

Britain: Brown government caves in to banks' demands

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18 October 2008

Within days of announcing an unprecedented £37 billion bailout of three high street lenders—the Royal Bank of Scotland (RBS), Lloyds TSB and HBOS—that will involve the British government taking shares in the banks, Chancellor of the Exchequer Alistair Darling has caved in to the City's demands for the banks to make dividend payouts.

He did a U-turn and relaxed the terms of the agreement, part of a £500 billion rescue plan made at the expense of working people. Although the banks will receive billions of pounds from the Treasury to stave off a banking and credit collapse that is the result of their own reckless practices, the super-rich have refused to accept the slightest constraints on their right to be paid dividends. Headlines in the *Financial Times* were screaming, "Brown's £37 billion rescue: did it go too far?"

The Treasury denied that there was ever a "blanket ban on dividends for five years." The Chancellor indicated he would be flexible on paying dividends after one year, saying, "If someone comes up with a better way of running the scheme, of course we will listen." A *Guardian* source confirmed that a compromise was possible.

Darling's aides denied any U-turn and sought to justify this humiliating climb-down in the face of the City's demands with the pathetic claim that the bankers had not understood the terms of the deal or explained it properly to their shareholders.

In reality, Darling himself had previously told the BBC's current affairs *Newsnight* programme, "All the banks knew what was on offer. They knew the terms

and conditions and they had signed up to them."

The chancellor was a pushover because the government had never wanted to impose any conditions on the banks in the first place. It only banned the banks from paying dividends for five years in order not to fall foul of European Union rules on state aid and competition. The EU believed this would ensure that the banks were returned to private ownership, since it would force the banks to repay the government as soon as possible. It was one of 10 conditions imposed by the EU on the government's £500 billion capital injection, debt guarantees and liquidity-funding scheme announced last week.

The City of London and financial commentators are up in arms over the terms of the agreement, which they denounce as punitive. Under the agreement, negotiated with teams of top legal advisors, the government will buy £9 billion of preference shares in the banks. This will entail a 12 percent annual payout to the government, with no dividend payouts to other shareholders, including ordinary shares to be bought by the government, until the government's preference stake is repaid in five years' time.

The banks are demanding the right to pay dividends to other shareholders and repay the government for its preference stake earlier by selling off assets or raising additional capital from other investors.

The financial institutions are also outraged that the British government is demanding a 12 percent dividend, when the US government, in a similar deal, is requiring only a 5 percent dividend. They want the British government's dividend also cut to 5 percent. The

insurance and pension funds that hold many of the banks' shares backed up the banks' demands for a government retreat.

The banks are holding the government to ransom. They are threatening that without dividend payouts to shareholders, they will be unable to raise new money from shareholders to shore up their capital reserves as the government has demanded. This in turn will mean that the government will have to dig even deeper to bail out the banks. It is, of course, far from clear that with or without dividends they will be able to either sell their assets or raise additional capital in the prevailing economic conditions.

Labour MPs fell in behind the government. John McFall, the Labour chairman of the treasury select committee, said dividends should be paid because otherwise the banks would not attract private investors. "The government wants the first cut for the taxpayers, but if we are to have confidence in financial companies we have to ensure that dividends are paid to make it attractive for investors to come in."

The banks also protested at the government's requirement that they lend at 2007 levels, particularly to small businesses and homebuyers. On this, they were immediately reassured. Baroness Shriti Vadera, the minister for business, was at pains to stress that the reference to 2007 meant simply "the availability of lending" and did not mean that the banks had to match last year's total lending.

The bailout means that the government will hold 60 percent of RBS's shares and 43.5 percent of Lloyds TSB and HBOS, which are to merge early next year under a rescue deal, personally brokered by Gordon Brown, the prime minister. Banks' share prices have fallen sharply since the weekend bailout was announced. While the government has agreed to buy shares in Lloyds TSB at 173.7 pence, its price has fallen to 150 pence. HBOS's shares have fallen from the agreed price of 113.6 pence to 84.1 pence and RBS's shares fell from 65.5 pence to 65 pence.

The banks have also protested against any attempts to limit top management's pay and bonuses. The *Financial*

Times's Lombard column threatened the government with the headline, "It will be bloody if regulators take an axe to bonuses." The government and the regulatory authorities have all but admitted that such limits would be unworkable.

While the financial journalists called the bailout a humiliating defeat for the banks, the financial elite have simply seen it as a down payment. The super-rich will brook no curb on their prerogatives. Far from dividends being the reward for taking risks, with the possibility of no payouts in lean years, as every first year finance student is taught, the financial elite now see it as their right however the banks perform.

As far as the financial institutions are concerned, now that they have access to taxpayers' funds, there can be no reason for dividend payouts not to continue. Furthermore, such payouts come first—before the requirement to provide credit to business and homebuyers, supposedly the essential business of banks.

In turn, Labour will do "whatever it takes" to defend the wealth and privileges of the ruling class. It will plunder the assets of the state built up by generations of taxpayers, pledge the future earnings of taxpayers and launch a ruthless assault on working people, resorting to illegal and dictatorial measures as it sees fit. And it has the support of all the main political parties in doing so.



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