



Finance Watch

Making finance serve society



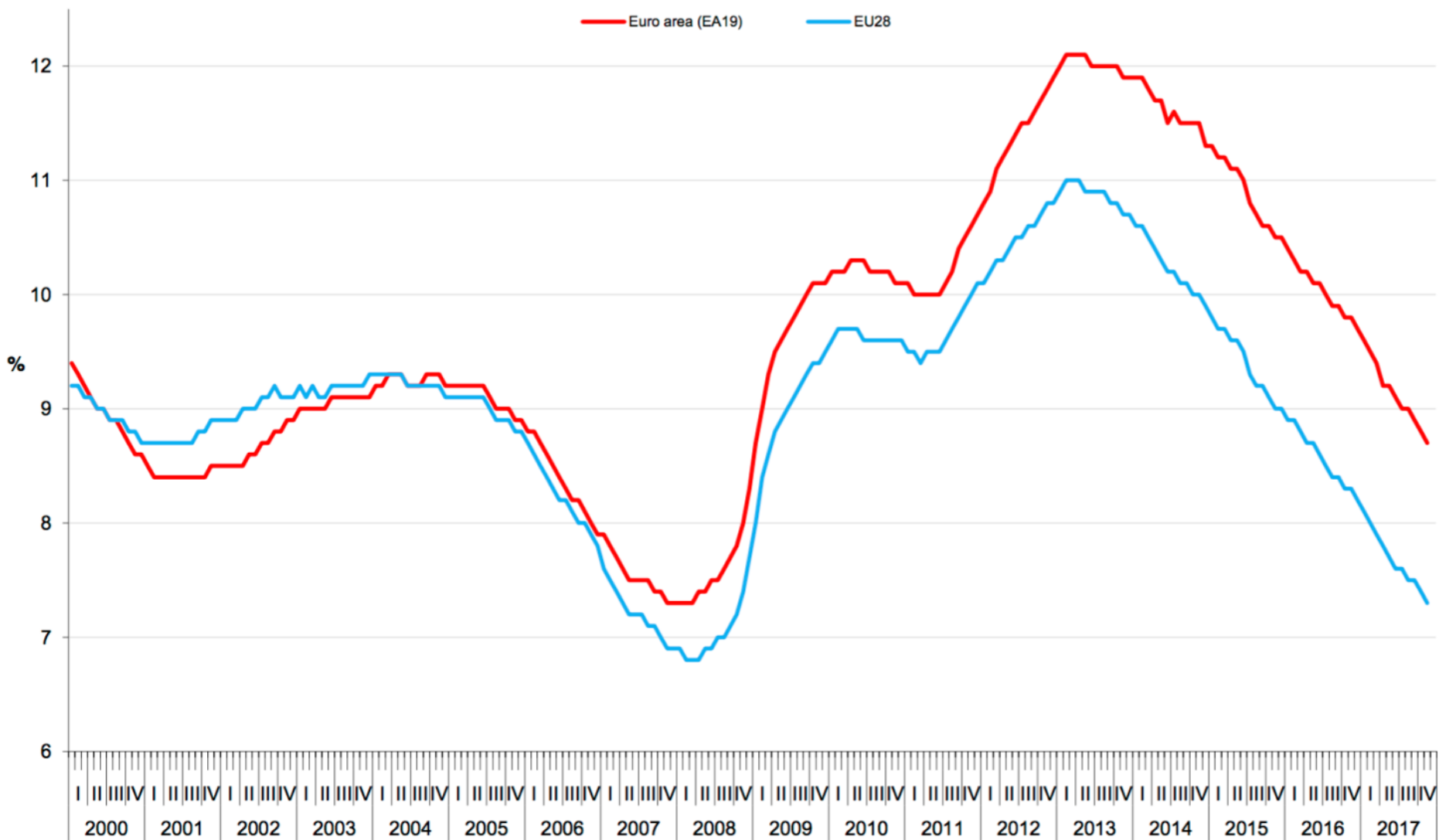


[SHORT VIDEO](#)

