First Minister Alex Salmond pleads for Scottish finance to be saved

Steve James
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The Lloyds TSB takeover of Halifax Bank of Scotland (HBOS), forced by the collapse of the HBOS share price, has triggered an air of national crisis in Scottish political and financial circles.

While 140,000 HBOS and Lloyds bank workers across the UK and internationally face huge uncertainties as to whether they will have a job in a few months' time, the sole concern exhibited by the Scottish political parties has been to prop up the financial services industry while extracting the best terms for the clique of Scottish financiers and businesses closely linked to HBOS and its predecessor, the Bank of Scotland.

Under the deal, which is already considered extremely shaky, Lloyds TSB was to pay £12 billion for HBOS, under terms that had been under discussion for months. But nothing has been finalised as yet. The new bank will be Britain's biggest, with 39 million account holders, 30 percent of UK mortgages and deposits of some £300 billion.

Because of its exposure to the mortgage market, and dependence inherited from HBOS on wholesale money markets, even with these huge resources, industry analysts reckon that the new Lloyds TSB/HBOS combine can only remain afloat through making cost savings of around £1 billion a year. The new company will be saddled with a debt to deposit ratio of £1 debt for every £0.37 in deposits and can only survive through implementing tens of thousands of job losses across the UK. Initial estimates ran as high as 40,000.

Lloyds TSB are reported to have contacted property consultants over plans to close up to 700 of the 3,000 high street units the new merged group would control. There are also proposals to merge data and network services and outsource IT support. Analysts quoted in the *Financial Times* complained that £1 billion of prospective savings, 10 percent of operating costs, compared badly with 31 percent savings when Lloyds took over the former Trustees Savings Bank (TSB) in 1995.

HBOS itself emerged in 2001 from a merger of the Halifax Building Society and the Bank of Scotland. Both institutions had long histories. The Bank of Scotland was formed in 1695, while the Halifax was set up in 1852 as a credit union. The new company gobbled up a number of smaller banks, former building societies and insurance companies. An attempt to buy up the National Westminster bank was in the end trumped by Edinburgh-based rival the Royal Bank of Scotland (RBS).

When HBOS was formed, the Halifax was the wealthier and larger group. Nevertheless, HBOS corporate headquarters was based in Edinburgh, while the retail banking division remained based in Halifax. The merger cost at least 2,000 jobs. The intention, in addition to cost savings, was to allow the Halifax to enter bank markets and the Bank of Scotland to start selling mortgages. Both companies have subsequently become highly integrated into one outfit, while the former Bank of Scotland HQ on the Mound in Edinburgh has become a museum.

HBOS is thus a typical product of the rapid, and hugely profitable, consolidation in all areas of the global banking financial services industry over the last two decades.

None of this stopped Scottish first minister and leader of the Scottish National Party (SNP), Alex Salmond, from hypocritically denouncing the HBOS collapse as the work of "spivs and speculators." Salmond warned that the Scottish economy could be plunged into "turmoil."

His comment implied that HBOS was an essentially healthy, respectable and thoroughly Scottish outfit brought low by external, and rather immoral, gambling unconnected to its own operations. This is nonsense.

As Salmond well knew, HBOS's demise was brought about by its attempt to expand rapidly into the mortgage market using market-based finance instead of customer deposits. This has also brought down Northern Rock and now Bradford and Bingley, another former building society.

Moreover, it rapidly emerged that some of the "spivs and speculators" were supporters of the SNP. Sir George Mathewson, former chair of RBS and a supporter of Scottish independence, was revealed as being a chair of Toscafund Asset Management--a £3.5 billion hedge fund specialising in short-selling on the financial markets. Mathewson is also chair of the Scottish government's SNP-appointed Council of Economic Advisers. A number of other leading SNP figures also appeared to be playing leading roles in asset management funds of various types.

Nevertheless, Salmond has attempted to use the crisis to promote his case for Scottish independence, presenting the HBOS collapse as a blow to national prestige.

