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The Global Financial Crisis: Genesis, Essence and Remedies. A Lesson for Europe

Abstract: *This article focuses on the ongoing financial crisis, the worst since the Great Depression, which has led to a global economic recession, mainly resulting from the loss of confidence in financial markets and constraints on the flow of credit. As a result of the financial turmoil, the global economy faces high unemployment, depletion of private savings, bankruptcy of thousands of companies, and shortage of state funding for the provision of social service. Moreover, the experiences of the past two years have demonstrated that in many cases the activities of supervisory bodies are ineffective, incoherent and non-transparent. Both policymakers and economists are looking for answers to the twin questions: who is responsible for the crisis and what should be done to address the problem? It is hardly comforting that many experts had warned about the looming turmoil. Unfortunately, because their predictions were not fulfilled immediately nobody took them seriously.*

Introduction

Since September 2008, the financial crisis has been of special interest to politicians, economists and ordinary citizens all over the world. Their concern over the safety of the global financial system and economy is reflected in numerous political analyses, academic studies, and blogs on the web.¹ The terms crisis, recession and protectionism have entered the political, economic and public debates. The situation is variously assessed and interpreted, de-

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¹ As of 15 June 2009 there were about 36 million web pages dealing with different aspects of the ‘*global financial crisis 2008*’ and 41 million web pages dealing with the same problem in 2009. (All websites quoted hereafter were visited on 30 June 2009).

pending on the points of view and national interests of the various authors. Many myths and misunderstandings have arisen over the origins and nature of the crisis.²

Additionally, serious controversy surrounds the scope of anti-crisis measures. Various rescue plans meet with divergent assessments – from unqualified approval to extreme criticism. The increased activities of governments and central banks raise both great hopes and expectations, as well as disappointments and disillusionment.

It seems quite obvious that the real nature of the ongoing crisis, especially in its global dimension, cannot be perceived and properly analyzed without access to reliable sources and original documents. Unfortunately, it is a common practice that negotiations, except for the formal opening and closing sessions when decisions are announced in the presence of the media, have been conducted behind closed doors. Looking at the results of these negotiations, regardless of their confidential character, it seems that political motives frequently outweigh economic and financial arguments.

1. The origin of the crisis in the eyes of bankers and policy makers

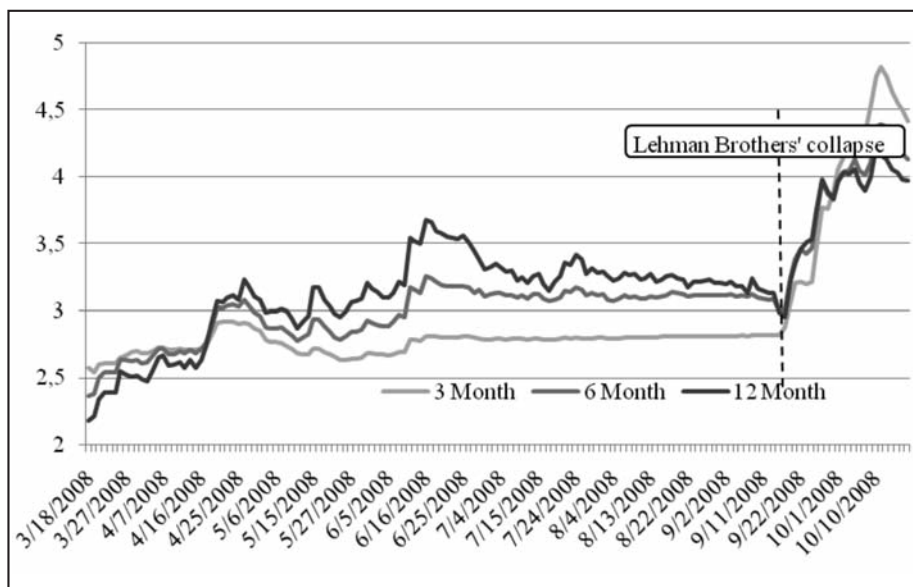
The many causes of the crisis can be traced back to the summer of 2007, with some authors reaching back to 2004 or even earlier periods. It all began in the USA. To put it simply, in the last decade the United States has been the beneficiary of a tremendous amount of foreign savings which came mainly from oil-exporting countries and Asia.³ Facing the inflow of foreign capital and the very low federal fund rates, the US financial institutions reacted to the excess of liquidity by competing aggressively for borrowers. In the con-

² It is amazing that a year after Lehman Brothers' failure there are still many doubts about the real reasons for the current crisis. According to P. Krugman, the economists should '*(...) face up to the inconvenient reality that financial markets fall short of perfection, (...) Keynesian economics remains the best framework (...) for making sense of recession and depression*'. Krugman adds that '*they'll have to do their best to incorporate the realities of finance into macroeconomics*.' See: P. Krugman, *Beliefs in Collision: How the Bubble Was Missed*, "International Herald Tribune", 05.09.2009.

³ According to B. Bernanke, the Chairman of the Board of Governors of the US Federal Reserve System, '*the net inflow of foreign saving to the United States, which was about 1–1/2 percent of our national output in 1995, reached about 6 percent of national output in 2006, an amount equal to about \$825 billion in today's dollars*'. See: Ben S. Bernanke, *Four questions about the financial crisis*, *Speech at Morehouse College*, Atlanta, Georgia, 14.04.09., available at <http://www.ft.com/cms/s/0/13d28d52-28f0-11de-bc5e-00144feabdc0.html>

text of a housing boom, financial institutions rapidly expanded poor lending practices which were subject to little, if any, federal regulation, lowering the returns on traditional long-term investments and leaving the financial sector looking for more profitable products. Unfortunately, the newly launched and very complex securities, including subprime mortgages, were very risky. When housing prices started to fall, anxious investors began to pull back from credit markets. Suffering losses on mortgages, the financial institutions cut back their lending. The failure of some major banks, specifically Lehman Brothers, caused a panic in the financial and credit markets.⁴

Diagram 1. US Dollar LIBOR Rate



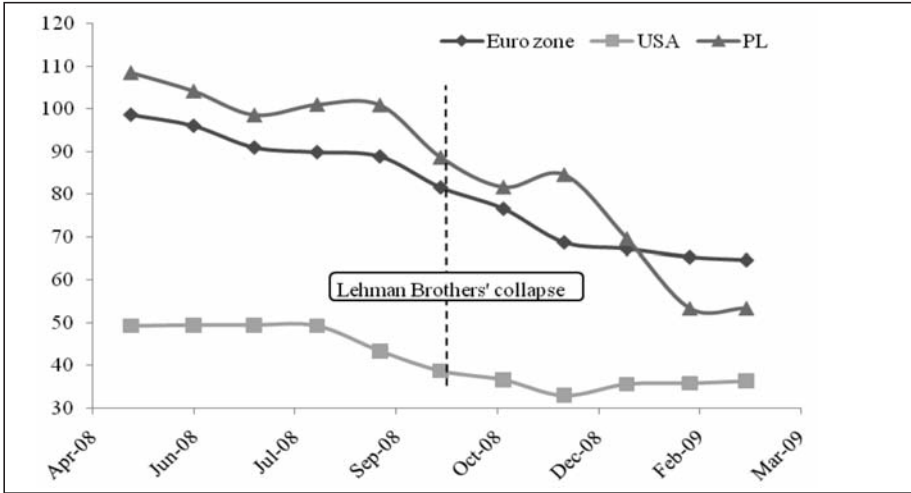
Source: WSJ⁵

The loss of confidence of investors in the US financial sector triggered the spiralling process of falling stock prices, then difficulties in obtaining credit for businesses and individuals, and in consequence resulted in the contraction of global economy activity and employment.

⁴ Cf. Financial Stability Review, European Central Bank, June 2009, p. 167–172.