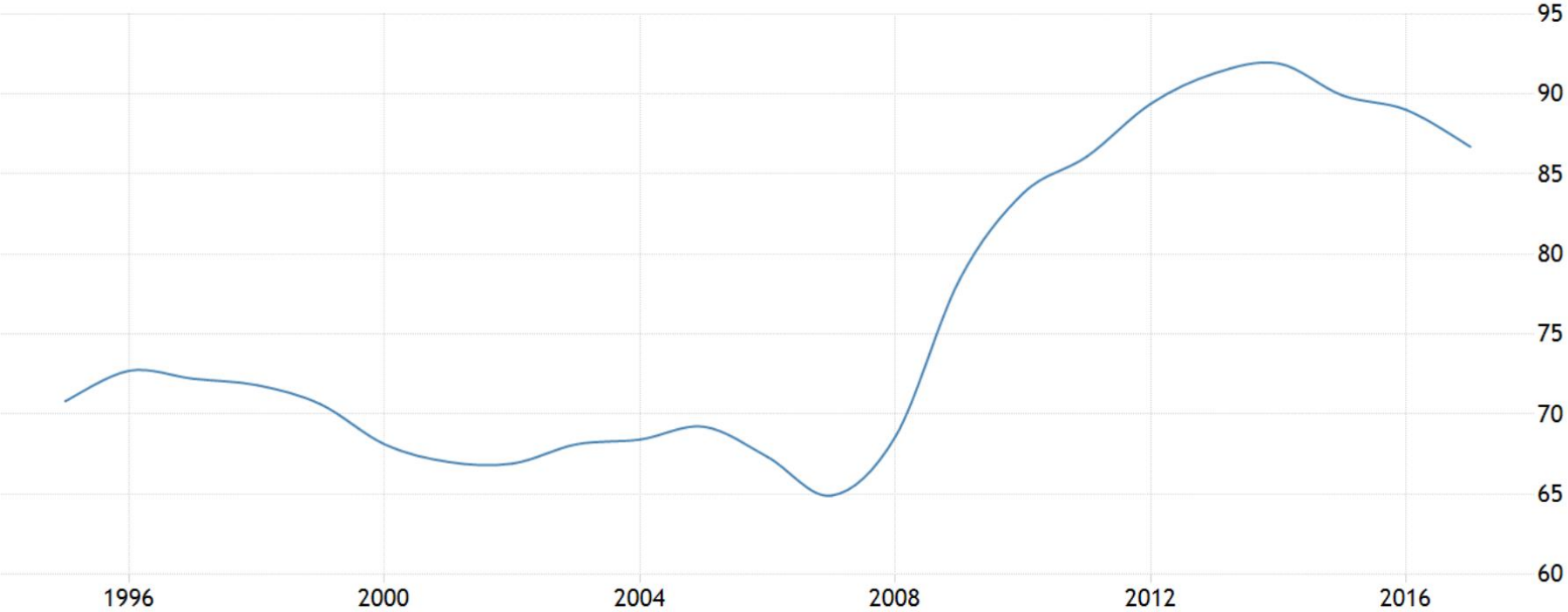
Euro area and EU28 unemployment rates

Seasonally adjusted series

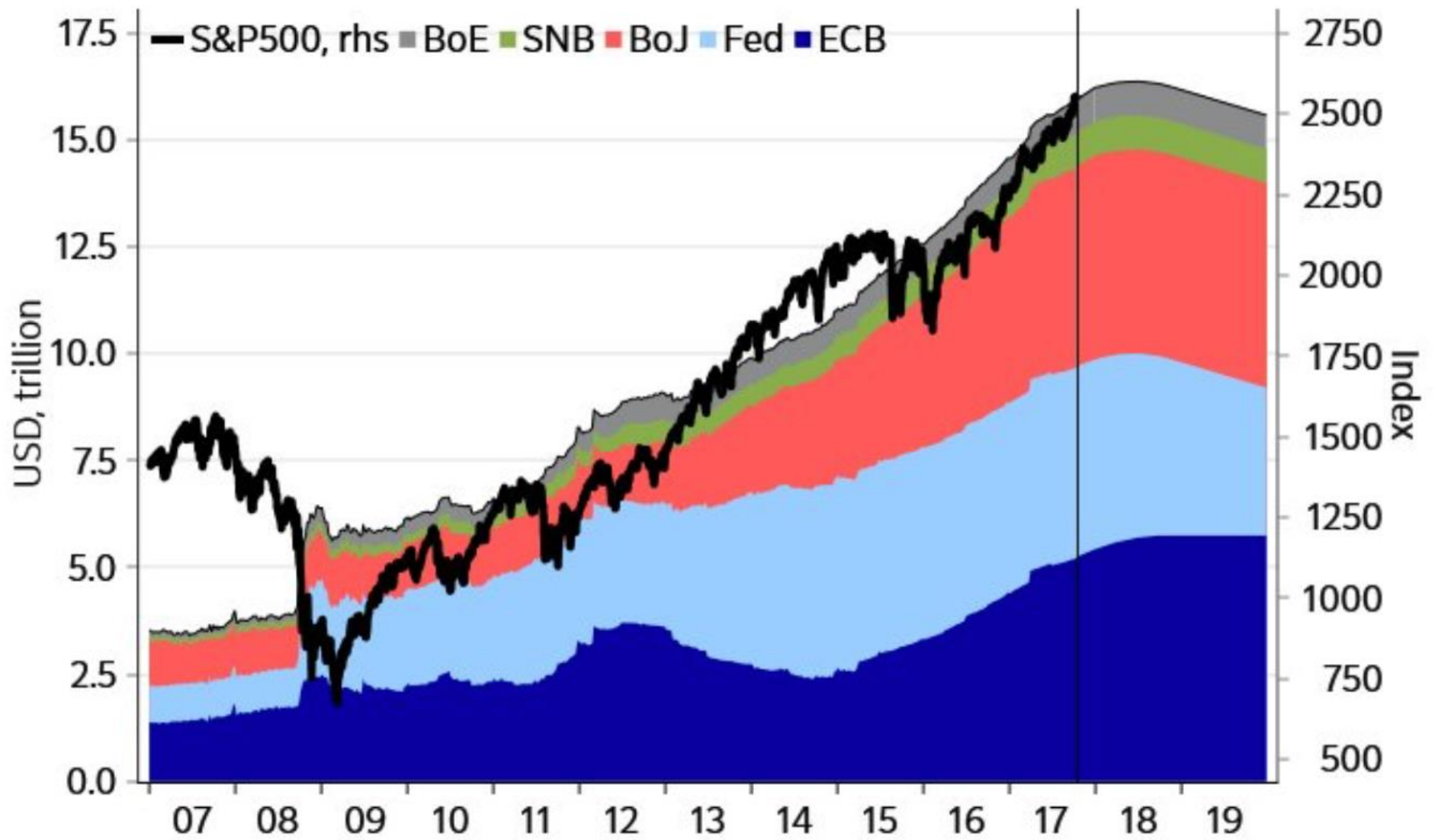
Euro area (EA19) EU28



EU GOVERNMENT DEBT TO GDP



SOURCE: TRADINGECONOMICS.COM | EUROSTAT



Source: Nordea Markets and Macrobond



FINANCIAL
STABILITY
BOARD

Progress in implementing the G20 Recommendations on Financial Regulatory Reform

Status report by the FSB Secretariat

Global policy development

(1) Completed

- Global policy is fully developed as planned.

(2) Green

- Global policy is on track to be developed in a manner consistent with the plan.
- In some cases, project may be somewhat behind schedule but catch-up is possible without facing difficulties.

(3) Amber

- Global policy development is currently in progress.
- However, it is facing some difficulties in meeting its objective and/or timelines.
- Corrective action is being taken or under consideration.

(4) Red

- Global policy development is not making adequate progress.
- Serious problems exist either in meeting its objective or timelines.
- Remedial action is warranted.

Recommendation	Current Status	Target Status	Notes
Recommendations to strengthen the oversight of the global financial system. (13)	Green	Completed	Recommendations published on 27 October 2011 and were endorsed by the G20 Leaders at the Cannes Summit.
Guidelines for national supervisors to achieve a single set of high quality standards, and complete their work. (22, 23)	Red	Amber	The G20 FM + CBG in April 2012 endorsed the deadline to be extended to mid-2013.
Guidelines for national supervisors to plan and formalise its outreach activities to the public. (1)	Green	Completed	Regional Consultative Groups (RCGs) for the Americas, Asia, the Commonwealth of Independent States, Europe, Middle East & North Africa, and Sub-Saharan Africa were established with 65 non-FSB member jurisdictions participating, and have met.
Guidelines for national supervisors on enduring organisational footing and greater financial autonomy. (2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39)	Amber	Green	The High-Level Working Group on FSB Capacity, Resources and Governance completed its report and the FSB submitted recommendations along with a revised FSB Charter to the Los Cabos Summit for G20 Leaders' endorsement.
Guidelines for national supervisors on working with OECD and other IOs, to ensure consistency with the G20 on options to advance financial consumer protection. (32)	Green	Completed	The OECD High-level Principles on Financial Consumer Protection were endorsed at the G20 Cannes Summit, and the OECD, in collaboration with the FSB and SSBs, have developed an action plan to identify a set of relevant approaches to support the effective implementation of the high-level principles.

