Labour government pledges up to £500 billion for Britain’s banks

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It is a measure of the depth of the crisis facing the British and world economy that a pledge by the Labour government to make £500 billion available to the high street banks, failed to stem continued losses on the stock markets.

Early Wednesday morning, in one of the most far-reaching moves ever announced by a British chancellor of the exchequer, Alistair Darling pledged astronomic sums of taxpayer money both now and in the future to shore up the banks and building societies.

Capital will be made available to eight of the UK's largest banks and building societies in return for preference shares to be held by the government. Banks will have to increase their capital by at least £25 billion, which they can borrow from the government, with an additional £25 billion available in exchange for the preference shares.

This £50 billion is dwarfed by the £200 billion made available in short-term loans from the Bank of England, up from £100 billion, and the £250 billion in loan guarantees available at commercial rates, which are meant to encourage banks to lend to each other. This total is equivalent to $880 billion- greater than the $700 billion bailout agreed by the United States government October 3. It is equal to nearly 40 percent of Britain's gross domestic product (GDP).

Even so, the FTSE 100 stock index in London fell four percent after the measures were unveiled, with the troubled HBOS bank's shares rising by around 25 percent--from a rock-bottom low--by the end of the day. Shares of Barclays and Standard Chartered both fell.

The Bank of England also rushed to announce a cut in the Bank Rate from 5 to 4.5 percent, as part of a coordinated move by the US Federal Reserve, the European Central Bank and similar bodies internationally. Even this did not prevent a further fall at the end of London trading to 4.92 percent.

In an earlier statement to the House of Commons on Monday, Darling also promised to review the new £50,000 guarantee limit on bank deposits after Ireland, Denmark, Greece and Germany announced guarantees on all deposits. While 98 percent of retail customers are covered by the £50,000 limit, this covers only 60 percent of all deposits by value. An extension of the limit on retail deposits would benefit the more wealthy depositors, and Britain's banks want the guarantee to be extended to cover a wider range of deposits.

All that is being demanded in return for what amounts to a blank cheque from the government is some unspecified limits on the banks' dividends to shareholders and on directors' pay.

The manner in which it was decided to hand over such vast sums to the banks illustrates how Labour governs solely on behalf of the financial elite.

A fabulously wealthy layer that has amassed billions through rampant speculation has been handed immense power over the UK Treasury and tax revenues.

Yet despite the fact that the taxpayers will have to fund this unprecedented move, there was neither democratic discussion nor even a parliamentary vote on the matter. Instead, there were weeks of talks behind closed doors between the banks and the government.

Details of the bailout were widely leaked to the media and trailed on the BBC's flagship, *Newsnight* on Tuesday. The package was finally announced as a done deal in a written statement issued for the City's approval just before the London Stock Market was due to open at 800 a.m., Wednesday. Even the cabinet had not discussed it.

The chancellor had said he would *inform* Parliament after he had worked out a deal. In any event, such is the unanimity on all fundamental questions between all the political parties, that there will be no debate or opposition to the measure.

The rescue plan had to be hastily unveiled after confidence in Britain's banking system, one of the most important in the world, evaporated. Shares in Britain's high street banks had crashed on Tuesday, following Darling's failure to announce an immediate rescue plan. HBOS had fallen by 42 percent, Royal Bank of Scotland (RBS) by 39 percent, Barclays by 9 percent and Lloyds TSB by 13 percent.

British banks, which rely more on the wholesale money markets than their European counterparts, have found it impossible to secure funding. Banks and financial institutions refuse to lend to each other without charging high interest. Large parts of the debt market have ceased to function. Even the massive injection of overnight and term liquidity by the Bank of England into the banking system has not lifted the lending freeze, as banks have hoarded the money to keep themselves solvent.

The chief executives of Britain's largest banks had presented Darling with a long shopping list of demands, most of which have now been agreed to. But on Tuesday, with Europe's leaders having failed to mount a coordinated rescue plan, Darling simply reiterated the government's promise that it would do whatever was necessary to restore confidence in the banking system.

The cash injection, in return for preference shares, was a way of selling a bailout purportedly on better terms than the US Treasury's plans to buy up at least $700 billion of toxic assets. But it was still dangerous and massively unpopular. Darling worked behind the scenes to secure the support of the opposition parties and the financial authorities.

The efforts to prettify what has been agreed should be rejected out of hand. The talk of a "partial" nationalisation of the banks by financial commentators obscures the fact that the state is taking public ownership of the banks' *liabilities*. The banks will continue to be run in the interest of the financial elite. They will be subject to no direct control by government, a point that the government has confirmed.

The government's move will not succeed in restoring confidence in the banking system. Given the weight of the financial sector in Britain, far higher than anywhere else, a comprehensive bailout package involving every UK bank and every UK deposit would be far beyond the means of the government.

To give some indication of the scale of what is involved--the assets of what are now, in many instances worthless loans of just four of the high streets banks, RBS, HSBC, Barclays and Lloyds TSB/HBOS--total €2 trillion, €1.6 trillion, €1.5 trillion and €1.4 trillion respectively. This is more than four times the value of Britain's GDP.

While some of the most important banks and building societies will be eligible for cash injections by the government, others will be allowed to go to the wall or be taken over. In any case, the government will struggle to find the resources to fund this rescue of the biggest banks. Its coffers are empty.

According to the Institute of Fiscal Studies, this year's budget deficit is likely to rise to £65 billion, a 13-year high that amounts to 4.4 percent of national income. The state takeovers of Northern Rock and Bradford and Bingley--set to cost taxpayers at least £130 billion--have already brought the total borrowings to GDP ratio to about 48 percent.

Further injections of public cash, into banks that are losing their value, could result in the financial insolvency of the British government itself. Even in the mid 1970s, in spite of Britain's dire economic straits, the government was able to appeal to the International Monetary Fund for loans. Today such an escape route is no longer possible.

The banks' raid on the Treasury will lead to the gutting of social programmes and welfare payments, the loss of hundreds of thousands of public sector jobs and the introduction of widespread user charges for public services. This will be accompanied by tax increases on working people on a massive scale.

This takes place under conditions of a deepening recession in Britain and internationally. A leaked report by the International Monetary Fund (IMF) stated that the world is heading for a "major downturn," with Britain's economy one of the hardest hit. The IMF has said the world faces a potentially disorderly global unwinding of debt that could precipitate "a severe adverse feedback loop between the financial system and the broader economy." It predicts that that UK gross domestic product will shrink by 0.1 percent over the next year, having previously predicted growth of 1.6 percent.

The freeze in the money markets has already begun to spread to the real economy, with the corporate sector unable to secure loans for more than a day to shore up working capital, threatening their ability to pay their creditors and workforce. The National Institute of Economic and Social Research said that Britain is already in recession. The British Chamber of Commerce agrees and has warned of "exceptionally bad" conditions for business, with hundreds of thousands of jobs expected to go by 2009. Much worse is yet to come, as working people are forced to pay for a crisis that is not of their making by those who are directly responsible.