Britain: Labour government to buy majority stakes in failing banks

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14 October 2008

The Labour government is to spend £37 billion in public funds buying a massive number of shares in the Royal Bank of Scotland (RBS) and the merged Lloyds TSB and HBOS.

In the case of RBS a £20 billion cash injection will give the government a 60 percent ownership and £17 billion for HBOS and Lloyds TSB will give the government a 40 percent share. Barclays has said it will raise £6.5 billion from private investors without government help, but has not said how it will do this.

The announcement means that the lion's share of the £50 billion investment in the banks announced by the Treasury last week has already been taken up.

The BBC's business editor Robert Peston, who has been one of the more serious and informed commentators on the unfolding banking crisis, described the banks recourse to such a massive government handout as an "absolute humiliation" and "perhaps the most extraordinary day in British banking history".

The move is being broadly described as a partial nationalisation, but it is not. The Treasury insisted that the investment would not be permanent and that the assets would be disposed of "over time". What this means in practice is that billions in taxpayers' money is being given to the banks in an effort to get them out of the hole in which rampant speculation has left them--only in the hope that the same layers responsible for this disaster can take over once more in the future.

Even in the short term, neither the ordinary shares taken by the government, nor the preferential shares (with a higher rate of return) have any voting rights, meaning that the banks remain under private control.

The one attempt to play to popular hostility to the handout is to insist that senior directors should get no bonuses this year! After this very brief hiatus, however, bonuses will be back on the table. And they will be paid in the form of shares to facilitate the bank's return to private hands.

The government is considering further moves, including additional interest rate cuts. Its promise to "do whatever it takes", made without any consultation with, let alone consent of, working people, could still mean that it will be forced to nationalise the entire banking system if all else fails.

Even with the strenuous efforts to ensure the continued functioning of the banks as private concerns, the fact that nationalisation is now being mooted has massive ideological and political implications. The deregulation of banking by the Conservatives under Margaret Thatcher was just as important an element of her pledge to "roll back" the frontiers of the state and bury the ghost of socialism as her privatisations and union busting. The same mantra was taken up by Labour in 1997, when it freed the Bank of England from state control.

For Britain's top banks to now admit that they can only survive with state aid worth upwards of £500 billion further undermines the carefully cultivated and loudly proclaimed myth of the superiority of the market. (An additional £200 billion is being made available in short-term loans and another £250 billion in loan guarantees.)

The move, however, is a bailout for the super-rich with no upper limit set and must be opposed.

What are in fact being "nationalised" are the banks' losses and debts. No one will be held to account or asked to pay back their enormous pay cheques and performance bonuses. No one will be held responsible for selling loans to people who manifestly could not afford them and now face bankruptcy and homelessness. No one will be held to account for designing and selling derivatives and exotic financial instruments that were little more than a giant pyramid scheme. And no one will be prosecuted for cooking the books and hiding the losses.

The monies so far handed over is equivalent to £20,000 out of the pockets of every taxpayer in the UK or £10,000 for every man, woman and child in Britain. This is more than the entire annual public sector budget and this is simply the opening price. The government has given the banks a blank cheque.

What is taking place is the largest redistribution of wealth in British history, not from the rich to the poor, but from the mass of the population to the super rich. Far from expropriating the banks, it is the taxpayers who are being expropriated by a government that is a political tool of the financial elite.

The Royal Bank of Scotland, Barclays, Lloyds TSB and HBOS now have a combined market capitalisation of just £45 billion, a mere 26 percent of their £170 billion value last year. Even HSBC, Britain's largest bank, has lost value. If the rout continued for another few days, the banks would be wiped out, a scenario that the *Sunday Telegraph*'s editorial admitted "is by no means inconceivable".

This right wing apostle of the free market opined that only when the state had taken control of the banks would the markets believe the government's guarantee "not to allow any British bank to fail".

To gain some sense of perspective as to what is involved, early in 2007 the banks accounted for about 15 percent of the UK's top 100 companies. Their transformation in the 1990s into financial institutions enabled the selling of mortgages, loans, insurance and pensions to their retail customers on the high street, and buying and selling financial assets in the corporate sector. Their combined loan book--now of little value--was valued at more than four times Britain's GDP, its annual income, a higher ratio than every other country except Iceland, Ireland, Malta and Cyprus.

In 2007, the banks accounted for 28 percent of total dividend payouts. Their dividends and increasing market capitalisation had underpinned the pension funds and other parts of the financial sector. It is estimated that £150 billion has been wiped off the value of pensions funds in the last year. The banks are major employers. One in ten people in London work in the financial sector, one of the largest in the world.

In addition to the banks, panic is spreading throughout the financial sector. Aviva, one of Britain's largest insurance companies, whose share price had fallen by 23 percent in the last three weeks, was forced to issue a statement stating that it was solvent and could withstand a further 40 percent drop in its share price. The Britannia Building Society, the second largest lender, announced it is to merge with the Co-op Bank, although this will require legislation to enable a mutual and a co-operative institution to merge.

Against the background of this escalating economic catastrophe, the efforts to bail-out the banking system must lead to the most savage assault on workers' jobs, wages and conditions and on essential services upon which millions depend. In taking control of the banking system, the questions posed are who has taken control and in whose interests? The billions being made available to rescue the stock portfolios of the super-rich should instead be poured into a systematic plan to safeguard the living standards of workers, young people and pensioners based on harnessing productive capacity to meet social need instead of corporate profit.