

EU unites behind call for bank bonus cap

Tony Barber

European Union finance ministers will press for clearly defined restrictions on bonus pay for bankers when they hold talks with their US and other G20 counterparts this month.

"The bankers are partying like it's 1999, and it's 2009," said Anders Borg, finance minister of Sweden, which holds the EU's rotating presidency. "Obviously, there's a need for stronger muscles and sharper teeth. It won't be satisfactory for Europe to end up with broad principles and guidelines."

Mr Borg was speaking on Wednesday after a meeting of the EU's 27 finance ministers designed to forge common positions on bankers' pay, financial market regulation and how to withdraw fiscal, monetary and other emergency measures adopted this year to prevent a deep global recession.

Finance ministers from the G20 group of leading industrialised and emerging economies meet in London on Friday and Saturday, setting the stage for a full-blown G20 summit in Pittsburgh on September 24-25.

The EU ministers agreed that recent signs that Europe's recession was bottoming out were not sufficient to justify a rapid removal of the emergency measures. They include state aid to the financial sector, injections of central bank liquidity, record low interest rates and government spending that has driven budget deficits far beyond normal EU limits.

Wouter Bos, the Dutch finance minister, warned: "We will need to think about exit strategies, because in the end the huge deficits will threaten the euro."

Mr Borg said Europe would not suffer the worst effects of the recession, in terms of rising unemployment, until later this year and in 2010, and this made it all the more important to curb the bonuses of already well-paid bankers.

"We will see social tensions in our societies, given that we're in a precarious situation on the labour market," he said. "It's important that we as politicians should give a clear message that the old bonus culture must come to an end."

Most EU governments are convinced of the need to break the perceived link between high bonuses and the risk-taking culture that they hold responsible for the near-meltdown of the western world's financial sector a year ago.

France has presented proposals for caps on bonuses such as a targeted tax and a legal maximum as a share of profits. But Gordon Brown, the UK premier, has declined to endorse the French ideas, saying that to impose mandatory limits "would be difficult in an international environment".

Governments in the 16-nation eurozone are conscious that actions on executive pay and bonuses will be less effective unless applied in the world's biggest financial centres, notably London and New York.

"We've put a lot of pressure on the other side of the Atlantic," Mr Borg said. "We've seen very clear statements on this issue from President Obama."

"It is better to do it together," said Didier Reynders, Belgium's finance minister. "It is better to do it in all the eurozone countries and, if possible, also in the EU with our colleagues from

Great Britain. And it may be useful to do it with our colleagues from the United States and other countries in the world.”

The EU ministers also agreed to increase the bloc’s contribution to a special International Monetary Fund borrowing programme to €125bn from €75bn.

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