Precarious podium

Europe and the crisis As leaders gather for a Brussels summit, not only are national finances under strain but so is the willingness to co-operate – casting doubt on prized achievements, writes **Tony Barber**

When Hillary Clinton visited the European parliament in Brussels two weeks ago, she praised Europe's post-1945 political and economic integration as a "miracle". The US secretary of state was too polite to point out that the global financial crisis and economic recession are jeopardising some of that continent's greatest achievements of the past six and a half decades. More diplomatically still, she avoided putting the question that many Europeans themselves are asking: are governments and the European Union capable of winning this battle?

The EU is sometimes likened to a supertanker, seemingly unsinkable in spite of its heavy load but not good at changing direction quickly. As the bloc's 27 leaders gather in Brussels today for a two-day summit, they will find themselves under pressure to show that their policies and decision-making processes are up to the task.

Joschka Fischer, Germany's leftwing former foreign minister, is one of the doubters. "The global economic crisis is relentlessly laying bare the EU's flaws and limitations. Without common economic and financial policies, co-ordinated at a minimum among eurozone member states, the cohesion of European monetary union and the EU – indeed, their very existence – will be in unprecedented danger," he warns.

He and others worry that since the world started its descent into the financial abyss in August 2007, Europe's efforts at crisis management have taken shape largely at national level, with little concern for the EU's wider interests. As a result, three of the bloc's most important successes of the past 20 years – the single market, the euro as common currency and the extension of political stability and prosperity into central and eastern Europe – are said to be under threat.

According to this school of thought, several factors have aggravated the incoherence of policymaking. One is the inexperienced leadership of the Czech Republic, which holds the EU's rotating presidency until Sweden takes over at midyear. Another is the poor relationship between Angela Merkel, Germany's chancellor, and Nicolas Sarkozy, French president.

True, in a union of 27 members Franco-German leadership no longer serves as the organising principle as it did in the age of Helmut Schmidt and Valéry Giscard d'Estaing in the 1970s or Helmut Kohl and François Mitterrand in the 1980s and early 1990s. Still, if Paris and Berlin are at odds, it becomes even less likely that the rest of the EU will find common ground. "In nearly all strategic aspects of EU crisis management, Germany and France are blocking each other," Mr Fischer says.

A third factor is the alleged weakness of the European Commission, the executive arm that acts as guardian of the single market and fiscal rules that underpin the euro. On the one hand, the Commission is near the end of its five-year term and is distracted by the none-too-subtle campaign of José Manuel Barroso for reappointment as its president this year. On the other, it is so terrified of being held responsible for bankruptcies and unemployment that it may be approving national guarantee schemes and subsidies for banks, the car industry and other sectors without thinking through the implications for the single market and the stability of monetary union.

Mr Barroso rejects these arguments. "I think we have acquitted ourselves honourably – and I don't mean me personally, or the Commission, but Europe generally," he said last week. His officials point out that France's plan to give €6bn ($5.6bn, £7.9bn) in assistance to its carmakers received approval only after Brussels insisted that Paris should obey EU state aid rules and attach no conditions on keeping jobs and production in France.

Moreover, it was the Commission that ordered the well-received report on future financial regulation from Jacques de Larosière, the International Monetary Fund's former managing director. This report, with its call for a new European systemic risk council to evaluate risk in the financial system, will form the basis of Europe's proposals at next month's summit of the Group of 20 industrial and developing countries in London.

All the same, Europe's critics refuse to keep quiet. From the administration of President Barack Obama comes the charge that the EU's €200bn fiscal stimulus is too modest. From Austria and Hungary, both EU members, comes the accusation that Brussels and the bloc's biggest countries are doing too little to calm the economic storm stirring in central and eastern Europe. Austria's alarm is understandable. The loan exposure of its banks to the region amounts to about 70 per cent of Austrian gross domestic product, making defaults and financial contagion the Alpine nation's ultimate nightmare.

The EU has hardly been inactive, however. It has doubled its balance of payments facility for non-eurozone countries, is drawing on it to help Hungary, Latvia and Romania and may soon increase it again. It has accelerated the disbursement of regional aid funds to central and eastern Europe. Further help has come from the European Investment Bank, the EU's long-term investment arm, together with the European Bank for Reconstruction and Development and the World Bank.

