

“I firmly believe in Africa as an upcoming market”

Professor René Smits is a specialist in the field of European economic and monetary law, banking supervision and institutional regulation issued by the European System of Central Banks. He is a convinced and forward-looking Europhile. With abounding enthusiasm, taking a broad view of society, he discusses the Dalai Lama and international monetary policy with equal passion.

*Interview by Yvonne Floor,
M.A. (Law), M.A. (English)*

Professor Smits: “I am an optimist and see opportunities, everywhere and always. Just think of micro credits in poor countries, a wonderful initiative. I firmly believe in Africa as an upcoming market. New techniques of communication, a more stable political climate and an increase in democracy have brought about progress. Of course, there are major problems also: the AIDS epidemic currently hitting the southern regions of Africa in particular, and Darfur are two examples. Neither do I have a somber view of the future of Europe. The euro is our strongest playing card. In addition, we will always retain a strong position in upmarket products, such as Italian clothing and German toys. The demand for quality products will not slacken. Upcoming markets must not be perceived as a threat. I regret that the reaction of many people is rooted in fear of the unknown. We have much to learn from each other. We should take a closer look at one another and build bridges across cultural divides. I consider that to be far more productive than a continuous emphasis on differences. We should enjoy the fact that we can have “ontbijtkoek” (gingerbread eaten at breakfast) in Holland and order very strong coffee in Turkey.”

The EU Observer recently qualified the EU economy as strong. That must be good news to all house-decorators and plasters who fiercely protested against Poland's accession to the EU.

“I understand their concerns, but fear leads us nowhere. Poland's accession also creates opportunities. Just think of London. The city has welcomed many Poles and French, and is thriving.

What is your view on the subprime crisis?

“There has been a great deal of speculation about an impending global economic crisis, but I think we

should not worry too much about it. Quite clearly, the market has overreacted to a localised problem. A number of American homeowners have failed to pay their mortgages. That's it¹⁾. The global economy is sufficiently strong to incorporate current adjustments to risk assessments. Provided we remain calm and central banks intervene from time to time, the global economy will weather this storm. In this respect also, I would like to stress the importance of cooperation at top level, within the IMF for instance.

The IMF is in turmoil at the moment. Why did the Spaniard Rodrigo Rato step down as Director?

“To be honest with you, I don't know. It's being said that Mr Rato chose to do so for a personal reason.”

Rato was a great advocate for reform. What should the IMF do now?

“The IMF will have to change in various ways. Increasingly, it will need to take account of emerging markets such as India, China, Brasil and South-Africa, which are underrepresented within the IMF as compared to the United States and Europe. Europe is represented in a divided manner, which is incorrect from a legal point of view. Those States participating in the eurozone adopted a single currency and should concomitantly have a single vote in the IMF.

The IMF is experiencing a kind of mid-life crisis. Its initial aim was to establish exchange rate stability. This objective was widened some time ago already. Since currencies started to float in the seventies, the IMF has made a strong effort to address balance of payments difficulties in developing countries. Many of these countries can now stand on their own feet perfectly well. What's more, they have a greater amount of foreign currencies and gold at their hands than you could ever imagine. It is now feared that extremely rich funds in Singapore, India, China, Kuwait and Russia will pose a threat to our economy through investments that serve geopolitical interests rather than profit objectives. In a political sense, such investments touch on sensitive issues.

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Talking about politics. At the IMF as well as the World Bank there have been rows about appointment procedures.

“As a matter of fact, I take sides with the non-European countries here. We still go by the gentleman’s agreement concluded in Bretton Woods in 1944. As an unwritten rule, an American presides over the World Bank whilst a European leads the IMF. This is an outdated system. In a strategic move, the Russian president Putin has pushed to the fore the Czech candidate Tosovsky; the EU favours the Frenchman Dominique Strauss-Kahn. It is expected that this time round yet another European will be appointed. Europe will for the time being retain an unfair measure of control over the reforms, making way for a candidate from the southern hemisphere once the reform process has been completed. That is taking an easy way out on the part of Europe, I would say.”

What is your opinion on the takeover of ABN AMRO? The Dutch Finance Minister Bos did not seem to object to this outcome of events.

“Neither do I. I have no qualms about British, Spanish or Belgian companies taking over Dutch firms. Of course, I feel strongly for all the people involved, especially those who have been working overtime for months on end and those who may lose their jobs. But it is not at all wrong for European banks to seek consolidation. There are hardly any true multinationals at the moment in Europe at a time when they are most needed. This is also required in order to solve the dilemma of international banks facing national banking authorities.

Another aspect of the fragmented European banking market concerns the national implementation of European law: this implementation differs, ever so slightly in some cases, for the various Member States. We refer to this as ‘goldplating’, meaning the introduction of elements for national purposes, which undermines the uniformity of regulation in the market.”

Would that be allowed under European law?

Yes, provided you do not bar anyone from participating in cross-border trade. As long as rules comply with the European directives, no legal problem exists. In daily practice, of course, this situation leads to fragmentation of the single market. We must stimulate closer consultation among banking authorities and introduce a European authority, in order to establish a truly single financial market. It is vital for Europe

to be strongly organized, if ever it is to act as a powerful partner in tackling global issues. I would like to put it this way: Europe, bring your house to order so that we can focus on delivering a substantial contribution to finding solutions for climate change and underdevelopment.”

Do you have any advice for the future?

“We should all work to further trust. Our whole economy depends on trust. In a globalised world, trust is also vitally important in other areas of life. In the banking world, it is crucial for banking authorities to re-establish trust. In a wider sense, I would like to underline the importance of inter-religious and intercultural dialogue. Knowledge about the beliefs and attitudes of our fellow human beings and curiosity about their ideas are indispensable. As for myself, I would like to help make a difference by setting up an inter-religious Internet forum (www.tv1111.eu). The unity of all religions is my point of departure. I set great value on the words of the 1st-century rabbi Hillel. He touched upon the essence of the Jewish faith by reminding us of a simple precept: “Do not do to others as you would not have done unto you.” This ‘golden rule’ is at the heart of all religions.”

¹⁾ This passage does not do justice to the underlying reasons for the subprime crisis and the questions raised by it, which include the extension of lending to debtors who were not in a position to undertake such borrowing commitments, the lack of transparency of banks’ commitments in respect of securitised assets, the role attributed by some to supervisors and central banks in accommodating these developments and the opacity of financial instruments.



Professor René Smits is a Sociology and Law graduate of the University of Amsterdam. He is Chief Legal Counsel to the Netherlands Competition Authority (NMa). Previously, Smits took up various legal functions at De Nederlandsche Bank NV. In 2000, he was appointed part-time professor in Economic and Monetary Law at the University of Amsterdam (UvA). Furthermore, he is Visiting Professor at Queen Mary, University of London. His main publications deal with European monetary law, banking supervision and institutional regulation in the context of the European System of Central Banks. Professor Smits lectures on a wide range of topics, including Europe and inter-religious and intercultural dialogue.

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