He told the press, "The position we are in at the present moment is a position that has been arrived at within the Union [referring to the 1707 Act of Union between England and Scotland], within the limited powers that we have. Would we have a Bank of Scotland if Scotland was independent? I think the answer is undoubtedly yes."

Salmond claimed that an independent Scotland would have offered billions of pounds in credit to HBOS to allow it to survive as an independent bank. His position was ridiculed by the Labour Party, when Labour pointed out that £100 billion, double the entire Scottish budget, would have been necessary to save HBOS. But Salmond's position is entirely consistent with his repeated call for Scotland to have the power to vary corporation tax in line with investment requirements. It expresses correctly the attitude that the SNP takes to social spending--that it should be entirely subordinate to the needs of the finance industry.

Financiers around the SNP were reported to be considering a counter-bid to the Lloyds TSB proposal. The names of merchant banker Angus Grossart, of Noble Grossart, recently appointed head of the Scottish Futures Trust, and Jim Spowart of Intelligent Finance, among others, were raised in the context of a £6 billion notion to carve out the Bank of Scotland operation from HBOS.

The *Economist* noted that Scottish businessmen, such as transport magnate Brian Souter of Stagecoach, also an SNP supporter, viewed the bank's corporate lending policy, and its longstanding ties to thousands of smaller Scottish companies, as central to their success.

A petition appeared on the SNP web site calling for support for "the Scottish Government in its efforts to save Scottish jobs and ensure a strong future for the Bank of Scotland."

A City of London broker told the *Scotsman* that a buyout could address political sensitivities in Scotland, while noting that the "quantum of cost savings and pricing power that Lloyds-HBOS would command would be far larger outside Scotland, so the deal strategy would remain relevant."

In other words, Lloyds-HBOS could sell off Bank of Scotland in return for a free hand against its larger workforce in England.

In reality, any rump Bank of Scotland would be even more vulnerable than HBOS, since part of the attraction of the 2001 merger was the huge pool of depositor savings accrued by the Halifax. It would be even more dependent on collapsing global money markets.

Aware of this, Salmond has also lobbied Lloyds TSB, in the form of its chair Victor Blank, to encourage the company to leave at least part of its corporate HQ in Edinburgh. Salmond has also lobbied the chief executive of the Scottish Widows division of Lloyds TSB, Archie Kane. Kane told the press, "We have two organisations we are trying to put together which have a long, strong Scottish heritage."

The Council of Economic Advisers plans to meet in secret, according to the *Times*, to "develop a business case to retain head-quarter functions and jobs in Edinburgh." An HBOS communications manager insisted that the outcome of the deal would be "good for Scotland." In addition to Mathewson, the council involves a number of leading academic economists and businessmen, including Professor Andrew Hughes Hallet, a former Federal Reserve consultant; Robert Smith, the chair of Scottish and Southern Energy; and Jim McColl, the chair of Clyde Blowers--a medium sized industrial process combine.

Salmond was offered all-party support in dealing with the consequences of the HBOS takeover. Newly elected Labour leader in Scotland, Iain Gray, called for the Scottish government's Financial Sector Advisory Board, also comprised of industry figures, to incorporate all the political parties and council leaders from Edinburgh and Glasgow. Liberal Democrat leader Tavish Scott, also newly elected, agreed, insisting that the political parties "make crystal clear that there is a cross party effort for Edinburgh to remain a centre of gravity in the financial world."

To the extent Labour has differed from the SNP, it is in pointing out that the Lloyds HBOS takeover was reportedly engineered by UK Prime Minister Gordon Brown, seeking to avoid a Northern Rock-style nationalisation of HBOS. Labour has presented this as a benefit of remaining within the UK.

Labour are hoping to avoid another by-election defeat to the SNP in the Fife constituency of Glenrothes by presenting Brown as a stable man in a crisis, and Labour locally as best placed to defend Scottish interests. Both the SNP and Labour will suppress the implications of the takeover for bank workers, particularly those in areas less immediately favoured by the financial aristocracy, such as Halifax, Yorkshire, where some 6,500 workers are currently employed by HBOS.