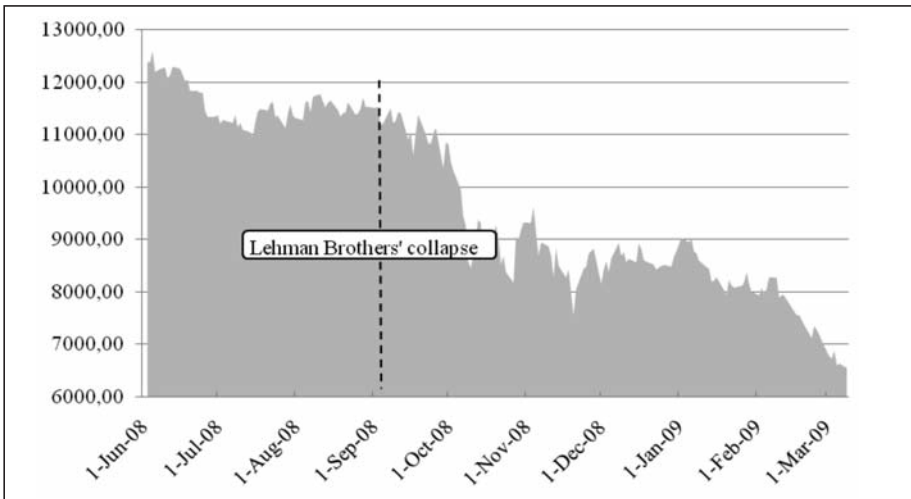
⁵ Data available at http://mortgage-x.com/general/indexes/ws_j_libor_history.asp?y=2009

Diagram 2. Business Confidence Index



Source: Trading Economics⁶

Diagram 3. Dow Jones Industrial Average Index (Close)



Source: Dow Jones⁷

⁶ Due to different measurement methodologies, the data for different countries should be analysed independently. Data are available at <http://www.tradingeconomics.com/Economics/Business-Confidence.aspx?Symbol=EUR>.

⁷ Data are available at <http://finance.yahoo.com/q/hp?s=%5EDJIA&a=09&b=1&c=1928&d=08&e=21&f=2009&g=d>

From the European perspective, the de Larosiere report⁸ illustrates the main causes of the crisis in the EU:

- a) inadequate macro-prudential supervision at the EU level;
- b) lack of openness and cooperation between supervisors;
- c) inconsistent supervisory powers across the Member States;
- d) ineffective early warning mechanisms;
- e) problems of competences;
- f) failures to challenge supervisory practices on a cross-border basis;
- g) no means for supervisors to take common decisions.

It is worth noting that, in recent years, similar lists of shortcomings were being postulated by many experts, but no action was taken on them.

2. Who is guilty of causing the financial turmoil?

In October 2008 Gordon Brown, Prime Minister of the UK, was absolutely sure that: *'This problem started in America. They have got to sort it out. The Americans have a responsibility to the rest of the world'*.⁹

However, six months later, he was less firm when addressing to the US Congress: *'No one should forget that it was American visionaries who over half a century ago, coming out of the deepest of depressions and the worst of wars, produced the boldest of plans for global economic cooperation (...)'*.¹⁰

Leaving aside any political subtext underlying different studies, statements and opinions on the subject, it is clear that there is no single correct answer to the question 'Who is guilty?' Moreover, the experts and politicians disagree on how much weight to give to various sophisticated (some more, some less so) explanations or excuses. It is worth recalling that in October 2008, during the hearing held by the US Senate Committee on Oversight and Government Reform on 'The Financial Crisis and the Role of Federal Regulators', Alan Greenspan, the former Fed chairman, confessed that: *'(...) those*

⁸ In October 2008, Jacques de Larosiere was authorised by J.M. Barroso, President of the European Commission, to chair an outstanding group of experts (the High-Level Group on Supervision) to give advice on the future of European financial regulation and supervision. The report underlines the weakness of current financial regulatory and supervisory system and proposes some recommendations for the future; available at http://ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf

⁹ Gordon Brown's interview to Sky News, October 2008; available at <http://blogs.ft.com/westminster/2009/03/will-brown-say-it-to-their-faces/>

¹⁰ Gordon Brown's speech to the US Congress, 4 March 2009; available at <http://www.guardian.co.uk/world/2009/mar/04/gordon-brown-speech-to-congress>

of us who have looked to the self-interest of lending institutions to protect shareholders equity, myself specially, are in a state of shocked disbelief.’¹¹ When Committee Chairman H. Waxman reminded him of A. Paulson’s earlier statement – ‘Bank loan officers, in [his] experience, know far more about the risks and workings of their counterparties than do bank regulators’, Mr. Greenspan admitted that he was ‘partially’ wrong about the merits of deregulation. In response to Mr. Waxman’s blunt objection: ‘In other words, you found that your view of the world, your ideology, was not right, it was not working’, Mr. Greenspan confirmed: ‘Precisely. That’s precisely the reason [I] was shocked, because I had been going for 40 years or more with very considerable evidence that it was working exceptionally well.’¹²

Unfortunately, former Chairman Greenspan failed to mention he was warned over the years by numerous experts and politicians. For example, at a hearing in 2000 on the merger boom, Senator B. Sanders asked him: ‘Aren’t you concerned with such a growing concentration of wealth that if one of these huge institutions fails it will have a horrendous impact on the national and global economy?’ ‘No, I’m not.’ Mr. Greenspan replied.¹³

Such a confession inevitably provokes a sad reflection and raises doubts about the sound prospects for the future. Moreover, if one of the most powerful men in banking sector was wrong for over 40 years, there is a real danger that his successors might be false prophets as well. In fact, the scale of profound ignorance and arrogance of today’s and yesterday’s politicians is much the same. It is enough to recall the legendary figure of Theodore Roosevelt who, in the face of the monetary panic in 1893 stated: ‘I do not intend to speak (...) on the financial question – because I am not clear what to say’.¹⁴

¹¹ Frankly speaking, much the same willingness to rely on the private sector’s own assessments of risk and capital requirements was expressed by many other policymakers, both in the USA and in Europe. Taking into account that investment banks were not supervised like banks but fell under supervisions on voluntary basis, it would seem that such an approach had to lead to disaster.

¹² A few months later, under fire from public critics, the bankers seemed to be more contrite, however, they still accepted only part of the blame for the economic crisis. In February 2009, J. Mack, CEO of Morgan Stanley, confessed in public: ‘As an industry, clearly, we made mistakes. I think the entire industry shares some of that responsibility and for that, we are sorry for it.’ See: A.R. Paley, *Lawmakers Line Up Bankers, Unleash Anger of the Masses*, Washington Post, 12.02.2009; available at http://www.washingtonpost.com/wp-dyn/content/article/2009/02/11/AR2009021100921_pf.html

¹³ <http://www.sanders.senate.gov/news/record.cfm?id=304505>

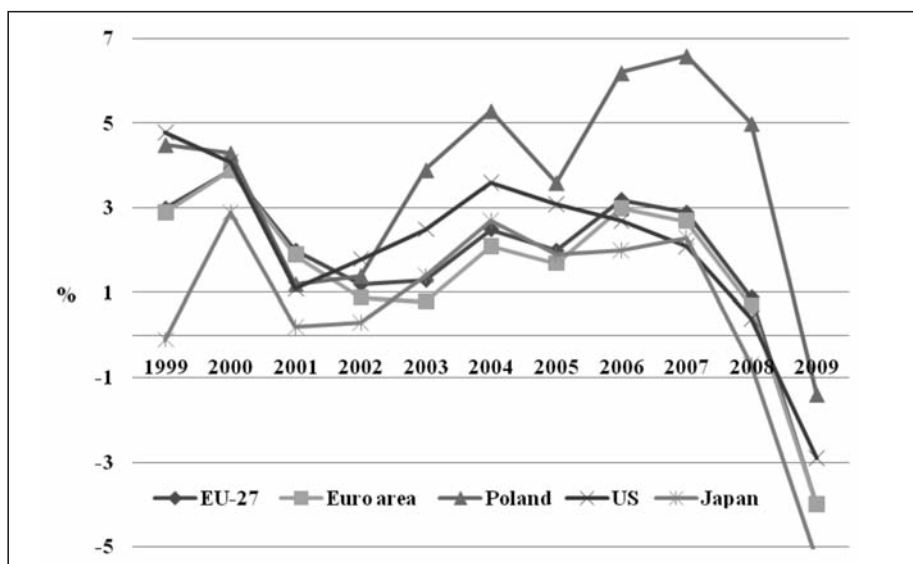
¹⁴ R. Paul, *Freedom under siege The U.S. Constitution After 200 Years*, 1988; available at <http://www.scribd.com/doc/1641655/Freedom-Under-Siege-The-US-Constitution-After-200-Years-Pol-PDF-PaulRon>