Crucially, EU leaders agreed on March 1 that west European banks must not starve their eastern subsidiaries of a share in the rescue schemes set up by governments for the parent banks. Marek Belka, a former Polish prime minister who is director of the IMF's European department, says: "I don't see the danger of even the fiscally embattled countries not being able to make their repayments."

In their response to the collapse in economic output, EU policymakers say they have been anything but timid. Add in the effect of Europe's "automatic stabilisers" – its generous unemployment benefits and other welfare programmes that come into effect in a recession – and the EU's total anti-recession expenditure is within range of the Obama administration's $787bn ([illegible]) package, they say.

This cuts little ice with Poul Nyrup Rasmussen, a former Danish prime minister and now a socialist leader in the European parliament, who calls the EU's arithmetical calculations on deficit spending a "fiction". "In the past, Europe blamed President George W. Bush for the lack of constructive global leadership. Today it is Europe that risks being blamed by the rest of the world," he says.

There are, however, reasons why Europe is so reluctant to go deeper into debt to fight the recession: the crisis is exposing how vulnerable the public finances of most EU countries really are.

The combined budget deficit of the eurozone's four biggest countries – Germany, France, Italy and Spain – will hit 6.4 per cent of GDP in 2010, up from 5.8 per cent this year and just 2 per cent in 2008, according to HSBC Global Research. Their public debt is forecast to climb to nearly 81 per cent of GDP from 79 per cent this year and 71 per cent in 2008.

All this soars beyond limits agreed in the 1990s to guarantee eurozone stability – and countries such as Greece, Ireland and Portugal are in an even more fragile condition.

In a currency union that has no central government to guide economic policy and no central fiscal authority, the deficits and debts piling up because of the recession are disturbingly high – a point underlined by the record yield spreads between Germany's 10-year government bunds and those of its less fiscally virtuous partners.

Germany, with low levels of domestic demand, is probably the one eurozone country whose public finances are strong enough to permit a bigger fiscal stimulus. But politicians such as Peer Steinbrück, finance minister, sometimes give the impression that Berlin is saving its ammunition for the battle that will really count – the rescue of a eurozone member state, such as Greece or Ireland, that may one day be unable to refinance its debt.

That Germany would pay the necessary price to prevent the 16-nation eurozone from breaking up is no longer in doubt. But any country that benefited from German-led assistance would have to pay a heavy price, too, in strict controls on public spending and external surveillance of economic policy. The question is how a restive society such as Greece, where riots have broken out in recent months, could be persuaded to swallow the medicine needed to keep it in the eurozone.

"Social unrest and protectionism are the two major risks of the world economic crisis," Christine Lagarde, France's finance minister, said in January, two days after more than 1m French demonstrators had staged western Europe's biggest public protests since the start of the credit crisis. Demands in the UK for the restriction of public contracts to companies employing British workers only, and Spanish government appeals to the public to "buy Spanish", appear to underscore Ms Lagarde's point.

Important though these immediate challenges are, the long-term problems that will confront Europe once the recession is over are no less weighty. If financial capitalism of the now discredited variety will no longer make a large contribution to growth, Europe's prosperity must come from sources where it is not at present a world leader – business innovation, labour productivity and education.

But the mood in Europe is turning against economic liberalism and in favour of a more active role for the state. Today's summit may not address this, but the question for the future is whether the new mood will supply the dynamic, entrepreneurial outlook necessary to keep Europe prosperous.

Union flags: Italy's Silvio Berlusconi shares a thought at last October's Elysée summit. EU leaders have since made little or no progress on co-ordinating a crisis response

Reuters

Recovery checklist

In the works

Among European Union initiatives to combat the crisis are:

- A recovery plan costing €200bn ($263bn, £188bn), of which €170bn stems from national governments
- Spending by means of "automatic stabilisers" (unemployment benefits and other social security payments) worth about €200bn
- Recapitalising banks – €300bn
- Bank guarantees – €2,500bn
- Aid for central and eastern Europe – a €25bn facility, of which €6.5bn is already being disbursed to Hungary and €3.1bn to Latvia
- Support for the car industry – €7bn in loans expected from the European Investment Bank

6.4%

Forecast 2010 budget deficit ratio to GDP for Germany, France, Italy, Spain

70%

Slice of Austria's GDP equivalent to its banks' loans made to eastern Europe

'Europe blamed Bush for the lack of global leadership. Today it is Europe that risks being blamed'

Wider initiatives

Action is intended on energy and 'partners' to the east

Rarely have the unstable lands that separate Russia from the European Union's eastern frontier captured the attention of its leaders as much as in the past 12 months.