A new financial system for Europe



Actions completed

Proposals presented by the Commission but not yet adopted by the co-legislator

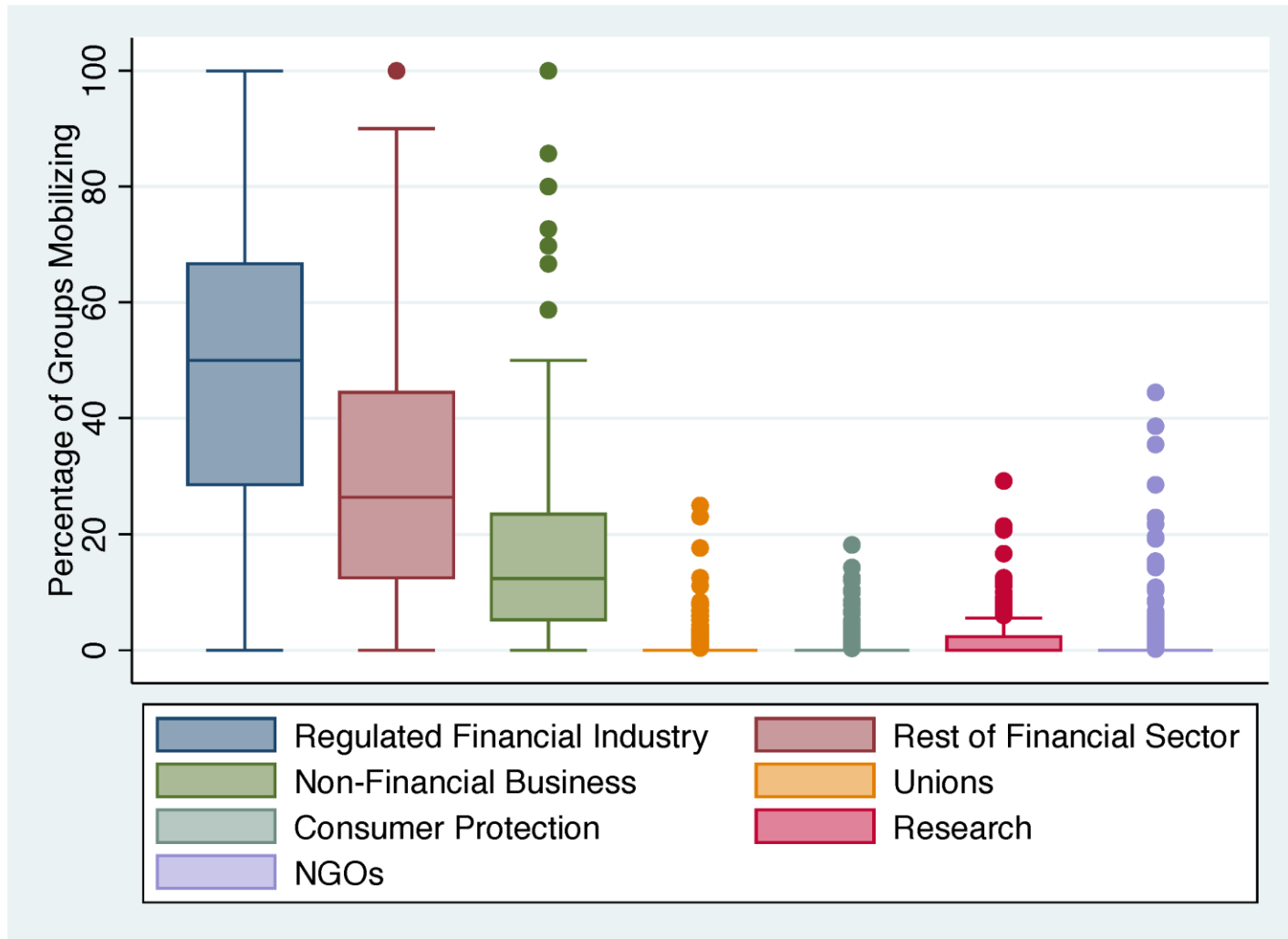
Proposals to be presented by the Commission

Building new rules for the global financial system

The G20 has been instrumental in establishing the core elements of a new global financial regulatory framework that will make the financial system more resilient. These include reforms to improve the stability of the banking system through stronger prudential requirements and a framework for crisis management, as well as measures to strengthen the regulation of financial markets and infrastructures, especially through the compulsory trading and clearing of derivatives on well-regulated and transparent platforms. The Commission has now proposed all the main legislation linked to the G20 commitments, including two very significant packages on prudential requirements for banks and the regulation of capital markets. The majority of these proposals will have been enacted into law by the end of this year. Additional recommendations from the G20 are also expected later in 2013 to address the risks stemming from shadow banking and financial institutions other than banks.

Apr 2009	Hedge Funds & Private Equity ("AIFMD")	Capital markets
July 2009	Remuneration & prudential requirements for banks ("CRD III")	Banks
Sep 2010	Derivatives ("EMIR")	Capital markets
July 2010	Deposit Guarantee Schemes	Banks
Nov 2008	Credit Rating Agencies	Capital markets
June 2010		
Nov 2011		
July 2011	Single Rule Book of prudential requirements for banks: capital, liquidity & leverage + stricter rules on remuneration and improved tax transparency ("CRD IV"/"CRR")	Banks
Oct 2011	Enhanced framework for securities markets ("MiFID/R")	Capital markets
Oct 2011	Enhanced framework to prevent market abuse ("MAD/R")	Capital markets
June 2012	Prevention, management & resolution of bank crises ("BRRD")	Banks
Sep 2013	Shadow banking, including Money Market Funds	Capital markets
2013	Prevention, management & resolution of financial institutions other than banks	Capital markets

Sectoral Identity of Groups Responding to Financial Regulatory Consultations 1999-2013 (Pagliari & Young, 2015)



FROM GREEN PAPER TO LAW

1 THE EUROPEAN PARLIAMENT CANNOT INITIATE LEGISLATION

Unlike most national parliaments, the European Parliament does not have the "right of initiative". Only the European Commission can initiate legislation. MEPs who want legislation in a certain area have various ways to push the Commission into action, but they cannot simply start drafting a law themselves. One of the common mechanisms used by the Parliament is drafting a non-legislative report, asking the Commission to consider legislative action in a certain area. Often these "owninitiative" reports are linked to Commission consultations, where the Commission asks for confirmation of planned legislative action (White Papers) or is more generally asking for views on a certain topic (Green Papers).

3 STAKEHOLDERS LOBBY THE COMMISSION TO REFLECT THEIR INTERESTS

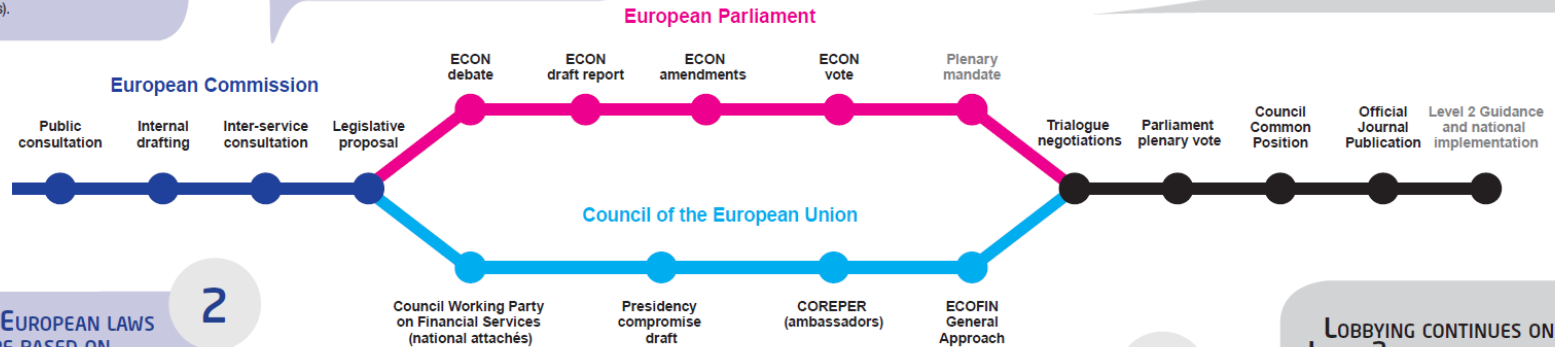
Although a large part of the legislative agenda follows from international commitments, it is still very important to engage with the European Commission ahead of legislative proposals. When considering legislation, the Commission will hold formal and informal meetings with "stakeholders" in order to better understand the sector it is regulating, and stakeholders can respond to written Commission consultations in an attempt to influence the Commission's thinking. Lobbyists will try to make sure that whatever the Commission proposes is in line with their interests and some lobbyists may even try to convince the Commission not to issue a legislative proposal at all. Others will encourage the Commission to work on issues where they see a need for legislation.

5 PARLIAMENT'S RAPporteur TRIES TO FIND A COMPROMISE WITH COLLEAGUES

The Parliament's Economic and Monetary Affairs Committee (ECON) handles most financial services legislation. ECON appoints a rapporteur to negotiate on behalf of the Parliament, who starts by writing a draft report with amendments to the Commission's proposal. Some MEPs have a special role as shadow rapporteur for their political group and will try to reach agreement on compromise amendments with the rapporteur. These are voted in Committee to form the Parliament's starting position for negotiations with the Council and Commission. Lobbyists will meet with key MEPs at any stage in this process to ask them to present favourable amendments or to prioritise certain issues in the compromise negotiations.