3. The scale of the catastrophe and costs of remedy

There is much painful evidence that the EU is suffering: an economic recession, higher unemployment, enormous government spending for bail-out programmes, and as a consequence growing public debts which have to be paid back in the future. It would seem that J. Stiglitz, a Nobel Prize winning economist, may be right in his judgment on the grim prospects for the American and global economy: ‘(...) you often hear the experts debating whether [a downturn] is likely to be V-shaped (short and sharp) or U-shaped (longer but milder). Today, the American economy may be entering a downturn that is best described as L-shaped’.¹⁵

The Congressional Budget Office (CBO), in its May 2009 report *The State of Economy*, predicts that in 2009 the growth of real GDP of the USA will decline by 2.8% and unemployment rate may rise above 9.1%.

Diagram 4. Growth rate of GDP volume – percentage change compared to previous year



Source: Eurostat¹⁶

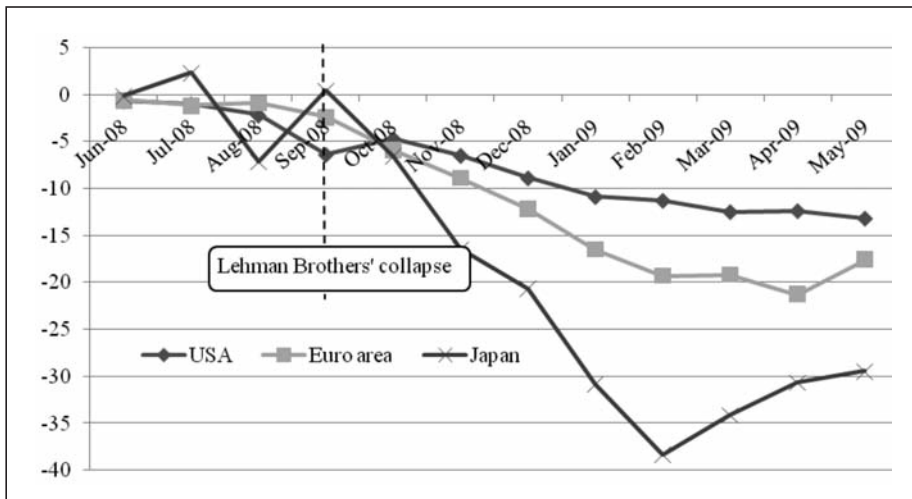
¹⁵ J. Stiglitz, *Reversal of fortune*, Global Policy Forum; available at <http://www.globalpolicy.org/component/content/article/214/44080.html>

¹⁶ Data available at <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb020>

As to the development prospects of other countries, the CBO claims that: ‘(...)the current declines in economic activity in most of the advanced economies – the major trading partners of the United States – now appear to be much worse than anticipated a few months ago. In the first quarter of this year, output in the 16-country Eurozone fell by 10.4 percent at an annual rate, the biggest drop since the data were first collected in 1995. In the United Kingdom, real GDP in that quarter fell by 7.4 percent at an annual rate. Similarly, Japan’s economy contracted at an annual rate of 15.2 percent in the first quarter of this year’.¹⁷

The spectre of recession was the biggest threat hanging over governments at the end of last year (2008). To avoid the worst, they launched multi-billion dollar *ad-hoc* anti-crisis programs. Already, as of October 2008, the House of Representatives passed a \$700 billion financial bailout package to rescue the U.S. financial system. The Emergency Economic Stabilization Act of 2008 (HR 1424) was highly controversial – its initial version was voted down, and after making some amendments it carried by a majority vote of 263–171.¹⁸

Diagram 5. Industrial production



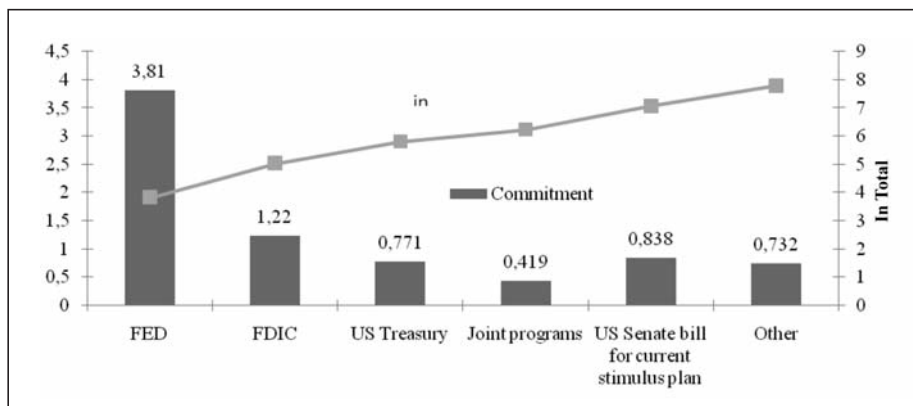
Source: Trading Economics¹⁹

¹⁷ D.W. Elmendorf, *The State of the Economy*, CBO; available at http://www.cbo.gov/ftpdocs/100xx/doc10086/State_of_Economy_Testimony.1.2.shtml

¹⁸ Available at <http://projects.washingtonpost.com/congress/110/house/2/votes/681/>

¹⁹ Data available at <http://www.tradingeconomics.com/Economics/Industrial-Production.aspx?Symbol=EUR>

Diagram 6. The total US stimulus package commitments since 2008 (in trillion \$)



Source: The Washington Post²⁰

It should be underscored that since the beginning of 2008 the US government has committed at least \$7.8 trillion in loans, investments and guarantees. Apart from \$771 billion from the US Treasury, there are \$3.81 trillion from the Fed, \$1.22 trillion from the Federal Insurance Deposit Corporation, \$419 billion from joint programs and \$1.57 trillion from other funds.²¹

It is difficult to compare this tremendous amount with the €200 billion of the European Economic Recovery Plan. Even if the comparison were restricted only to the American Emergency Economic Stabilization Act and the European Economic Recovery Plan, it must be kept in mind that former has been almost completely implemented, while the latter still remains just a political declaration. And even if the analyses be limited to the period of 2009, a comparison of the European stimulus and the US package is still unfavourable for the former. According to David Saha and Jakob von Weizsäcker from Bruegel, a Brussels-based think tank, the total stimulus for this year is estimated at about 1 percent of GDP (€129.6 billion) in the EU and 1.7 percent of GDP (€186 billion) in the US.²² Moreover, the contribution to the Eu-

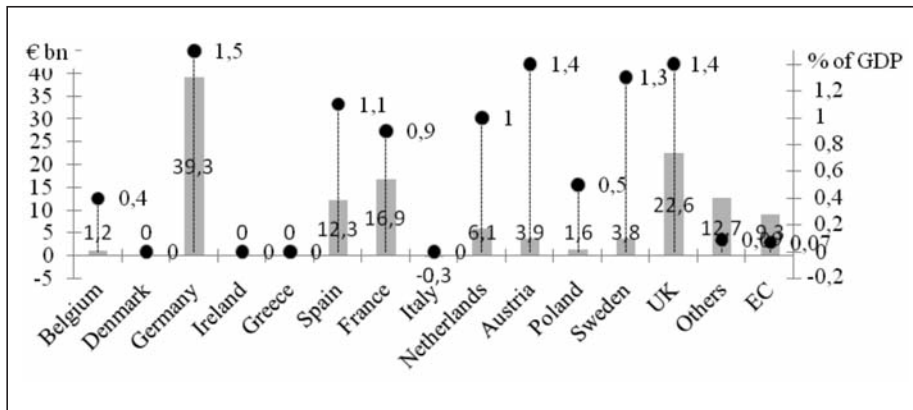
²⁰ Data available at <http://www.washingtonpost.com/wpdyn/content/graphic/2009/02/11/GR2009021101150.html>

²¹ Data are available at: <http://www.washingtonpost.com/wp-dyn/content/graphic/2009/02/11/GR2009021101150.html>

²² D. Saha, J. Weizsäcker, *EU Stimulus Package*, “Bruegel Policy Contribution” No. 2009/2, p.4.

ropean stimulus varies from zero (in the cases of Denmark, Ireland or Italy) to tens of billions of euros (in the cases of the UK or Germany).