Russia's military defeat of Georgia in August ended in Moscow's de facto partition of the pro-western Caucasian state, an act viewed in Brussels as a sharp break with international conduct in post-cold war Europe. Five months later, a Russian-Ukrainian dispute led to the cut-off of Russian gas supplies delivered to the EU, producing severe midwinter disruption to member states such as Bulgaria and Slovakia.

In response, EU leaders are expected to approve two initiatives at their summit today. The first aims to cut long-term dependence on Russian energy. The EU currently imports some 33 per cent of its oil and 38 per cent of its gas from Russia. By 2030 the gas figure is on course to have risen to 60 per cent, projections show.

Under its new energy security strategy, the EU will aim to diversify sources of supply and transit routes, improve gas and electricity interconnections among its members and put a new emphasis on renewable energies, carbon capture and storage technologies and nuclear power.

"We have to address this urgently by taking measures to increase our energy efficiency and reduce our dependence on imports," says José Manuel Barroso, European Commission president.

Governments and businesses in countries such as Germany and Italy have close energy ties with Russia and dislike terms such as "blackmail" to describe Moscow's use of energy as a foreign policy tool. Nevertheless, there is a widespread recognition that the January crisis undermined Russia's reputation as a reliable supplier. Even in Soviet times, when east-west relations were much more tense, Russia was a dependable partner, recalls Wolfgang Clement, a former German economics minister.

Second, through its "eastern partnership" initiative, the EU hopes to develop closer relations with Armenia, Georgia, Belarus, Moldova, Azerbaijan and Ukraine. Conceived by Poland and Sweden, partly to balance the French-inspired Union for the Mediterranean launched last year, the partnership has acquired extra significance due to the economic crisis gripping the post-Soviet states.

The aim is to stabilise the region and make it more prosperous by integrating its economies with the EU, removing visa requirements and encouraging its authorities to adopt EU rules and norms. The EU will also expect better co-operation in combating illegal migration and strengthening border controls.

It is emphatically not an aid programme. Nonetheless, even supporters of the initiative detect flaws. It is unclear, for example, whether EU countries and their partners will have the political will to overcome the forces of economic nationalism and protectionism that are evident on both sides.

Moreover, the eastern partnership offers no solid promise of eventual EU membership – something that may not bother Armenia or Belarus, which show little interest in joining, but is hugely frustrating to Ukraine.

In Brussels, however, that frustration is reciprocated. As Tomas Valasek of the Centre for European Reform, a think-tank, points out: "The EU is getting fed up with Ukraine in particular, because the leadership is so weak and divided ... And because Ukraine has been at the heart of the eastern partnership, its woes undermine support among EU member states for the whole region."

'We have acquitted ourselves honourably': José Manuel Barroso

FINANCIAL TIMES

"Without fear and without favour"

Thursday March 19 2009

Selling Turner's big picture abroad

FSA chairman sets out an action plan – for the world

Lord Turner is certainly ambitious. The chairman of the UK's Financial Services Authority this week submitted his application to be banking regulator to the world. His report on the remoulding of the UK financial system is a manifesto for global reform that aims to put London at the head of the intellectual pack. Good luck to him.

Lord Turner's basic prescriptions address some causes of the crisis. Banks need more capital – and to amass large capital cushions in fat years to run down in the lean. Leverage ratios should be capped and liquidity regulated. Anything that looks like a bank and quacks like a bank should be regulated like a bank. And pay packages should be checked to make sure bankers are not paid for taking on ever greater risks with other people's money.

The FSA also intends to change its role. Banks relied on deliriously optimistic scenarios and unrealistic models, but watchdogs did not challenge their rosy assumptions. No longer. The FSA plans to be more intrusive, intervening to stem systemic problems and passing judgment on the dangers inherent in given strategies. The supervisor would take views on how cautious banks are being and when exuberance is irrational. Lord Turner seeks to tame our animal spirits.

These proposals will not prevent all future financial meltdowns even this British *énarque* is not omniscient. And the regulatory pendulum may well swing too far. But Lord Turner is, nevertheless, right to close the stable doors through which this crisis bolted. He also grasps, however, that no matter how well regulated the UK financial system is, it will still need international co-operation.

