her position that the EU should continue to grow. “The only chance for Europe to survive in the context of this global transformation is to move to the next level of European integration. As you say in the States, ‘size matters.’”

*Reported by Masha Udensiva-Brenner*