7 'TRIALOGUES' HAVE SHORT-CIRCUITED THE FORMAL SYSTEM OF FIRST, SECOND AND THIRD READINGS

In theory, the Council issues its opinion on the Committee report voted by Parliament in plenary. If Ministers reject Parliament's position, they present their "Common Position" and the proposal makes a second tour of the institutions (second reading). In practice, Parliament, Council and Commission representatives gather in informal dialogues to hammer out an agreement that all can accept. That agreement can then be approved in a single amendment when Parliament votes on its report in plenary, after which the Council will formally endorse the Parliament's text. Although this system usually speeds up decision-making, it comes at the expense of democratic scrutiny as dialogues are not public.



2 MANY EUROPEAN LAWS ARE BASED ON INTERNATIONAL AGREEMENTS

In textbook law-making, the Commission takes the time to analyze and discuss policy options in a Commission Green Paper, followed by legislative measures in a White Paper, which are then transformed in a draft law (legislative proposal for a Directive or for a Regulation). In the field of finance, much of the legislation proposed by the Commission these days is simply transforming international agreements into legal drafting, adding details and differentiates where needed. Examples of these are the Basel Committee's package on bank capital requirements implemented in Europe as the CRD IV, or the G20 Pittsburgh Summit declaration which led to the development of the European Markets Infrastructure Regulation (EMIR).

4 THE COMMISSION CONSULTS INTERNALLY ON THE DRAFT

Inside the Commission, financial services legislation is generally prepared by the Internal Market and Services Directorate-General (DG MARKT). Before publishing a legislative proposal, other DG's which work on different issues such as consumer protection, industrial policy or agriculture, give their opinion on DG MARKT's draft in a process called "inter-service consultation". Once this is completed, the full College of Commissioners will formally adopt the legislative proposal, after which it is published and sent to the Parliament and Council so that they can give their opinion.

6 NATIONAL EXPERTS AND ATTACHÉS NEGOTIATE A POSITION ON BEHALF OF THEIR MINISTER

In order to define the position of the European Council, national experts and attachés from all 28 member states gather in Brussels in meetings of the Council Working Party on Financial Services, chaired by the country holding the rotating EU Presidency. Very controversial political issues are escalated to ambassadors (COREPER II) or Finance Ministers (ECOFIN), who also sign off the final negotiation position (called a General Approach) on behalf of their governments. Lobbyists will target any of these officials at any stage, in some cases up to the night before the final Finance Ministers meeting if very large interests are at stake.

8 LOBBYING CONTINUES ON LEVEL 2 TECHNICAL STANDARDS

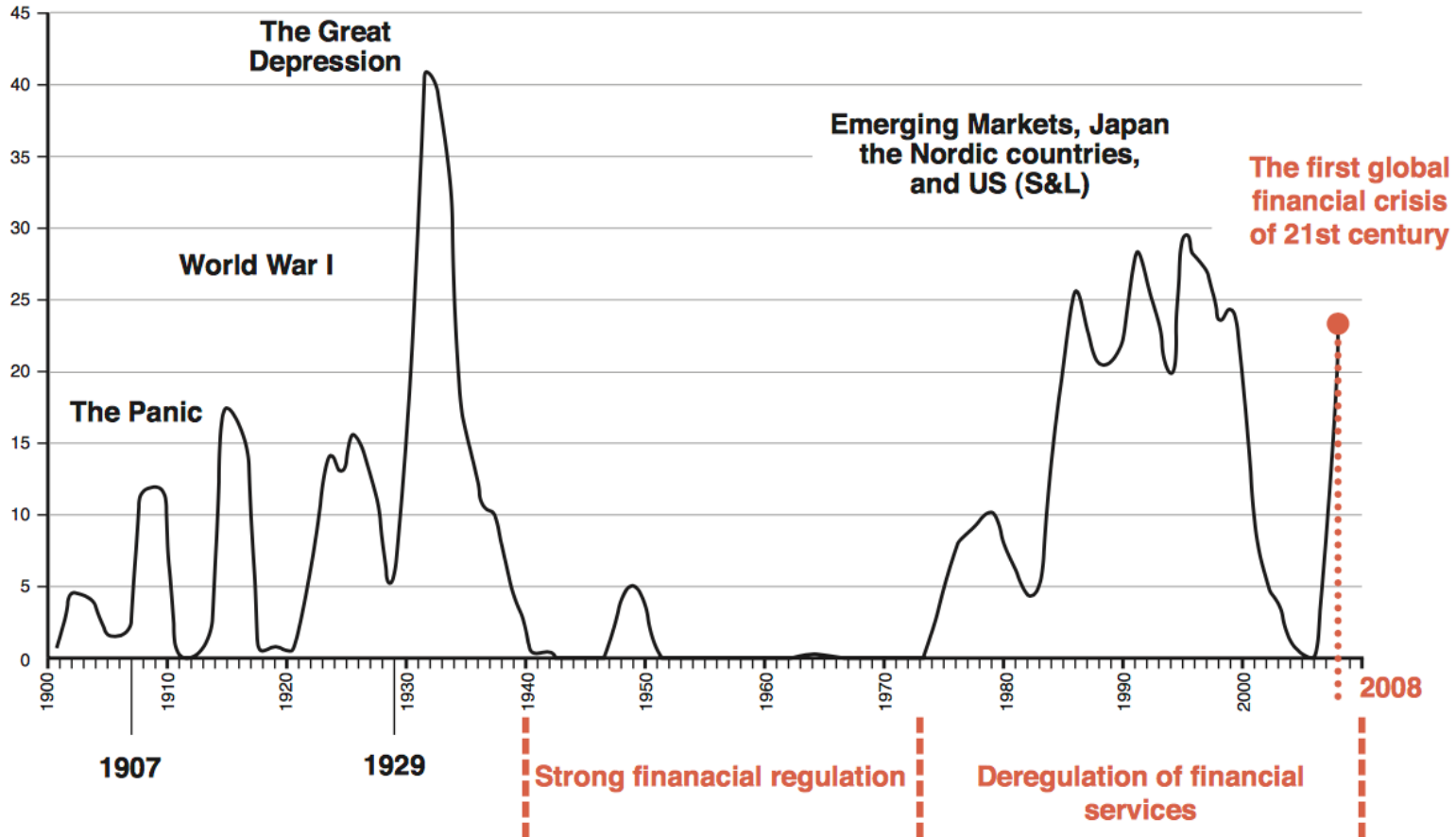
Approval by the Council completes the "Level 1" process, after which the text is translated and published in the Official Journal to apply from a specified date. Regulations apply directly throughout the EU while Directives must be implemented into national law, generally within 18 to 24 months. Lawmakers can delegate the power to adopt legislative acts (delegated and implementing acts) on certain nonpolitical issues to the Commission. The Level 1 text may also delegate to the Commission the power to adopt "binding technical standards" that have been drafted by the three European Supervisory Authorities (EBA, ESMA and EIOPA). In this "Level 2" process, the Commission and the authorities consult with stakeholders on their interpretation of the Level 1 agreement, a process closely monitored and influenced by lobbyists.

1

A largely self-regulated financial system has proven over the last 30 years to be unstable.