This global financial earthquake has revealed weak points in the international architecture. Lord Turner believes that Europe, in particular, needs a central standard-setting institution if there is to be a single European financial market. This is no small concession from a British official. Now is a rare moment when the political will exists to move financial regulation around the world into sync. Lord Turner intends to seize it – and to make the UK set the pace.

He can expect Eurosceptic opposition to a powerful European regulatory body – whatever it is set up to do. He should also prepare for a fight on the details: no two European countries' banking systems are alike. London's previous reputation for light-touch regulation may also prove a millstone. But the chance of a financially stable Europe with higher regulatory standards may not come again, at least until the next crisis.

Geithner's ordeal

Baying for US Treasury secretary's blood is destabilising

Barack Obama has pledged unwavering confidence in his Treasury secretary. As a rule, such expressions of loyalty would signal Tim Geithner's imminent departure, but one hopes not in this case. Mr Geithner has had a far from flawless two months, but his difficulties are mainly not of his own making. If he should have to step down, it would be a serious blow to an administration which the US and the world desperately needs to succeed.

The Treasury secretary's difficulties began before he even had the job, when errors in his taxes came to light during his confirmation. He survived, but some other forgetful tax-filers were not so lucky, which served to heighten his embarrassment and diminish his authority.

He has had to cope with ambiguity over whether he or Lawrence Summers, Mr Obama's adviser on economic policy, is really in charge. Partly because of the rigours of an out-of-control confirmation process he still lacks a team of senior officials to help him cope with a crushing workload. Paul Volcker, head of Mr Obama's Economic Recovery Advisory Board and former chairman of the Federal Reserve, has called that situation "shameful".

Until this week, Mr Geithner's worst moment came when he and the White House bungled the presentation of his financial stability plan last month, by leading the markets to expect a detailed proposal before he was ready to announce it. Wall Street tanked as he spoke. His newest setback is the outrage over bonuses paid to employees at AIG, the collapsed insurance group and hedge fund that is now 80 per cent owned by the US government. The Treasury and White House have both vacillated over whether these payments could be clawed back. Mr Geithner's critics are asking whether he was aware of the bonuses before they were disclosed to the public, and if not why not. There are calls for his dismissal.

No US Treasury secretary has ever taken office in more testing circumstances. Any occupant of the post would have struggled to impress under these conditions. Mr Geithner, previously head of the New York Fed, was a good appointment, and still is, because of his exceptional expertise in banking and finance, the issues which will decide whether Team Obama sinks or swims. To lose so capable a figure so soon might seriously destabilise the administration, calling into question Mr Obama's judgment.

Aside from some staff, what Mr Geithner most needs is a chance to do his job. For its own sake, the country should grant it.

Menaced migrants

Governments should be more realistic about migration

The countries at the heart of the boom, such as the US, the UK and Spain, attracted not just capital but also people from around the globe. The good times ended abruptly, leaving governments with the challenge of managing people who came for jobs that were once plentiful but that locals are now desperate to secure.

The boom pulled in workers at all levels, from finance experts to manual workers, to the benefit of all. Mexicans filled the ranks of a US construction sector in breakneck expansion. In Spain, rural Andalucians found better jobs in the city, leaving harvesting behind for Ecuadoreans, Moroccans and Romanians. Remittances flowed back to immigrants' home countries.

Today immigrants are blamed for vanishing jobs and falling incomes. As frustrations mount tensions are becoming explosive. Politicians must therefore tread very carefully. They have no choice but to take seriously the social troubles that can arise between locals and immigrants but must not pour petrol on the fire of anti-immigrant attitudes.

Governments should be honest when there is little they can do. The European Union requires open borders with only limited delay. Even where the law limits immigration, restrictions are not fully enforceable. US nativists dream of an impenetrable border fence along the Rio Grande – a delusion when Mexicans prefer the perils of illegal immigration to continued misery at home.

But politicians seem compelled to conjure an illusion of control. As the FT reported this week, Congress slipped into US bank rescue laws a limit on banks' access to visas for skilled foreign staff – discouraging companies from participating in the crisis policies intended to end the crisis. Such pandering to nationalism helps no one. It deprives the US of talent, extinguishes some people's dreams and fosters an illusion that the world is a zero-sum game. It may also provoke retaliation.

Collapsed labour markets flooded by unskilled migrants should be addressed with encouragement rather than force. With jobs scarce, fewer will immigrate and more will go home; governments can support this process. Spain has offered monetary incentives for migrants to depart, for example.