Diagram 7. Estimating the size of the tax cuts & fiscal expenditures in the EU for 2009 (beyond automatic stabilisers)



Source: Bruegel²³

This does not mean that the individual Member States of the EU have not spent billions of euros to rescue their own economies. For example, A. Weber, president of Bundesbank, stated in his Financial Times interview of 21 April 2009 that: *'If one compares the Germany economy with the US economy, automatic stabilisers – built-in stability features such as our employment support schemes, our health insurance, unemployment insurance or pension insurance schemes – contribute much more to automatic stabilisation. If one adds together the automatic stabilisers and the discretionary fiscal programmes one probably gets as much bang for the buck as in the US. (...) The German rescue package has €400bn of guarantees, of which less than 40 percent are used; and €80bn of capital to inject, of which less than 20 percent is being used'*.²⁴

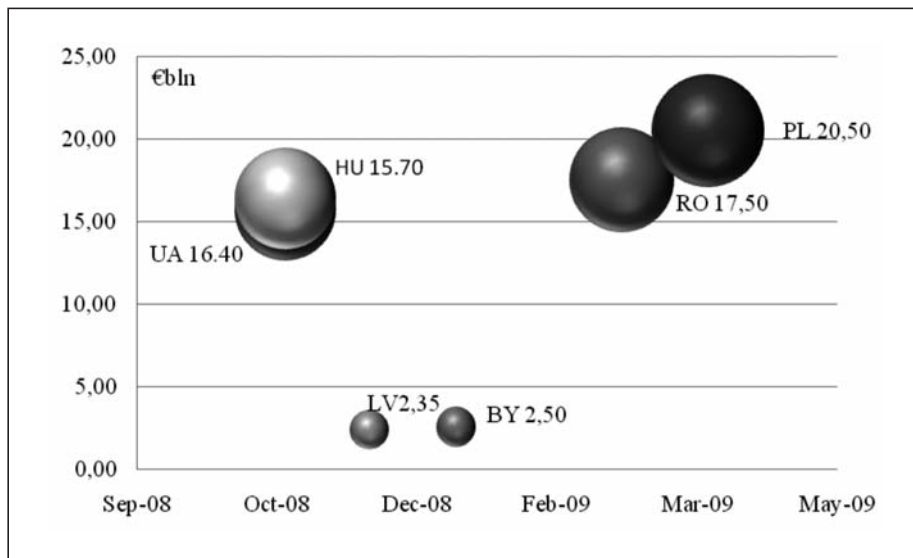
Analysts in many countries are worried that the burden of repayment of today's government spending will be unbearable for future generations. For example, in September 2008, the total amount of the US National Debt amounted to \$9.7 trillion. At the same time Treasury Secretary Henry Paulson was asking for an increase in the legal ceiling on federal debt to \$11.3 trillion (70% of GDP). As of 11 June 2009, the total debt reached

²³ Ibid, p.2.

²⁴ Available at: <http://www.ft.com/cms/s/0/085d83b4-2e9f-11de-b7d3-00144feabdc0>

\$11,375,626,420,309.63.²⁵ The same problems associated with huge deficits can be found in other countries: in Japan (194% of GDP), in Italy (107% of GDP) and in the UK (43% of GDP), to name a few.²⁶

Diagram 8. IMF loans to Hungary, Ukraine, Latvia, Belarus, Romania and Poland affected by the global crisis



Source: IMF²⁷

It should be stressed that many of the Eastern European and CIS countries which have been especially badly affected by the crisis cannot cope with the problems in the same way the developed countries do. As the crisis hit, the foreign investors began pulling their money out of the European emerging economies, notably from the Baltic States and Hungary. In the face of high public debt, the economic slump, and a sharp depreciation of their national currencies, these countries have been forced to turn to the IMF for help.

²⁵ See: *The Debt to the Penny and Who Holds It*, Treasury Direct; available at <http://www.treasurydirect.gov/NP/BPDLogin?application=np>

²⁶ See: *List of National Debt by Country*; available at <http://www.economicshelp.org/blog/economics/list-of-national-debt-by-country/>

²⁷ See: *Regional Economic Outlook: Europe. Addressing the Crisis*, IMF, May 2009, p. 14,15.

4. Who needs extra measures for hard times?

In May 2009, the US Treasury released the results of the so-called ‘stress tests’ of the largest US banks.²⁸ Among the 19 banks, only Citigroup, Wells Fargo and Bank of America failed the verification process, with recommendations to improving their balance sheets by a combined total of \$60 billion. The test confirmed that Treasury Secretary Henry Paulson forced²⁹ large banks to take TARP³⁰ money that they did not really need.³¹

Analysing the results of this decision it seems quite obvious that TARP became a trap for the US administration, which may lead to serious complications. In February 2009, at a nationally-broadcasted hearing before the House Financial Services Committee, Rep. P.E. Kanjorski called on the CEOs of eight banks to return the bailout funds to the Treasury. Of course, none of those present positively responded to his appeal.

Despite the growing evidence that the banks, against the Congressional intent, used the bailout money for purposes other than lending, some politicians continue to defend their helplessness. For example, Rep. B. Frank explained the Congress’s impotence when addressing the bankers: *‘In an effort to get the credit system functioning, things will be done that will be to the benefit of the institutions over which you preside, because there is no alternative’*.³²

As time goes by, the attitudes to the bailout funds have changed. At the beginning of June 2009, the Federal Reserve announced that some banks would get permission to repay the government aid that they received in the fall of last year. In the first stage, such permission may apply to J.P. Morgan Chase, Goldman Sachs and American Express – banks which owe the US government \$38.4 billion. Although J.P. Morgan Chase issued a statement that

²⁸ The tests were carried out with the aim of verifying the real capital needs of the rescued banks.

²⁹ In May 2009, Judicial Watch disclosed confidential documents concerning the meeting of 13 October 2008, where Secretary Paulson coerced the CEOs of the biggest US banks into allowing the government to take \$250 billion in equity stakes and resulting government control. It seems that the Treasury officials, at that time, were unaware of the situation in the banking sector. Even on the day of the meeting, *‘the Chief of Staff to the Treasury Secretary did not know the names of any of the banks that would be in attendance’*. Moreover, all decisions were undertaken in a frantic hurry so *‘the CEOs not only hand wrote their institution’s names but also hand wrote multi-billion dollar amounts of “preferred shares” to be issued to the government’* See: Judicial Watch Forces Release of Bank Bailout Documents; available at <http://www.judicialwatch.org/news/2009/may/judicial-watch-forces-release-bank-bailout-documents>

³⁰ TARP is the acronym for the Troubled Assets Relief Program.