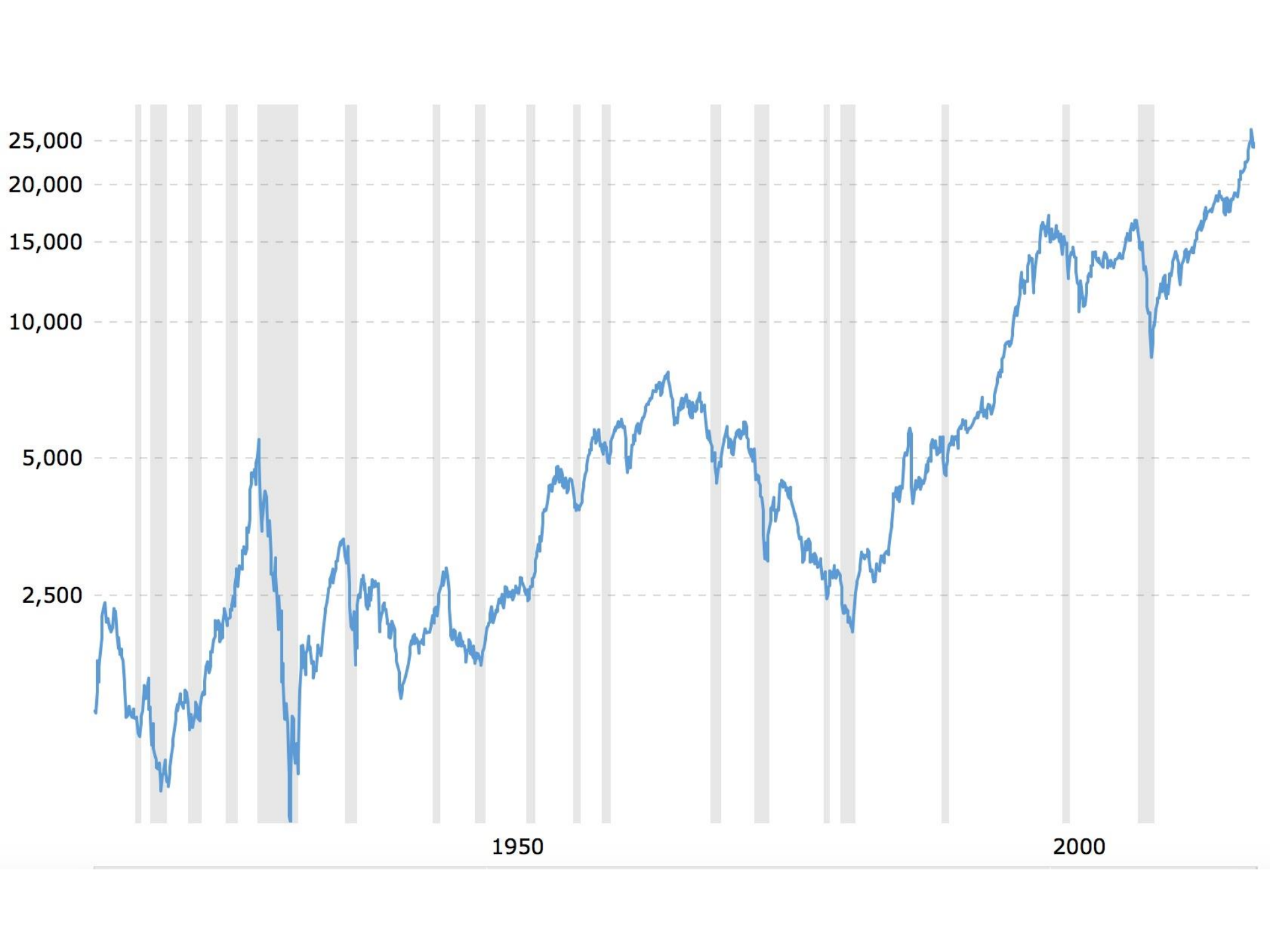


Proportion of Countries with banking Crises, 1900—2008
Weighted by Their Share of World Income



FINANCIAL CRISES FREQUENCY AND IMPORTANCE

(source: Reinhart and Rogoff - 2008)