Letting illegal immigrants formalise their status makes it easier to give them incentives to leave, especially if they are allowed to return when labour demand is again high. This would also be in the interests of host countries, which after all welcomed the immigrants in boom times. They should not now push the pain of the bust on to them in ways that cause suffering.

Letters

It is time to consider breaking up the banking behemoths

From Prof Johan A. Lybeck

Sir, In the present financial crisis, much emphasis has been placed on the questions of whether banks should be nationalised or not and which banks are considered to be too big to fail. Typical questions have been: why were Bear Stearns, Merrill Lynch, Citibank, Bank of America and AIG too big to fail, while Lehman Brothers was allowed to go bankrupt? Another is whether tax payers are better protected and better able to recoup their contribution when markets recover if a bank is nationalised rather than just recapitalised?

To my mind these questions are relevant but to some extent misdirected. The question is rather whether such big organisations should be allowed at all. This question, in turn, has two answers, one immediate and one for the future. The immediate question is whether states can afford to nationalise big banks.

In Britain, the nationalisation of Northern Rock, a relatively small bank, brought the British national debt from 36 to 45 per cent of gross domestic product. No wonder the UK government is hesitating to nationalise completely RBS, which, measured by assets, is 20 times as large as Northern Rock. Or Lloyds TSB, which is 10 times as large. As long as RBS is "only" 70 per cent government owned, its debt does not have to be included in the national debt. The US government has an identical problem in Citibank. It is, perhaps, unfortunately, just not possible to nationalise a bank with assets of $2,000bn, adding an almost similar sum to the national debt, since such an action would most likely trigger a downrating of the credit of the US itself from Moody's and Standard & Poor's, with unpredictable and most likely dire consequences for US bond yields and confidence in the world's financial markets. The Icelandic situation is, of course, relatively speaking even worse, with the four now nationalised banks having liabilities 10 times the country's GDP.

The long-term question is whether we should tolerate such behemoths at all. All studies of economies of scale and scope in banking indicate that the optimal size of a bank is actually rather small, perhaps at most $10bn. Only a minority of mergers above that scale have been shown to reduce costs.

So why not break up the big banks? At least in the US, the legislation already exists in the form of the Sherman Act of 1890. Under this act, Standard Oil was broken up in 1911 into 34 separate companies. Why shouldn't we do the same thing with Citibank (and Bank of America and Royal Bank of Scotland and ...)?

Johan A. Lybeck
Soulhac, France

Prevent systemic failure by paying attention to detail

From Mr Philip McBride Johnson

Sir, It is in vogue these days to propose that the financial markets need not only regulators to supervise its various pieces but one to look for the risk of a cataclysmic ("systemic") failure ("Reform the architecture of regulation", 18 March).

Things simply do not work that way. The word "systemic" itself explains why.

A system is an aggregation of parts that perform their functions as a whole only so long as each of them is sound. A commercial airliner, for instance, involves tens of thousands of pieces of hardware and software that threaten decimation of the entire vehicle if any one of them fails.

Managing systemic risk must begin with the prudent operation of each component, observed in isolation from all others.

A systemic failure can occur, in other words, even if many, most or nearly all of the parts are performing well, just as if there is a single or a few breakdowns.

Look at the current financial crisis. It has hit hardest the structures supervised by the banking and securities regulators, while not a single dollar of troubled asset relief programme money (or other bail-out programmes) has been spent on the futures and commodity option markets that, as regulated, were safeguarded against the types of risks that spiralled out of control in those other venues.

Some parts failed, causing systemic peril, while other did not. The devil, as always, is in the details.

Philip McBride Johnson
Great Falls, VA, US

IMF could not have prevented the global crisis

From Ms Deborah Lewis

Sir, Quentin Peel's piece on the International Monetary Fund ("Political will for meaningful reform of IMF is still lacking", March 17) raises some interesting points.

First, the irony is that it was only one year ago, not two, that everyone said the IMF was irrelevant and consequently, one year ago that the IMF engaged in a significant reduction in staff.

Second, IMF policy in favour of open markets and fiscal discipline could not have prevented the current crisis since the US has always, for the most part, opted out of IMF review.

Third, if Trevor Manuel, the South African finance minister, criticises the IMF as being made up of people who are all the same – smart, university educated and holding PhDs – would he criticise President Barack Obama and his administration on the same grounds?