³¹ <http://www.time.com/time/business/article/0,8599,1896631,00.html>

³² A.R. Paley, op.cit.

this decision ‘*is in the best interests of the country and the company*’, it is an open secret that the banks just want to escape the restrictions which accompany the funds, including limits on employee compensation.³³

5. Does a European system of supervision and crisis management exist?

As usual, opinion is divided on this question. However, in view of my personal experiences of the last year, the answer to this question cannot be positive.³⁴ Many ardent supporters of the ECB claim, for example, that it is the only European institution that works well. Some analysts draw the conclusion from this that the other institutions, including the European Commission, have not faced up to the economic crisis. Although the Commission is not an EU government ‘*(...) one would expect the Commission to play a leading role as a co-ordinator and as a source of new ideas to fight the crisis*’.³⁵

Indeed, under the EU Treaties the European Commission is the principal body with the ‘right of initiative’, i.e., the power to make formal proposals for legislation within the EU. To be more precise, in the first – pillar policy domain, the Commission has a ‘monopoly of initiative’. Of course, its strong position as the exclusive initiator of the Communities legislation does not mean that it has an exclusive right to create ideas or forbid other EU bodies to launch their own proposals. In practice, the impetus for legislation may come from many sources, including the Council and the European Parliament, who may call on the Commission to increase the pace of further leg-

³³ B.Appelbaum, *Big Banks Eagerly Await U.S. Approval to Repay Aid*; available at <http://www.washingtonpost.com/wp-dyn/content/article/2009/06/02/AR2009060203448.html>

³⁴ In October 2008, J. Almunia, the EU Commissioner for Economic and Monetary Affairs and N. Kroes, the EU Commissioner for Competition, were invited to a conference on ‘*The Impact of the American Financial Crisis on the Security and the Stability of the Financial Markets in the EU and in Poland*’ organised by the Polish Senate. The commissioners were asked to give short lectures on the need for reformation of the European financial institutions. In particular, J. Almunia was asked to deliver an address on: ‘*Should we trust the self-regulatory capacity of European financial institutions?*’ and N. Kroes to give a speech on: ‘*Do bail-out packages for the European banks infringe on EU competition?*’ It was stressed in the invitations that the conference would be a unique opportunity for the senators and other policymakers to learn the points of view of the distinguished speakers and to evaluate the Commission’s approach to the European financial crisis. Unfortunately, after several weeks of intensive negotiations, both of the commissioners excused themselves from attending the conference. It was said that J. Almunia ‘*will not be taking on any new commitments except on matters strictly linked to his portfolio*’ and N. Kroes had to postpone her visit in Poland due to the unfavourable atmosphere provoked by the growing unrest around the Polish shipyards.

³⁵ See: W. Münchau, *Like a fish, Europe is rotting from the head*; available at <http://www.ft.com/cms/s/0/a234e056-3d89-11de-a85e-00144feabdc0.html>

isolation. The Commission sets out its objectives for its five-year term of office. It always takes into account the existing multi-annual programmes established by the Council and the results of debates in the European Parliament.

Taking into consideration the impact of the financial turmoil on the EU economy, the question arises: Which of the EU institutions, apart from the Commission, is liable for sin of nonfeasance? Without doubt, the Council has the biggest influence on the Commission's activities. Although the Commission is not legally constrained to submit to the Council's will, in practice it has never ignored any appeal for legislation launched by this institution. So far it has never been necessary to do so, because if the Commission was against a submitted proposal, it has always won over a few supporters for its position within the Council.

As to the role of the European Parliament (EP), Article 192 TEC (now 225 TFEU) provides that: '*The European Parliament may (...) request the Commission to submit any appropriate proposal on matters on which it considers that a Community act is required for the purpose of implementing this Treaty*'. In the scope of legislative planning, the power of the EP is exercised through the adoption of the Commission's Annual Legislative and Work Programme.³⁶

It should be stressed that in the Council of Ministers, even the Member State holding the Presidency, not to mention the individual Member States, have definitely lower impact on the initiation of EU legislation. In the first place, the Council of Ministers may, under Article 208 TEC (now 241 TFEU), '*(...) request the Commission to undertake any studies the Council considers desirable for the attainment of the common objectives, and to submit to it any appropriate proposals*', but this power is rarely exercised. In the second place, a Member State is bound by an 18-month programme of three presidencies agreed upon with its predecessors. In any case its own initiatives, if any, need the support of the Commission and the Council. As to proposals put forward by the individual Member States, these have been criticised on the ground that they do not take account of the need for consensus among the members of the Council. In effect, it has become more common for proposals to be submitted by groups of Member States.

Based on this state of affairs, it seems clear that the major responsibility for launching anti-crisis programmes rests with the Commission. A special responsibility is assigned to the President of the Commission, and the Rules

³⁶ To keep the balance of power between the EU institutions and meet an unspoken trade-off between the Commission and the EP, the Commission has exclusive right of initiative and the Parliament the right and duty to hold the Commission to account.

of Procedure of the Commission give the President real power within this body. Under the Commission Decision of 15 November 2005,³⁷ *‘the Commission shall act (...) in compliance with the political guidelines laid down by the President’*. Under said guidelines, *‘(...)the Commission shall establish its multiannual strategic objectives and its Annual Policy Strategy, on the basis of which it shall each year adopt its work programme and the preliminary draft budget for the following year’*. *‘The President may assign to Members of the Commission special fields of activity with regard to which they shall be specifically responsible for the preparation of the work of the Commission and the implementation of its decisions’*. However, *‘he may change these assignments at any time’* or *‘(...) may set up standing or ad hoc groups of Members of the Commission, designating their chairpersons and deciding on their membership’*. Moreover, the President *‘(...)shall lay down the mandate of these groups and approve their operating rules’*.³⁸

Unfortunately, the Commission and its President were practically invisible during the second half of 2008, and their subsequent responses have consistently fallen below public expectations. In light of some nasty criticism, the EU developed an anti-crisis strategy based on a belief in the US’s and China’s recovery, which it reasoned would be sufficiently strong to pull Europe out of recession very quickly. It is maintained that the EC’s weakness stems from the absence of political leadership, and for this reason the Commission applies rules strictly as they are. Indeed, an analysis of the Commission’s Annual Legislative and Work Programmes for 2007 and 2008 confirms that in that period there were no new legislative initiatives concerning the financial crisis.³⁹ A notable exception to this political lethargy was President Barroso’s decision to set up the de Larosière committee, which prepared a report on reform of the European banking supervision system.⁴⁰

On 26 November 2008, over two months after Lehman Brother’s collapse, the Commission issued its European Economic Recovery Plan.⁴¹

³⁷ Commission Decision 2005/960/EC, Euratom of 15 November 2005 amending its Rules of Procedure, OJ L 347/83, 30.12.2005, p. 83–90.

³⁸ Ibid, article 1,2 and 3.

³⁹ Cf. European Union Committee, House of Lords, 23rd Report (2006–2007): The Commission’s Annual Policy Strategy for 2008 (HL 123) and 23rd Report (2007–2008): The Commission’s Annual Policy Strategy for 2009 (HL 151).

⁴⁰ Only on 29 October 2009 did the Commission transmit a communication to the Council which was entitled: ‘From financial crisis to recovery: A European framework for action’; COM (2008) 706; available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0706:FIN:EN:PDF>

⁴¹ Cf. *Timeline: Crisis on the Wall Street*; available at: <http://www.washingtonpost.com/wpsrv/business/economy-watch/timeline/index.html>

It is noteworthy that in the preamble to this programme President Barroso addresses the national governments: *'The time to act is now. (...) We sink or swim together'*. It is subsequently explained that the European Economic Recovery Plan is based on two key pillars and one underlying principle: (1) *'a major injection of purchasing power into economy, to boost demand and stimulate confidence'*, (2) *'the need to direct short-term actions to reinforce Europe's competitiveness in the long term'*, (3) [the fundamental principle of] *'of solidarity and justice'*.⁴²

It seems that the Plan is based on weak foundations, especially with reference to its first pillar. In comparison to the needs and rescue funds allocated by the US Congress or other Member States, its *'immediate budgetary impulse amounting to €200 billion (1.5% of GDP), to boost demand in full respect of the Stability and Growth Pact'* is absolutely insufficient. Moreover, it is clear that during the fight against domestic recession nobody cares about the SGP's provisions.