The Original Buffet indicator

Corporate Equities to GDP



Zoom 1y 5y 10y 30y All

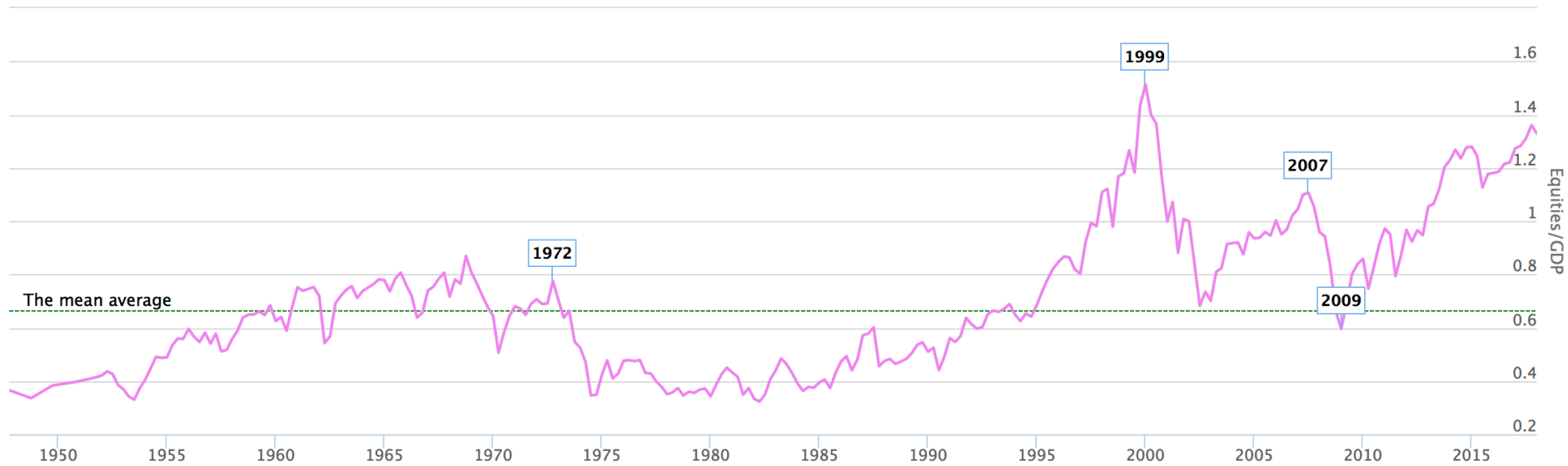


Figure 1: Global Corporate Income Tax Rate 1980-2015

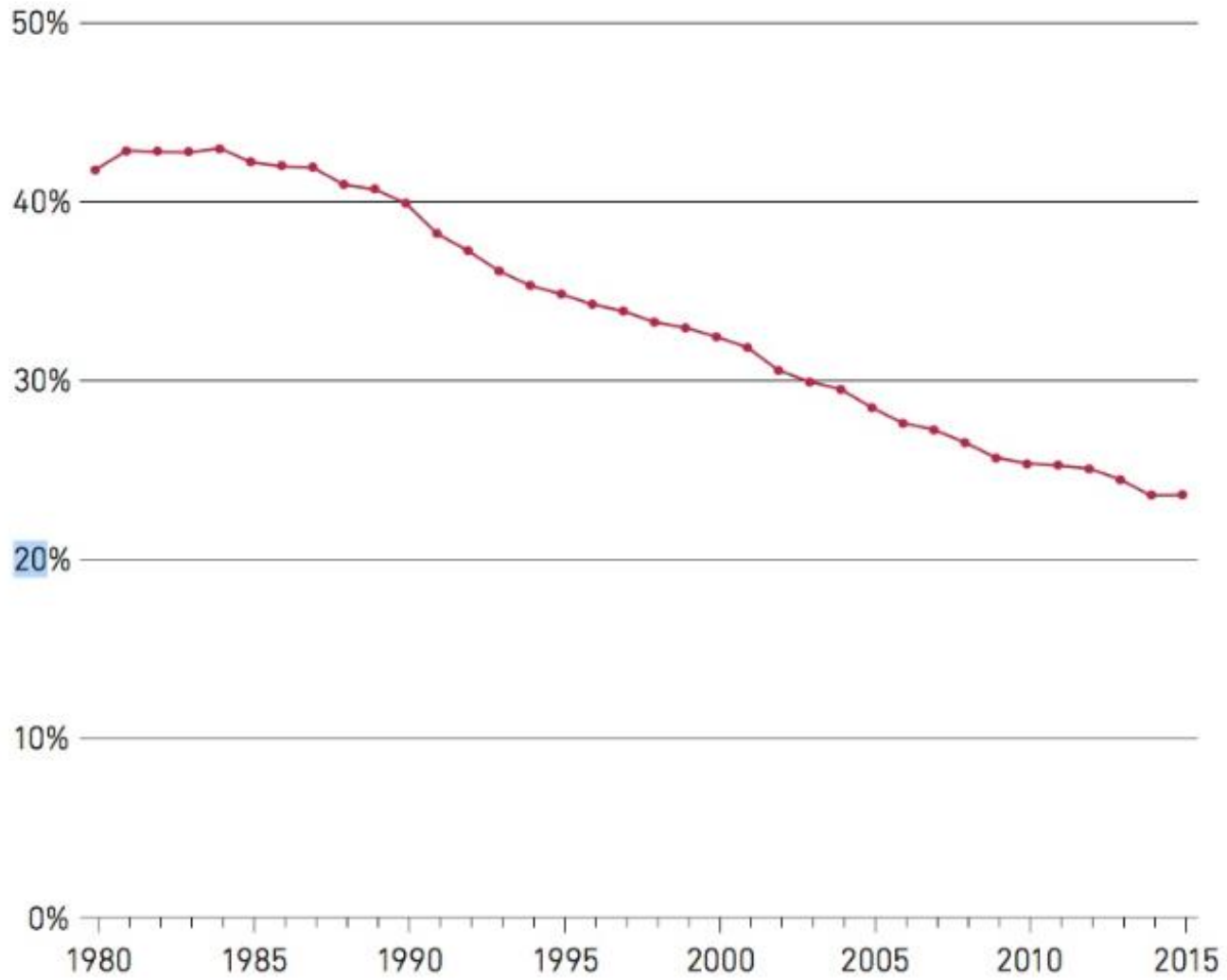
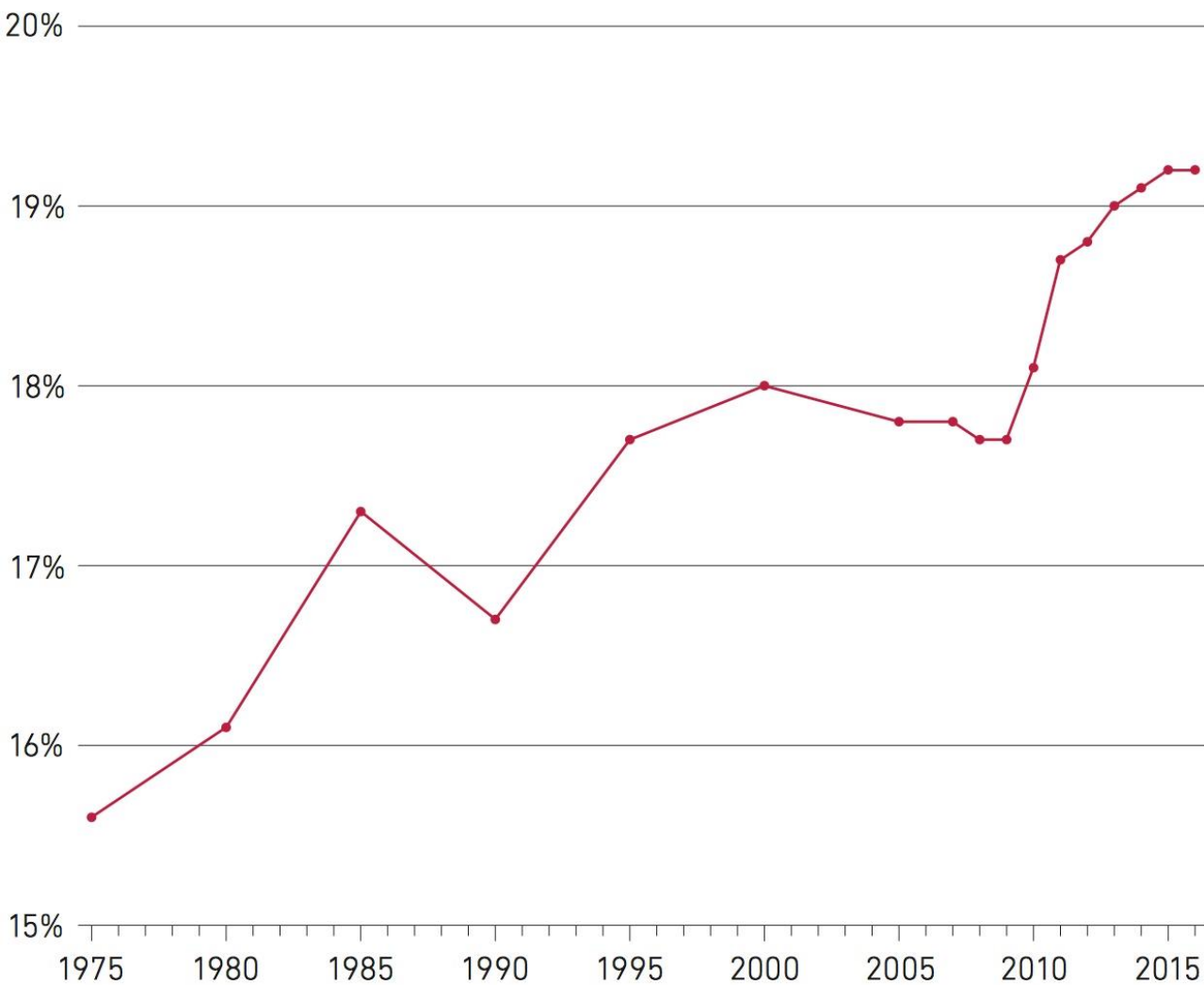