Deborah Lewis,
Washington, DC, USA

Would Trevor Manuel criticise Obama's administration, too?

Encouraging signs of reform among world firefighters

From Mr Kevin Young

Sir, If there is one constant theme within the discussions on the financial crisis within the FT (other than describing the enormity of the problem, that is), it is that the global reach of the current crisis calls for global solutions.

How reassuring, then, to see that several of the most significant institutions of global financial governance are undergoing much needed reforms, at least at the level of their memberships.

While the International Monetary Fund jockeys for more power, the less well known – but equally significant – institutions of global financial governance, such as the Financial Stability Forum, the International Organisation of Securities Commissions, the International Accounting Standards Board and the Basel Committee on Banking Supervision, have all begun to reform their memberships in a responsive and unprecedented manner.

The Basel Committee answered the Group of 20 developed countries' call for standard-setting bodies to review their membership through a historic reform last week, wherein the committee expanded its membership to include representatives from 20 countries (from 13), offering formal participation to the central bankers and financial supervisors of Australia, Brazil, China, India, South Korea, Mexico and Russia.

While the Basel Committee is the last of the major standard-setting bodies to reform its memberships, it is also arguably the most ambitious. Many financially significant countries have for too long been excluded from membership of this vitally important institution of global financial governance, which sets the de facto regulatory standards for the banking industry.

While critics can rightly point to the fact that it may be too little, too late, and that further participatory reforms are in order, it is nevertheless significant that several emerging economies now have an enhanced stake and voice in the important reform process ahead. It can only be regarded as a positive step in the right direction.

Kevin Young
Fellow in Global Politics,
London School of Economics,
WC2 London, UK

Long live the Hungry Horse

From Mr Anthony Aust

Sir, I was glad to read ("When papers fold", March 17) that The Wall Street Journal sales twice as many copies as The New York Times. Now I know why: when I stayed in the best hotel in Glacier National Park in August 1990, the sole newspapers on sale were the Journal and a local weekly, the Hungry Horse News. I just hope both survive the recession.

Anthony Aust,
London W6, UK

Let Sir Fred collect his cash in person

From Mr Anthony Stevens

Sir, With the ongoing debate about Sir Fred Goodwin's pension, many innovative ideas have been put forward, most of which involve some apparent breach of contract with him.

In order to abide by the letter of the contract, while still attaining a likely optimal solution, why not ask Sir Fred to collect his pension every week in cash from his local RBS branch? I am sure the RBS staff there would be delighted to serve him.

Anthony Stevens,
Singapore

Britain's track record of sovereign default

From Mr John Walkley

Sir, I am disappointed that Lex (March 17) failed to recognise England and Great Britain's pioneering efforts in the field of sovereign default and [illegible] national sovereign debt collection.

Perhaps the western world's first great banking crisis arose from Edward II and III's defaults in the 14th century, causing the collapse of the Italian banking houses of Bardi, Mozzi and Frescobaldi, amongst others.

In the field of international debt recovery there are numerous examples of successful action. 1861 Britain, France and Spain occupied Veracruz in order to recover debts from Mexico. 1879 Great Britain and France took over control of Egyptian public finances and effectively gained control of the country to recover debts and enforce contractual obligations, and similarly, Britain participated in the naval blockade of Venezuelan ports in 1902 in order to recover debts.

Nor should we neglect the efforts of the British private sector. In 1879 John North and others made purchases of defaulted Peruvian debentures at a huge discount with a prior agreement that the invading Chileans would redeem the bonds.

More recently, in August, 1947 Great Britain suspended convertibility of sterling provoking serious difficulties to Argentina and other leading creditors. The Financial Times recognised this action for what it was: "It is in fact a default" (August 21 1947).

John Walkley,
Budapest, Hungary

Risk-takers should be allowed to suffer the consequences

From Mr Harry Eisenstein

Sir, I agree with John Gapper ("The case for a Glass-Steagall lite", March 11) as to a reformation of Glass-Steagall, and for the primary reason cited, ie to guard against systemic risk that in our time is posed on a scale unfamiliar to its original advocates. I would only point out that the sole counterargument provided is really none at all.

The need for counter-cyclicality in the revenue stream of financial companies in a reformed financial system is at the end of the day only a retread of similar arguments made for conglomerates in the 1970s that have long since been discarded. Once systemic risk is adequately addressed (and of course a reformed Glass-Steagall cannot do this alone), those entities allowed to incur the risks that have now brought the system down should also be allowed to suffer the consequences of incurring those risks.

