OFF THE NEWS

TIE noticed that at the January World Economic Forum at Davos, a report entitled "The Vulnerability of Elites: Geopolitical Risk in 2013" stunned many of the bankers, investment bankers, and central bankers in attendance. Around that time, the Wall Street Journal*'s Brett Arends added to this growing sense of elite vulnerability by unleashing the following humorous exchange.*

So God Made a Banker

A commercial for the next Super Bowl?

To be read in the voice of Paul Harvey.

And on the eighth day God looked down on his planned paradise and said, "I need someone who can flip this for a quick buck."

So God made a banker.

God said, "I need someone who doesn't grow anything or make anything but who will borrow money from the public at 0 percent interest and then lend it back to the public at 2 percent or 5 percent or 10 percent and pay himself a bonus for doing so."

So God made a banker.

God said, "I need someone who will take money from the people who work and save, and use that money to create a dotcom bubble and a housing bubble and a stock bubble and an oil bubble and a commodities bubble and a bond bubble and another stock bubble, and then sell it to people in Poughkeepsie and Spokane and Bakersfield, and pay himself another bonus."

So God made a banker.

God said, "I need someone to build homes in the swamps and deserts using shoddy materials and other people's money, and then use these homes as collateral for a Ponzi scheme he can sell to pensioners in California and Michigan and Sweden. I need someone who will then foreclose on those homes, kick out the occupants, and switch off the air conditioning and the plumbing, and watch the houses turn back into dirt. And then pay himself another bonus."

God said, "I need someone to lend money to people with bad credit at 30 percent interest in order to get his stock price up, and then, just before the loans turn bad, cash out his stock and walk away. And who, when asked later, will, with a tearful eye, say the government made him do it."

God said, "And I need somebody who will tell everyone else to stand on their own two feet, but who will then run to the government for a bailout as soon as he gets into trouble—and who will then use that bailout money to help elect a Congress that will look the other way. And then pay himself another bonus."

So God made a banker.

—Brett Arends

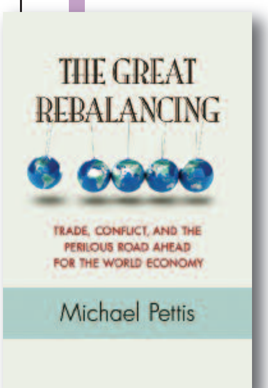
THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
220 I Street, N.E., Suite 200
Washington, D.C. 20002
Phone: 202-861-0791 • Fax: 202-861-0790
www.international-economy.com
editor@international-economy.com

Now They Tell Us

Steven Rattner, former Obama adviser, writing in the Opinionator blog at NYTimes.com: "In the hands of Congress, the needed overhaul of financial regulation became an unwieldy mess; the 398 separate regulations required by Dodd-Frank will ultimately be judged to go well beyond what was needed."

It's Ugly Out There

Economist Michael Pettis offers a theory that the world economies are undergoing a critical rebalancing. In his book, *The Great Rebalancing: Trade, Conflict, and the Perilous Road Ahead for the Global Economy* (2013, Princeton University Press), Pettis predicts a breakup of the euro, a diminished Chinese economy, and a U.S. dollar in full retreat. And that's just the good news.



Why Washington's Power Will Increase

The February 1–3 annual Wehrkunde Munich Security Conference, where the world's top defense and foreign ministers met, placed on center stage the implications of the emergence of the United States as a dominant energy producer with a conference panel titled "The American Oil and Gas Bonanza: The Changing Geopolitics of Energy."

A report from the German Federal Intelligence Service (*Bundesnachrichtendienst*) discussed in the hallways at the conference has, according to *Der Spiegel,* offered some startling conclusions:

> "Washington's discretionary power in foreign and security policy will increase substantially as a result of the country's new energy riches. … [T]he political threat potential of oil producers like Iran will decline. … [T]he United States will no longer have to send any aircraft carriers to the Persian Gulf to guarantee that oil tankers can pass unhindered through the Strait of Hormuz, still the most important energy bottleneck in the world.
>
> The Russians could be on the losing end of the stick. … Putin's grip on power could begin to falter. The Americans' sudden oil and gas riches are also not very good news for authoritarian regimes in the Middle East."

—*Criton Zoakos*

Replacing Juncker

The unlikely rise of Jeroen Dijsselbloem.

Jeroen Dijsselbloem: *Trained as an agriculture expert. But can he master finance?*

Jean-Claude Juncker: *The Eurogroup's diplomatically skilled operator steps down.*

During preparations for European monetary union, when France and Germany clashed on important issues, Luxembourg's Jean-Claude Juncker was asked to play the role of trusted mediator on the European stage. Often he was helpful in defusing conflicting views.

Juncker was close to German Chancellor Helmut Kohl and trusted by the French leadership who, for instance, fiercely opposed modeling the European Central Bank after the Deutsche Bundesbank as an independent central bank institution. As finance minister and then prime minister of Luxembourg, Juncker symbolized the tendency of the now 27-member European Union and the 17-member monetary union to put representatives from small countries in European leadership positions.

Steering and mediating among the eurozone's finance ministers during the run-up and during the turbulent banking and euro crisis, Juncker was able to look out for the interests of Luxembourg's exceptionally large and globally interconnected financial sector. This explains why he pursued a policy of maximizing bail-outs for investors in eurozone bank bonds up to this day—pushing into the future bail-ins for bank bond investors.