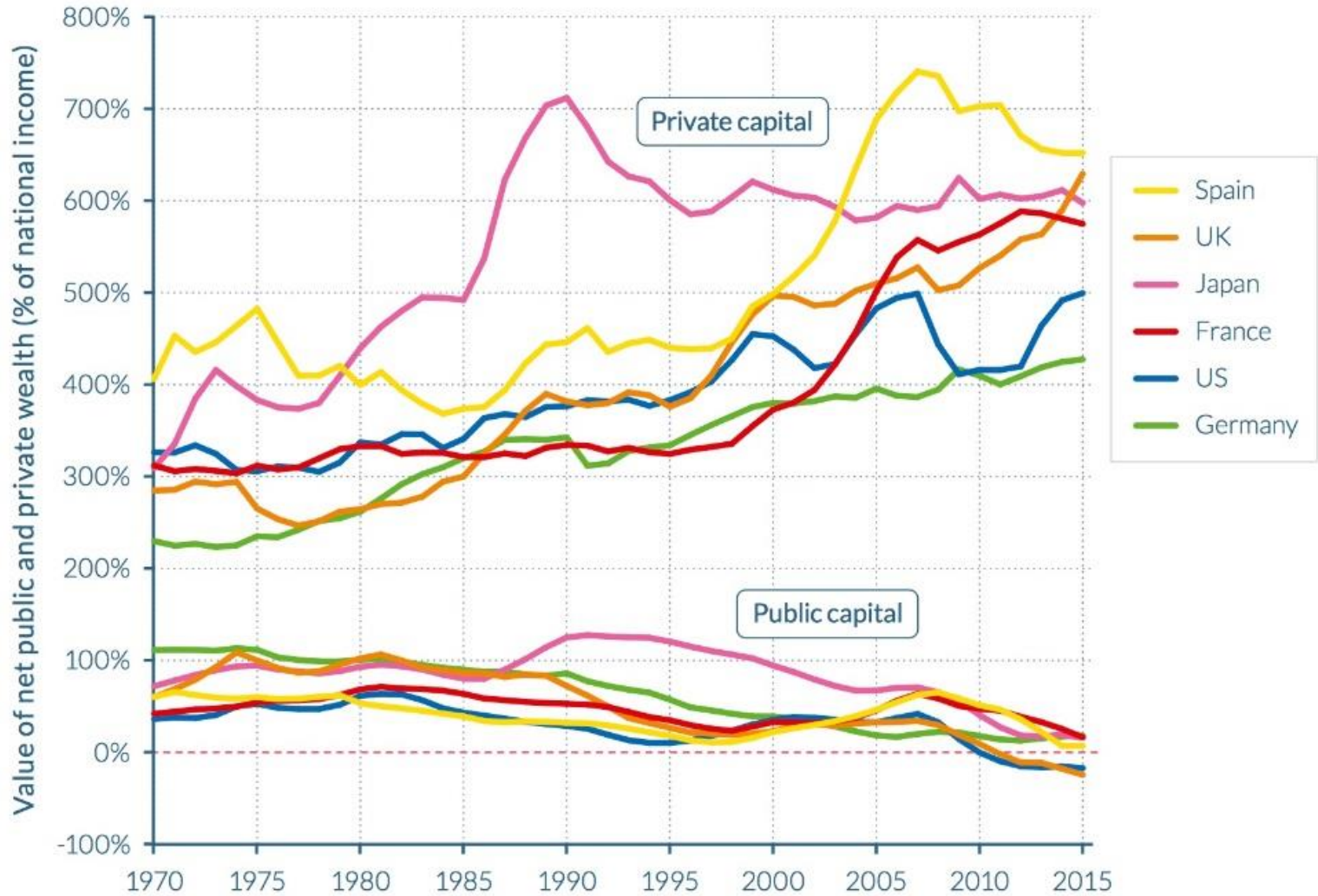
Figure 2: OECD Average VAT 1975-2016



Eurodad illustration based on data from OECD.⁴⁹
The rates shown are unweighted averages from
1 January of each year.

Figure E6

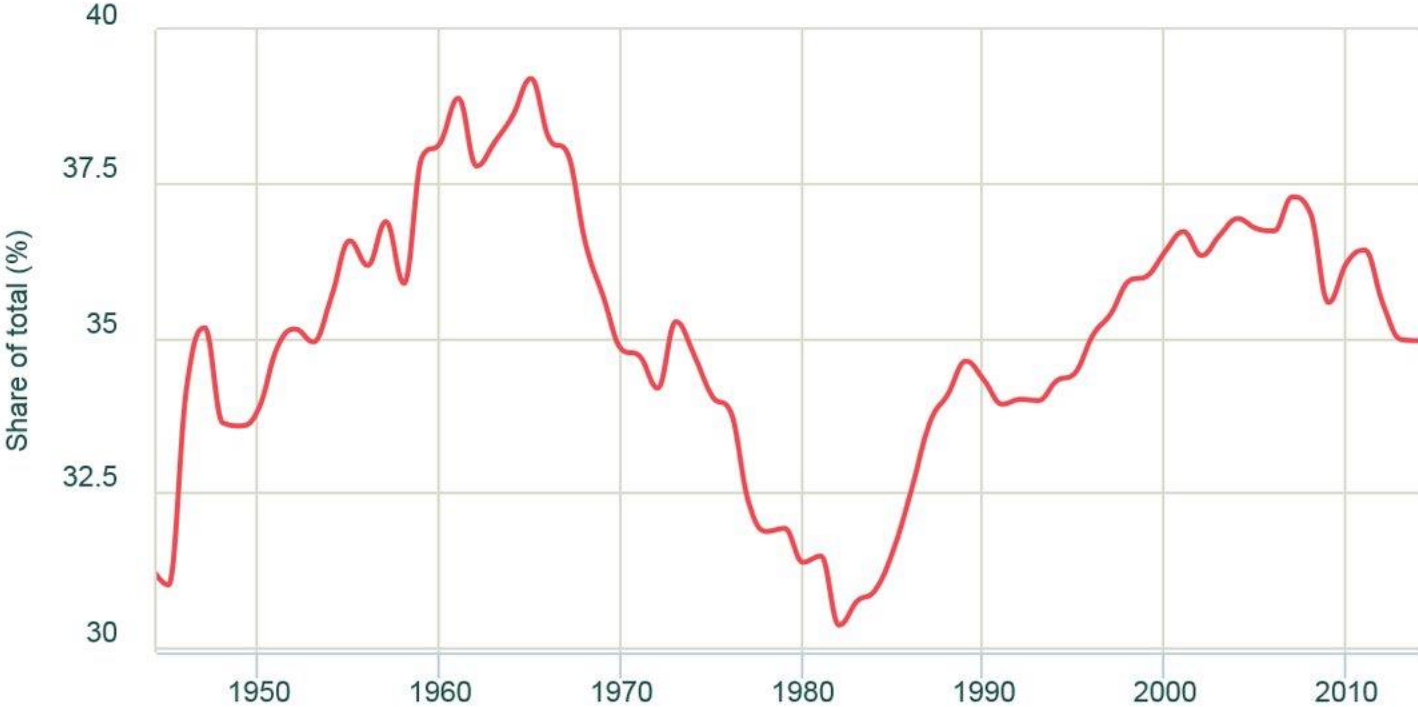
The rise of private capital and the fall of public capital in rich countries, 1970–2016



Source: WID.world (2017). See wir2018.wid.world for data series and notes.