Now the Commission has become more creative and is trying to make up for lost time. Unfortunately, some experts share the opinion of N.Véron of the Bruegel think-tank in Brussels, who warns: *'The European Commission is confusing speed with haste'*.⁴³ For many politicians, the reason for the EC's increased activity is quite simple: the upcoming European elections and President Barroso's as the European Commission President.

Some analysts claim that Barroso has a good chance for re-election because: *'(...) most EU governments, especially the big ones, don't want a strong, independent leader at the helm of the Commission, which initiates EU legislation and ensures the rules are enforced. They want a competent, pliant manager to run the EU bureaucracy without making waves'*.⁴⁴ Of course, the Commission, like the Council, is a political body and its 'right of initiative' is only a part of the system of constitutional balances. However, despite some conflicts of interests, the Commission and its President should work in the interests of the EU as a whole and ensure that, particularly in the face of a crisis, the legislative initiative will reflect a balance of interests of the entire EU, not just those of the mighty states. Taking into account the principles of

⁴² European Economic Recovery Plan, COM (2008) 800; available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0800:FIN:EN:PDF>

⁴³ See: *The regulatory rumble begins*, The Economist, 28.05.2009; available at http://www.economist.com/finance/PrinterFriendly.cfm?story_id=13743435

⁴⁴ P. Taylor, *Five more years of EU's Barroso?*; available at <http://www.guardian.co.uk/business/feedarticle/8521010>. By a strange coincidence, exactly a year after Lehman Brothers' collapse, J.M. Barosso won his second term of office with a sweeping majority of MEPs' votes.

subsidiarity and proportionality, the Commission should make an assessment of the economic and social impacts of various proposed solutions not only in the eurozone, but also in the territories of the less developed Member States.⁴⁵

Besides the question of blame for crisis, an equally important problem is: ‘What really, if anything, causes the Commission, the Council or the European Parliament to launch a new anti-crisis program or policy?’ It should be realised that although the EU Treaties set out the procedures by which proposals for legislation may be adopted, ‘*the way in which legislative proposals are created is not subject to observable rules and processes*’. ‘*The Treaties set out the general competences of the institutions and govern only the basic principles of the operation of the specific legislative procedures*’, whereas ‘*the actual process is ad hoc, unconstrained by formal rules, and characterised by informal institutional practices and various channels of consultation and cooperation*’.⁴⁶ This situation will not change even after the Treaty of Lisbon has come into force.

6. Who should be the watchdog for the financial institutions?

First of all, it should be stressed that a response to a global crisis requires global cooperation. In March 2009, Gordon Brown, the British Prime Minister, gave an address to the US Congress calling for cooperation to combat the crisis: ‘*(...) let us agree on rules and standards for accountability, transparency, and reward that will mean an end to the excesses and will apply to every bank, everywhere, and all the time. (...) work together for the worldwide reduction of interest rates and a scale of stimulus round the world equal to the depth of the recession and the dimensions of the recovery we must (...) renew our international economic cooperation, helping the emerging markets rebuild their banks (...)*’.⁴⁷ A similar thesis can be found in the de Larosiere

⁴⁵ It is worth mentioning here that since 1 September 2006 the Commission has sent all its legislative proposals to the national parliaments. In the end, the European Union Affairs Committee of the Polish Senate scrutinised over one thousand initiatives regarding different regulations, directives and decisions. However, during the last 24 months, only a few of those proposals might be perceived as an adequate response by the Commission to the financial turmoil.

⁴⁶ See: E. Sariyannidou, Memorandum, European Union Committee, House of Lords, 22nd Report (2007–2008): Initiation of EU legislation (HL 151), p. 154.

⁴⁷ Gordon Brown’s speech to the US Congress, 4 March 2009, available at <http://www.guardian.co.uk/world/2009/mar/04/gordon-brown-speech-to-congress>. In practice, at the beginning of the financial turmoil some EU member states unilaterally introduced anti-crisis measures, notably deposit guarantees. Cf. Regional Economic Outlook, op.cit., p. 20–25.

report, which states that the preparation and implementation of an effective recovery plan for the EU needs the full cooperation and involvement of governments, central banks and all financial institutions, including the IMF, FSF and the Basel committee.

If one restricts consideration to the supranational institutions, the leading role might be entrusted to either an existing or a completely newly established institution. In theory the politicians have a wide array of choices, especially as there are numerous institutions which brag that they warned against Black September 2008 a long time before it occurred. The experiences of the last two years have demonstrated that such claims should be treated as idle boasts. Indeed, even the IMF – the institution mandated to oversee the international monetary system and monitor the economic and financial policies of its 185 member countries – misled investors throughout the world into thinking that everything was all right. In April 2007, the IMF issued a Financial Stability Report stating that: ‘(...) *even under scenarios of nationwide house price declines that are historically unprecedented, most investors with exposure to subprime mortgages through securitized structures will not face losses*’.⁴⁸ Admittedly, the problem is more complex than it may appear on its face. In the opinion of M. Shirakawa, Governor of the Bank of Japan: ‘(...) *bubbles cannot be readily identified even after they burst. The difficulty of identifying economic bubbles, both ex ante and ex post, has important implications for monetary policy*’.⁴⁹

If one examines the EU’s capabilities in the area of financial supervision, there are a limited number of options. In contraposition to the popular opinion that such supervision should be established at a global rather than European level, some followers of a strong position for the European Central Bank propagate the idea that the EU-wide watchdog could be modelled on, or under the authority of, the ECB.⁵⁰ This natural concept seems quite reasonable, but the devil is in the details.

⁴⁸ The IMF Global Financial Stability Report provides semi-annual assessments of global financial markets and addresses emerging market financing in a global context. Report 2007 is available at <http://www.imf.org/External/Pubs/FT/GFSR/2007/01/>

⁴⁹ M. Shirakawa, *Way out of economic and financial crisis – lessons and policy actions*, Speech at Japan Society, New York, 23 April 2009. Available at <http://www.bis.org/review/r090427a.pdf>

⁵⁰ The de Larosiere report calls for setting up a new European system of supervision, putting emphasis on the vital role of the ECB in macro-prudential supervision. At the same time, it does not support any role for the ECB for micro-prudential supervision.

6.1 What role for the ECB in times of market turmoil?

A day before Lehman Brothers filed for bankruptcy protection I was at the ECB headquarters in Frankfurt discussing ‘*The ECB role in the European economy and a globalised world*’. I put some questions concerning the advantages and disadvantages of the ECB model compared with the US Federal Reserve and inquired about the ECB’s long-term strategy for overcoming crises. S. Huemer, Principal Economist of EU Institutions and Fora Division, laconically claimed that: ‘(...) *each central bank operates in a different environment and that comparisons are therefore difficult*’.⁵¹ In turn, P. Mercier, Deputy Director General Market Operations, replied that the ECB did not intend to bail out over six thousand European banks.

It seems that the answers of the high-ranking ECB officials were rather evasive. As regards dealing with crises, it is well known that contrary to the Fed’s mandate⁵² from the US Congress, the ECB is mainly responsible for keeping inflation low. Unfortunately, traditional monetary policy alone is not adequate to the task of promoting a sound economy, especially in the hard times of recession.⁵³ To address this problem some experts, as well as the Executive Board of the ECB, have proposed enhancing the role of ECB in the area of macro and micro-prudential supervision. Additionally, the proponents of such a solution have suggested that the ECB might be responsible for the direct supervision of cross-border banks, not only in the euro zone but in the entire EU.⁵⁴

From the legal point of view, in opinion of L.B. Smaghi, Member of the Executive Board of the ECB, strengthening the role of the ECB in the area

⁵¹ Minutes of the ECPRD seminar on ‘*The European Central Bank in a New European and World Economy*’, Strasbourg, (Council of Europe) and Frankfurt am Main, (European Central Bank), 11–12 September 2008, p. 5, 6; available at <https://ecprd.secure.europarl.europa.eu/ecprd/navigation.do?section=4>

⁵² The Fed is not only responsible for stable prices but also for promotion of maximum sustainable employment.