Harry Eisenstein,
Bethesda, MD, US

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The man who can spoil Europe's party

Brussels blog (Tony Barber): Short of giving him a pair of horns and a forked tail, it's hard to see how you could make the people who run institutional Europe dislike Declan Ganley more than they do now.

Ganley is the British-born, multimillionaire Irish businessman who spoiled the European Union's party last June by spearheading a successful campaign to persuade Irish voters to reject the EU's Lisbon treaty. The Irish vote threw the EU into a state of organisational confusion from which it has not recovered to this day.

Now Libertas, Ganley's political movement, is putting up local candidates across the EU for next June's European parliament elections. Ganley himself will stand for the constituency of Ireland North West. It is clear that Libertas will run a highly populist campaign – in one recent statement, it attacked a European parliament decision to "go ahead with building a €9m gym and pool in Brussels, which only MEPs and parliament staff can access ... The move to go ahead with it while families across the EU are facing financial hardship shows a complete lack of respect for the people of Europe".

It's this sort of populism that makes Ganley's opponents stick a great big "anti-European" label on him. But is he really anti-European?

I recommend readers of this blog to look at the transcript of a long interview that Ganley recently gave to the online edition of E!Sharp, a magazine that specialises in EU affairs. In this interview, he comes across as more sympathetic to the idea of European integration than his critics allow. This is no British-style Eurosceptic speaking. He pulls no punches, however, in attacking what he sees as the EU's shortcomings in democracy and accountability.

So how successful will Libertas be in the European parliamentary elections? For sure, there is a protest vote out there in some countries that is waiting to be tapped. But it could go to the far right or the far left rather than to Ganley.

In a recent conversation I had with Ganley, I got the sense that he risked putting too much emphasis in his campaign on his anti-Lisbon treaty views, and too little on the bread and butter issues of jobs, financial worries and economic recovery that are surely uppermost right now in voters' minds.

And then, with turnout at European Parliament elections having fallen on every occasion between 1979 and 2004, there is the minor matter of how to get the voters to vote.

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Green jobs

Energy Source (Fiona Harvey): Rumblings are growing around whether government estimates of the number of jobs to be created in the "green" economy are overly optimistic. Governments around the world, including the US, the UK, Germany and China, have been promising "green collar" jobs as a way out of the recession.

Rob Stavins at Harvard has also been blogging about why a "single policy instrument" is not always best.

When the FT looked into the claims of the UK government on the number of green jobs to be created, we found several problems.

Chiefly, there is the fact that no one really knows how many green jobs can be created. The numbers depend so much on so many other unknowns – estimates of how much renewable energy will be generated, how many low-emission vehicles will be built, how many houses can be insulated, etc – that they quickly start to run away from reality.

Then there is the question of what constitutes a green job. The UK government has two central estimates – one of the number of jobs created by the UK's move to generate 35-40 per cent of electricity from renewables sources by 2020 (160,000 jobs by 2020), and the other of the number of jobs in environmental goods and services, which is much bigger (as many as 880,000 jobs currently, according to the Environmental Industries Commission) because it includes everything from rubbish collectors to sewage plant workers. How far do you spread this net?

Then there is the question of where these jobs are going to be. Questioned closely, the UK government admitted that its 160,000 projected jobs in renewable energy would not all be in the UK – many, if not most, would be in the countries where wind turbine components are built, such as China and Germany.

Finally, what about job destruction from green industries? Take renewables. The whole point of building more wind turbines is that you need fewer coal plants. But coal plants are hard to keep running, and generate lots of supply chain jobs in mining and transport. Wind turbines are cheaper in the long term precisely because they need no fuel and little maintenance.

That said, the move to a low-carbon economy requires such big changes in the whole of the economy – from house-building to vehicle manufacturing or recycling our rubbish to redesigning our cities – that it is sure to entail a large number of new jobs, which will almost certainly far outweigh the effects of any job losses. There is little research, however, on the net job impact of moving to a green economy. We need some more.

www.ft.com/energysource

Wisdom of crowds

Standard Chartered's China team are looking at Google Trends as an indicator of the country's consumer appetite.

It's not scientific per se (only 23 per cent of China's population is online and of those only about 27 per cent use Google as a search engine) but it is interesting.

Full story at www.ft.com/alphaville