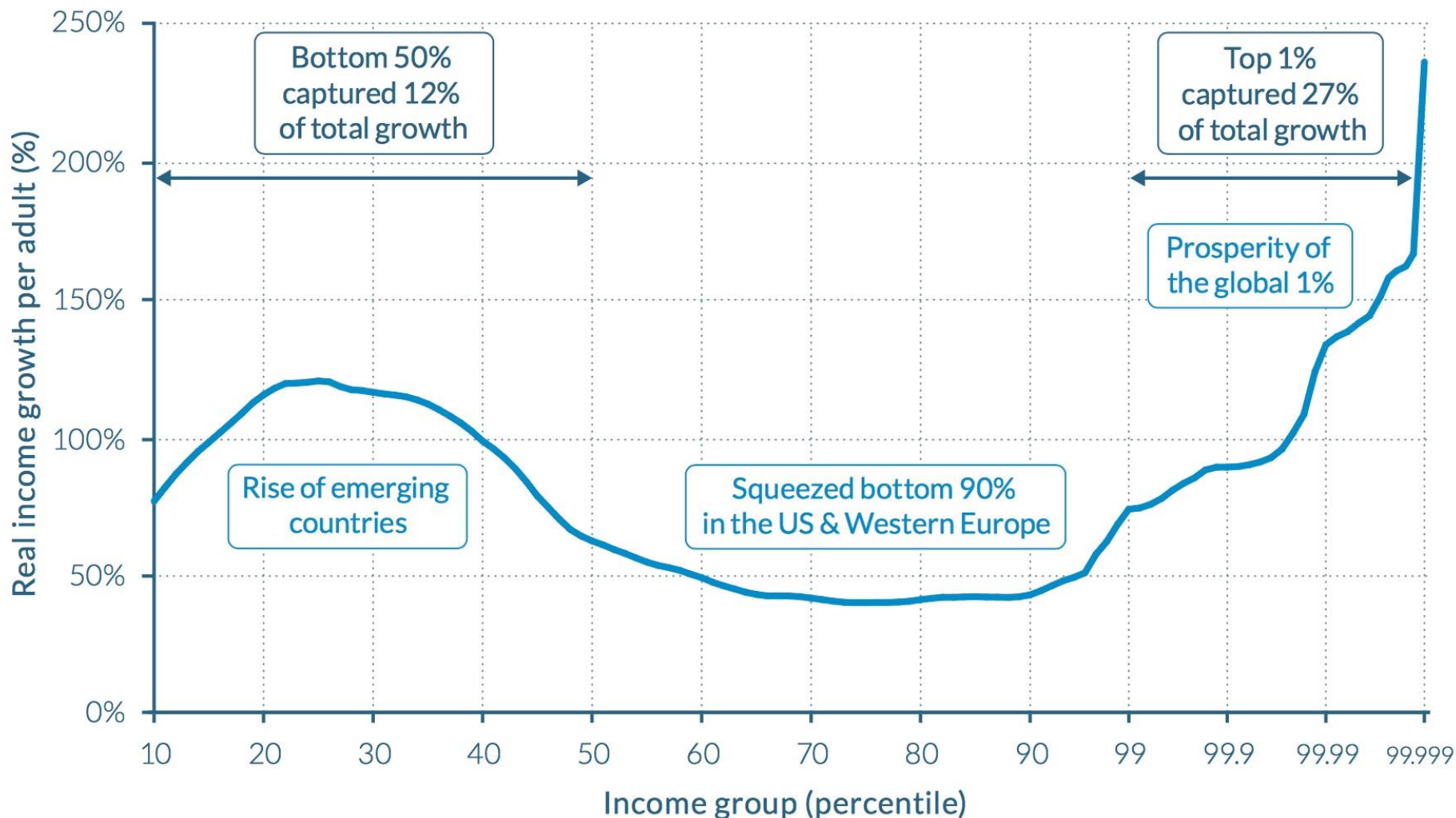
In 2015, the value of net public wealth (or public capital) in the US was negative (-17% of net national income) while the value of net private wealth (or private capital) was 500% of national income. In 1970, net public wealth amounted to 36% of national income while the figure was 326% for net private wealth. Net private wealth is equal to new private assets minus net private debt. Net public wealth is equal to public assets minus public debt.

Top 10% national income share, France, 1945-2014



— Pre-tax national income | Top 10% | share | adults | tax unit

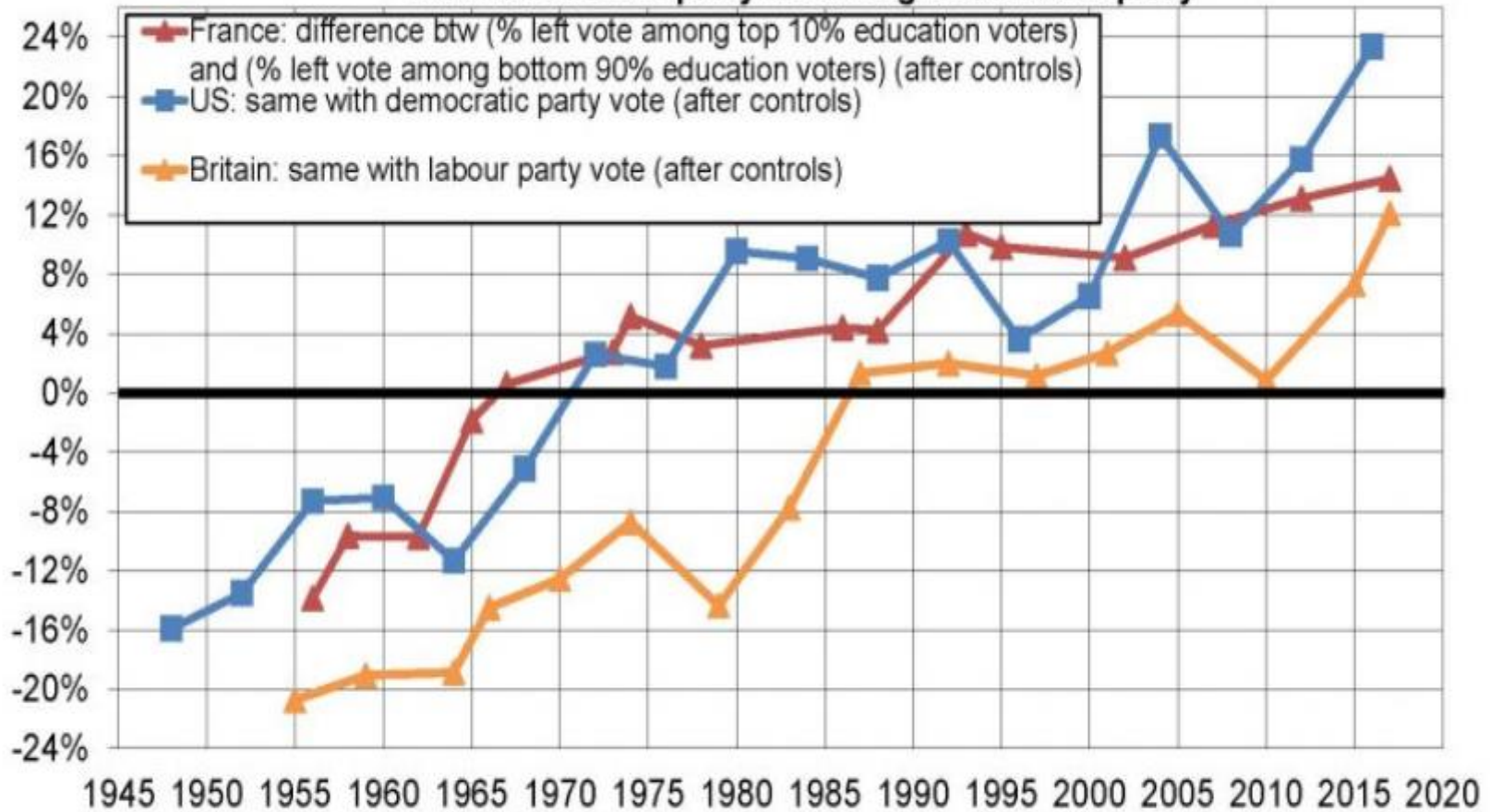
Graph provided by www.wid.world

Figure E4**The elephant curve of global inequality and growth, 1980–2016**

Source: WID.world (2017). See wir2018.wid.world for more details.

On the horizontal axis, the world population is divided into a hundred groups of equal population size and sorted in ascending order from left to right, according to each group's income level. The Top 1% group is divided into ten groups, the richest of these groups is also divided into ten groups, and the very top group is again divided into ten groups of equal population size. The vertical axis shows the total income growth of an average individual in each group between 1980 and 2016. For percentile group p99p99.1 (the poorest 10% among the world's richest 1%), growth was 74% between 1980 and 2016. The Top 1% captured 27% of total growth over this period. Income estimates account for differences in the cost of living between countries. Values are net of inflation.

Voting for left-wing & democratic parties in France, Britain, US 1948-2017: from the worker party to the high-education party



Source: author's computations using French, US and British post-electoral surveys 1948-2017 (see piketty.pse.ens.fr/conflict)
Reading: in 1956, left parties (SFIO-PS, PC, Rad., etc.) obtain a score that is 14 points lower among top 10% education voters than among bottom 90% education voters in France; in 2012, their score is 13 points higher among top 10% educ.voters (after controls for age, sex, income, wealth, father's occupation). The evolution is similar for democratic vote in the US and labour vote in Britain.