⁵³ For comparison, among other instruments, the scope of the Fed’s remedial actions include: making short – term loans for sound financial institutions; using targeted lending to help free up critical credit markets outside of the banking sector (including the commercial paper market); and freeing up the flow of credits to households (including auto loans, credit card loans or student loans) and small businesses; and finally the buying out of mortgage-related securities guaranteed by the government-sponsored mortgage companies.

⁵⁴ In accordance with Article 105 (6) TEC (now 127 TFEU): ‘*The Council may, acting unanimously on a proposal from the Commission and after consulting the ECB and after receiving the assent of the European Parliament, confer upon the ECB specific tasks concerning policies relating to the prudential supervision of credit institutions and other financial institutions, with the exception of insurance undertakings.*’ OJ C 115, 08.05.2008, p. 47.

of supervision has fundamental advantages which outweigh the possible disadvantages. Generally speaking, *'(...) if responsibility for prudential supervision were to be entrusted to a body other than the ECB, a change in the Treaty would be needed, and this might take years, as we all know. In the light of the current financial crisis, it would be irresponsible to wait for a treaty change via the normal revision procedures to achieve a stronger supervisory framework if the same result could be achieved without it'*. At the same time, Mr. Smaghi admitted that he is not in position *'(...) to judge whether extending the ECB's responsibilities would affect the balance of power (...)'* within the current EU institutional set-up and *'(...) whether this would be a positive development.'* In his opinion, the problem of disturbing the balance of power is *'(...) more of a pretext than a real argument'*.⁵⁵

This view was not shared by P. Berès, EP Chair of the Committee on Economic and Monetary Affairs. She noted that the European Commission is not so far the European government, and that in contrast to the relations between the US Treasury and the Fed, the EC is not a counter-partner of the ECB.

As to an extended role for the ECB in micro-prudential oversight the de Larosiere High Level Expert Group has taken a dim view. Their main objections arise from anxiety that:

- a) the new micro-supervisory duties might impinge on the ECB's fundamental mandate, i.e. moderate its responsibility for monetary stability;
- b) in face of the crisis and the need to provide a financial stimulus to the economy, the ECB might face political pressure and interference which could lead over time to the loss of the ECB's independence;
- c) as of now, the ECB is not responsible for the monetary policy of those European countries outside the eurozone;
- d) the ECB is not entitled by the Treaty to deal with the insurance companies, whose activities have an influence on the financial sector comparable to the effects of banking activities.

As to the macro-prudential supervision, the Group recommends to establish, *'under the auspices and with the logistical support of the ECB'*, a new supervisory body called the European Systemic Risk Council (ESRC), composed mainly of the members of the General Council of the ECB, the chair-

⁵⁵ L.B. Smaghi, *Regulation and supervisory architecture: Is the EU on the right path*, 2009 ECON meeting with national parliaments *'Financial crisis: Where does Europe stand?'* 12.02.2009.

persons of the Committee of European Banking Supervisors,⁵⁶ the Committee of European Insurance and Occupational Pensions Supervisors,⁵⁷ the Committee of European Securities Regulators,⁵⁸ and one representative of the European Commission. The ESRC, chaired by the ECB President, might be made responsible for collecting and analyzing all macro-economic data vital for stability of the financial sectors, and for creating an effective macro-prudential risk warning system.

In June 2009, disputes around the role of ECB became more vivid when the ECB, following the Fed and Bank of England, announced its plan to spend €60bn in the framework of a covered bond purchase scheme.⁵⁹ In opinion of German chancellor Angela Merkel, such unconventional policies ‘(...) *could aggravate rather than ease the economic crisis*’.⁶⁰ In a similar spirit, A. Weber, president of the Bundesbank, expressed his strong objections to some ‘non-standard’ activities of central banks in the eurozone: ‘*I would rule out any activity of the eurosystem (...) that is not consistent with the Treaty*’. More-

⁵⁶ The Committee of European Banking Supervisors was established under the Commission Decision of 23.1.2009. According to the Article 2 of said Decision: ‘*The Committee shall advise the Commission, in particular as regards the preparation of draft implementing measures in the field of banking activities and in the field of financial conglomerates, on its own initiative or at the request of the Commission. Where the Commission requests advice from the Committee, it may lay down a time limit within which the Committee shall provide such advice. Such time limit shall be laid down taking into account the urgency of the matter.*’, COM (2009) 177final.

⁵⁷ CEIOPS was established under the terms of the European Commission Decision 2004/6/EC of 5 November 2003, currently repealed and replaced by Decision 2009/79/EC. According to Article 2 of the new Decision: ‘*The Committee shall advise the Commission, in particular as regards the preparation of draft implementing measures in the fields of insurance, reinsurance, occupational pensions and financial conglomerates, on its own initiative or at the request of the Commission. Where the Commission requests advice from the Committee, it may lay down a time limit within which the Committee shall provide such advice. Such time limit shall be laid down taking into account the urgency of the matter.*’. Commission Decision 2009/79/EC of 23 January 2009 establishing the Committee of European Insurance and Occupational Pensions Supervisors, OJ L 25, 29.1.2009, p. 28.

⁵⁸ The Committee of European Securities Regulators was established under the terms of the European Commission Decision of 6 June 2001. According to the Article 2 of said Decision: ‘*The role of the Committee shall be to advise the Commission, either at the Commission’s request, within a time limit which the Commission may lay down according to the urgency of the matter, or on the Committee’s own initiative, in particular for the preparation of draft implementing measures in the field of securities.*’, Commission Decision 2001/527/EC of 6 June 2001 establishing the Committee of European Securities Regulators, OJ L 191, 13.7.2001, p. 43–44.

⁵⁹ For the purpose of said scheme, ‘*covered bonds*’ mean securities issued by banks and backed by mortgages or other loans.

⁶⁰ B. Benoit, *Merkel mauls central banks*, available at: <http://www.ft.com/cms/s/846fd756-4f90-11de-a692-00144feabdc0>

over, in an indirect way he confirmed speculations which have arisen about splits within the ECB Council.⁶¹

7. Recommendations for the future

The de Larosiere report lays out 31 recommendations which should be adopted by the European Union in the areas of regulatory, supervisory and global reforms in the financial sector. Some of these proposals seem obvious, while others are more controversial and will be difficult to implement in the nearest future. Generally speaking, according to the report, the problem is not the result of a lack of rules or standards governing the financial institutions, but rather the lack of appropriate supervisory mechanisms to ensure that the regulations are properly applied. At the same time, regulation and supervision are *'inextricably intertwined'* and should be assessed together.⁶²

The report underlines that: *'(...) confidence in a stable financial system has been lost (...) in substantial part due to its recent complexity and opacity, (...) weak credit standards, misjudged maturity mismatches, wildly excessive use of leverage on and off-balance sheet, gaps in regulatory oversight, accounting and risk management practices that exaggerated cycles, a flawed system of credit ratings and weakness of governance'*.

It is interesting that the authors of the report stand up for the Basel 2 rules, pointing out that these rules entered into force in the EU relatively late (January 2008) and will be binding in the US only beginning April 2010. However, the Basel 2 framework needs *'fundamental review'*.