Luxembourg's banking industry holds total assets of more than twenty times its GDP. About 90 percent of total bank assets are foreign-owned. The strategically located grand duchy has an investment fund industry with an aggregate balance sheet of around fifty times Luxembourg's GDP and an aggregate insurance industry balance sheet four times its GDP.

Over the years, Juncker has played a key role in organizing a "soft landing" for Luxembourg as a major tax haven by pushing for advantageous EU tax treaties and by improving the governance and transparency of the financial sector. This was in contrast to the government and the finance industry of Switzerland.

The specter of a French cabinet member—under the direct control of President François Hollande—heading the Eurogroup haunted the highest levels of the German government.

So it was no surprise in September 2004, when the "Eurogroup"—comprising the finance ministers of the eurozone member countries—had to install a semi-permanent president, the important job was given to the diplomatically skilled Juncker.

Together with two other former government heads from small EU member countries—José Manuel Barroso from Portugal as EU Commission president and Herman Van Rompuy from Belgium as EU president—the threesome has ruled the management of the EU banking and euro crisis during the last several years.

When the threatened default of Greece in April 2010 challenged the eurozone leaders to save monetary union as never before, the Eurogroup's president moved to center stage to head the rescue operation.

Last year, Juncker signaled that he was ready to hand off his strenuous Eurogroup job. Eight years as eurozone crisis manager was enough. Said Juncker, "This costs me four hours a day, and now I need the time for myself."

There were indications that Paris wanted to push French Finance Minister Pierre Moscovici to succeed the self-assured veteran of the Brussels scene who witnessed the birth of the euro. In view of the highly controversial issues on the Eurogroup agenda, with banking union on the top of the list, the specter of a French cabinet member—under the direct control of President François Hollande—heading the Eurogroup haunted the highest levels of the German government.

Berlin's stressed Chancellor Angela Merkel reacted by presenting German Finance Minister Wolfgang Schäuble as a candidate for Eurogroup presidency and letting the other euro area members know that the successor to Juncker would have to come from a country that still holds a triple-A credit rating.

This explains why on January 21, 2013, at the finance ministers meeting in Brussels, the Eurogroup member states eventually settled on a "greenhorn" coming from a small country with a top rating: Dutch Finance Minister Jeroen Dijsselbloem.

The fact that the 46-year-old member of the Dutch Labour Party (PvdA), who had moved to the Dutch finance ministry only in November of last year, lacked finance experience on the Brussels stage was pushed aside by the Germans. Trained as an agriculture expert, Dijsselbloem was his party's educational spokesman before he became finance minister in November of last year. Some Berlin finance officials point to the fact that traditionally the Dutch ministry of finance's top permanent staff is very experienced in dealing with the Eurogroup's challenges.

After Juncker pointed to Dijsselbloem as his likely successor, Moscovici did not hesitate to let it be known what the socialist French government expected from the Dutch newcomer—in particular, full support for a speedy implementation of banking union.

Dijsselbloem is taking over from Juncker against considerable French reservations and open opposition by Spanish Finance Minister Luis de Guindos. Spain did not vote for the Dutchman, regretting openly that the Eurogroup was not able to "reach a consensus." Spain and other Mediterranean members of monetary union are frustrated that the selection process for the Juncker succession was based on the requirement that the Eurogroup president should come from a triple-A–rated country. Some see this as another manifestation of the deepening north-south divide in the eurozone.

From a German perspective, a weak newcomer from the Netherlands—a country that still has a tradition of monetary stability and economic competitiveness—at the helm of the Eurogroup is considered an acceptable option among less favorable alternatives. The challenges that Dijsselbloem faces in the coming weeks and months are mind-boggling. The French and Club Med are pushing to make the European Central Bank the top bank supervisor and establish a European banking union in order to facilitate direct bank capitalization in debt-stricken euro countries. This will be the Dutch finance minister's biggest test. Those in Berlin who selected him and pushed him through will be keeping their fingers crossed.

—Klaus C. Engelen

James M. Buchanan's Prescient Prediction

James M. Buchanan

Nobel laureate James M. Buchanan's (October 3, 1919–January 9, 2013) obituary brought to mind a somber prediction by this leading proponent of public choice theory. Public choice theory pointedly assumes that politicians and government officials, like everybody else, are motivated by self-interest in getting re-elected or gaining more power, and do not necessarily act in the public interest. Ever-larger power-grabbing EUinstitutions—in particular the European Central Bank that is also becoming the eurozone's leading bank supervisor—seem to confirm Buchanan's theory.

What troubled him the most was that monetary union "would destroy the Deutsche Bundesbank."

At the European Forum Alpbach in the Austrian Alps in 1995, I was able to interview Buchanan and also Alexandre Lamfalussy, who chaired the European Monetary Institute, the organization established to prepare for monetary union and the European Central Bank.

While Lamfalussy praised the "progressing stability culture among the potential member countries of the future monetary union," Buchanan was pessimistic. He bluntly predicted that on the basis of the Maastricht Treaty, "Europe would embark on a risky path." What troubled him most was that monetary union "would destroy the Deutsche Bundesbank and would become extremely costly." Buchanan noted: "At a time when citizens and markets increasingly distrust government institutions, the needless destruction of bastions of stability such as the Deutsche Bundesbank will have negative implications for the relationship of citizens and state but also for the standing of Europe."

Europe would fare better, the famous American economist argued, "if it would stick to competing currencies and deepen integration this way." Finally, Buchanan had this somber prediction: In some years—and despite of all the assurances of sticking to the agreed stability convergence criteria—intra-European stability will be undermined.

—Klaus C. Engelen