Dijsselbloem's Eurogroup role in jeopardy

Long wait before next Dutch government is formed

Roel Janssen, Advisory Board

The leadership of the Eurogroup of finance ministers is in doubt following the results of the Dutch election, which are being felt beyond the country's borders.

Jeroen Dijsselbloem, the Dutch finance minister and Eurogroup chairman, saw his Labour party (PvdA) lose 29 of its 38 seats in the election on 15 March. Though Dijsselbloem was re-elected, he will have to relinquish his post as finance minister once a new government is formed because his weakened party is not expected to be part of the ruling coalition. He had hoped to see out his five-year term as chairman of the Eurogroup, which ends in January 2018.

That ambition was put in doubt when he faced calls to resign over remarks he made to the German daily Frankfurter Allgemeine. Dijsselbloem told the paper that countries in the northern euro area had shown 'solidarity' with the south during the crisis, but that solidarity came with 'duties'. He went on: 'I cannot spend all my money on liquor and women, and beg for help afterwards.'

Spanish, Portuguese and Italian politicians and media were quick to condemn him. They felt he had confirmed northern prejudice against southern euro countries, insinuating that the latter were freespending Mediterraneans. The Portuguese prime minister Antonio Costa called Dijsselbloem's remarks 'racist, xenophobic and sexist' and demanded his resignation from the Eurogroup.

As chairman, Dijsselbloem's defence of austerity policies has put him at odds with the Italian and Portuguese governments. The Spanish, who have long campaigned for the baton to pass to a southern European country, are thought to be keen to replace him with Luis de Guindos, the Spanish minister of economy.

Loss of momentum for European populism

The priority for Mark Rutte, the Dutch prime minister, is to pull together a coalition, a task that could take months. To achieve a majority in parliament he needs the support of three other parties. Although Geert Wilders' far-right Party for Freedom (PVV) holds the second highest number of seats, no other party will work with it. This appears to leave two options for forming a coalition: both would include Rutte's People's Party for Freedom and Democracy (VVD), the Christian Democrats and the Social Liberals. The fourth party could either be the progressive Greens or the small Christian Union.

Unlike the period after the 2012 Dutch elections, when action was needed to tackle the effects of the financial crisis, the economy is booming and the budget is in balance. After four years of austerity, there is fiscal room to loosen the budgetary reins and this may ease Rutte's task.

The prime minister, having consolidated VVD as the largest party and halted the advance of Wilders, will undoubtedly use his renewed political clout in Brussels and could be inclined to be more strongly pro-EU than before. The loss of momentum for the populism that had appeared to be sweeping Europe may well have implications for this year's elections in France and Germany. ■

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Italy must protect minority shareholders

Corporate governance is good, but enforcement is poor

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The lack of protection for minority shareholders in Italy has become increasingly apparent in recent months, and not just in the case of the troubled Banca Monte dei Paschi di Siena (MPS). This issue may become a serious difficulty for the country when attracting foreign investment.

On paper, Italy has some of the most advanced legislation for the protection of minority shareholders. Even in the Anglo-Saxon world, requirements and corporate control to protect minorities are not as stringent as in Italy. However, there is a gap between the rules and their application. The Italian Securities and Exchange Commission (Consob) is attracting most criticism for this failure. The treatment of small shareholders in relation to MPS, the struggling banks in the Veneto region and in several other cases goes beyond ordinary mistakes. Most striking is the lack of public explanation about Consob's actions, or inaction.

In January international investment fund Elliott, frustrated by the lack of response from Consob, published information on its website that it had sent to the regulator about the sale of Ansaldo STS, operating in high technology for railway and urban transport, to Hitachi. The evidence it presented suggests that deliberate actions were taken to the detriment of minority shareholders, in which Consob only partly intervened.

Safeguarding independent directors

At issue is corporate governance and the safeguarding of independent directors whose duty it is to protect the interests of minority shareholders. Ansaldo STS's shareholders voted at the request of Hitachi, the majority shareholder, to remove an independent director accused of 'excessive diligence' for challenging some majority shareholder decisions. This sets a dangerous precedent in which the so-called 'action of responsibility', meant to serve as an effective means of protecting all shareholders, was used by the majority shareholder to eject a particularly diligent director appointed by the minority. Consob remained silent on the matter.

A paper by Mauro Guillén of Wharton University and Laurence Capron of Insead business school shows that countries with effective legal frameworks to protect minority shareholders tend to have more robust financial markets. This is because investors are more willing to take risks. It is not enough the law, but what matters is enforcement, and for that, the administrative ability to implement rules. In Italy, the mirror effect of this phenomenon is the relatively high value of the private benefits of control. There are many reasons why the culture of equity investment is still underdeveloped in Italy, but this problem is certainly part of the story.

Given that bank credit channels tend to improve slowly, and domestic savings are diversifying into other countries' assets, it becomes essential for Italy to be able to attract foreign investment to support economic growth. Proper enforcement of minority shareholders' protection is central to this. ■

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