The next proposal concerns the problem of minimum banking capital. In the opinion of experts, the EU should agree on a common definition of 'own funds' which would be confirmed at the international level by the Basel committee. Moreover, a global *consensus* on limiting Tier 1 instruments to just equity and reserves should be reached.⁶³

The third recommendation concerns review of the activities of Credit Rating Agencies, especially in terms of their financing and the need for separa-

⁶¹ Transcript of FT interview with A. Weber, president of the Bundesbank, 20.04.2009; available at <http://www.ft.com/cms/s/085d83b4-2e9f-11de-b7d3-00144feabdc0>

⁶² Theoretically, regulation and supervision complement each other, therefore weak supervision at the EU level might be compensated by a set of uniform and rigorous rules and standards adopted by all member countries. In practice however, in the name of the subsidiary principle, the scope of common regulations applied at national levels is limited.

⁶³ A. Blundel-Wignall, Deputy Director of the Enterprise and Financial Affairs Directorate of the OECD, examined the leverage ratios for selected European and the US major banks – measured as Tier 1 capital to the bank's total assets ratio, and found out that the European banks have around half the capital of the US banks as a share of assets; 2.68% and 5.15% respectively. In

tion of the rating and advisory businesses.⁶⁴ Even more interestingly, the report suggests that: ‘(...) *the use of ratings in financial regulations should be significantly reduced over time*’.

The next set of recommendations raise many important issues, including but not limited to:

- a) proper adoption of the Solvency 2 Directive,⁶⁵
- b) delegation of adequate supervisory powers to the competent authorities in all Member States ‘*to ensure the compliance of financial institutions with the applicable rule*’. These authorities should be ‘(...) *equipped with strong, equivalent and deterrent sanction regimes to counter all types of financial crime*’;
- c) improvement of transparency in all financial markets, including the most important hedge funds and introduction of appropriate capital requirements on banks owning or involved in hedge fund trading;
- d) simplification and standardization of over-the-counter derivatives;
- e) further development of common rules for investment funds in the EU;
- f) creation of a truly harmonised set of core rules in the EU, especially in respect of national exceptions in the transposition and application of EU regulations;
- g) making financial institutions’ compensation policies compatible with the results achieved;
- h) proper monitoring of the financial institutions’ internal risk management systems, which should be independent and responsible for effects;

particular: Deutsche Bank – 1.40%, Societe Generale – 2.02%, Citigroup – 4.08%, Lehman Brothers – 3.34% to name a few. See: A. Blundell-Wignall & Paul Atkinson, *The Subprime Crisis: Causal Distortions and Regulatory Reform*; available at <http://www.rba.gov.au/Publication-sAndResearch/Conferences/2008/>

⁶⁴ Moreover, in many cases the CRAs were dependent on issuers of rated products. Because of originators’ needs to get the best assessments for their products, such situations led to conflicts of interest.

⁶⁵ Some European politicians claim that the Solvency 2 Directive (see: COM (2007) 361 final) is one of the outstanding items from the Commission’s Financial Services Action Plan (1999–2005). At the same time, they indicate that regulations concerning insurance and reinsurance companies operating in the EU, which remain in effect up to now, do not reflect either current market practices or risk management capabilities. This situation cannot be surprising since some of the 13 separate directives, constituting the current regulatory regime for insurance, date back to the 1970s. Baroness Cohen of Pimlico, Labour peer in the House of Lords, explains: ‘*nothing really changed much, partly because of the lack of some political will*’. In her opinion, in the 1990s most regulatory change was reactive. Even when the USA and other countries (e.g. Japan, Canada and Australia) introduced a risk – based capital system and better practices, the European Commission, even though aware of the sin of nonfeasance, did nothing. See European Union Committee, House of Lords, 6th Report (2007–2008): Solvency II (HL 42).

- i) setting up a coherent, transparent and workable regulatory framework for crisis management in the EU and arming the relevant EU authorities, with sweeping powers including indispensable measures for combating and preventing crises;
- j) setting up Deposit Guarantee Schemes which would guarantee high and equal protections for all EU customers of banks, insurance and investment institutions;
- k) apart the ESRC, setting up the European System of Financial Supervisors;
- l) strengthening the national supervisory authorities '*with a view to upgrading the quality of supervision in the EU*';
- m) harmonising a '*set of financial regulations, supervisory powers and sanctioning regimes*' within the EU;
- n) putting the Financial Stability Forum in charge of '*promoting the convergence of international financial regulation to the highest level of benchmarks*';
- o) putting the IMF in charge of '*developing and operating a financial stability early warning system, accompanied by an international risk map and credit register*' and strengthening the role of the IMF '*in macroeconomic surveillance and contribut (ing) towards increasing the IMF's resources*';
- p) ensuring appropriate representation for the EU in international organizations, especially in the IMF.

The pessimist can interpret the above recommendations as a list of the shortcomings in the regulatory and supervisory systems currently in place in the European financial system. Moreover, if the High Level Group is right in its assessment of *why* the policymakers disregarded the same or similar advice in the past, then the fundamental question concerning the lack of political will in the Council needed for carrying out the reform program remains relevant.⁶⁶

8. Restoring high ethical standards for financial institutions: an absolute necessity or chimera?

In the last two decades the global economy has faced many turbulences and financial scandals: the dot.com bubble of the late 1990s which was based

⁶⁶ In September 2009, during the Stockholm Conference of the Chairs of Parliamentary Finance and Budget Committees on '*The Economics of Climate Change and Sustainable Public Finance*', many experts and politicians expressed opinions that the problem does not lie in improper regulations but in a lack of good will on the part of regulators to exercise the power entrusted to them.

on speculative activity arising from the development of new technologies; the Asian financial crisis of 1997 when high excess of liquidity and strong credit growth led to a property boom and pushed asset prices to unsustainable levels; or the Enron-Arthur Anderson scandal, to name but a few. In all the above-mentioned cases, further collapses of affected financial markets were the result of a huge loss of confidence among investors. It must be concluded that confidence in financial markets cannot be restored without restoring high ethical standards for financial institutions. The problem is as old as the hills and still unsolved.⁶⁷ It is a common opinion that bankers' greed was and still is the source of all human financial disasters. The fundamental question thus becomes: '*Did European, American or other regulators encourage banks and other financial institutions to engage in risky or unfair practices?*' Unfortunately, the majority of politicians are completely unwilling to address this issue. They probably realise that in the public's eyes there is no difference between the spectacular Bernie Madoff case and the behaviour of those banks which created the scam of a sub-prime mortgages.

In reality the majority of average investors, especially in the EU, regardless of their sex, age or professional experience, do not understand what is going on in the global financial markets. They are the victims of 'behavioural finance'. They associate acronyms such as ABS, RMBS, CMBS or CMO more with Mendeleev's periodic table than with securities. Fannie Mae or Freddie Mac are perceived rather as nicknames of international swindlers rather than the names of the multi-billion dollar US government-sponsored enterprises. The level of ignorance, the uncertainty over the future, and the informational background noise make the citizens trust pseudo advisors or experts. As a result of being misinformed and encouraged to make risky investments, the investors naturally behave nervously. They have bouts of euphoria and panic. When their pension funds are growing they are happy, but when they are in danger they wonder who is responsible for the mess, and why taxpayer money is being used to rescue the greedy banks and the multi-million dollar salaries of their executives? They demand, so far without success, that the culprits for their tragedy be punished.⁶⁸

⁶⁷ Discussing credit policy and fair treatment of banks' customers, a certain CEO of the one of the biggest banks operating in Poland openly appealed to fellow bankers gathered at the jubilee XX Annual General Meeting 2009 of the Polish Bank Association: '*It is better to shear than to skin a sheep.*'

⁶⁸ See: A. Wójtowicz, *Dlaczego inwestorzy nie ufają City? Wpływ amerykańskiego kryzysu na bezpieczeństwo i stabilność rynków finansowych w Polsce (Why Investors Don't Trust the City The Impact of the American Financial Crisis on the Security and Stability of Financial Markets in the EU and Poland)*, Kancelaria Senatu, Warszawa 2009.

