Britain’s banks given free pass by Vickers Commission

Julie Hyland
14 April 2011

The interim report from the Independent Commission on Banking (ICB), headed by Oxford economist Sir John Vickers, represents yet another victory for Britain’s financial institutions at the expense of working people.

The ICB was set up to look into ways of stabilising the financial system and preventing another multibillion-pound bailout of the banks like that undertaken by the Labour government in 2008.

Before taking office, all parties had pledged reforms, with the Liberal Democrats’ Vince Cable pledging to break up “casino-style” investment banking. This posture was made necessary under conditions in which the deregulation of the financial markets, spearheaded by Margaret Thatcher in the early 1980s and former president Reagan in the US, was widely seen as playing a crucial role in the October 2008 credit crunch.

Not only had the major financial institutions been free to indulge in hugely profitable and, in many cases, illegal speculative activity, gambling away depositors’ funds. But, as this came crashing down in October 2008, the state picked up the bill—underwriting the funds of the super-rich with billions in public monies, threatening entire economies with near-bankruptcy.

In the event, the Vickers Commission opposes any “radical” remedy of the banking system. Its interim report rejects imposing a clean separation between investment and retail banking, proposing that the two can remain within the same institution, so long as they are subject to a “firewall”.

This firewall is meaningless, given that the commission says transfers of capital between the two banking arms is permissible. Banks will be able to continue using deposits to fund their more lucrative speculative operations.

The commission was also to review competition, after the collapse of Bradford & Bingley, Alliance & Leicester and HBOS left five main high street banks.

In addition, Labour had arbitrarily changed competition regulation to enable Lloyds to take over HBOS during the 2008 meltdown. Accounting for 30 percent of all current accounts and 24 percent of all mortgage business, Lloyds controls the lion’s share, while its 23 percent share of small business banking makes it second only to RBS.

Here again, the commission rejects any real reform. While stating that “there is cause for regret that the government in 2008 amended competition law to facilitate the Lloyds TSB/HBOS merger,” it argues that “the facts in 2011 have to be taken as they are. In light of those facts, reversing the merger does not appear to be a sensible course to pursue.”

Under European Union regulation, Lloyds has been told it must sell off 600 branches. Vickers proposes this figure should be higher, but does not specify a final number. It does not “preclude” the possibility of these branches being packaged together with Northern Rock, which was wholly nationalised in 2008. This would provide a means of Northern Rock returning to the private sector, and creating a “new challenger bank”.

The commission suggests that the retail banking sector should be forced to hold more capital—10 percent as opposed to the 7 percent set out by Basel III, drawn up by the Basel Committee on Banking Supervision and due to be adopted by all G-20 members by December 2011.

It makes clear, however, that it regards the 10 percent figure as an international benchmark—suggesting that if is not adopted as such, it will be withdrawn, as it would prove uncompetitive for British banking and the cost would be passed on to the consumer.

As for the issue of bankers’ pay—the fact that largely nationalised banks are continuing to pay out small fortunes in bonuses to top CEOs—the commission declined to address the issue at all, saying it was a matter for the Financial Services Authority.

Share prices rose immediately on hearing the commission's recommendations. Barclays and RBS shares rose by more than 2 percent each, gaining £1 billion in their total market value, while Lloyds also recorded gains.

The banks were "secretly quite pleased" by the report, Bruce Packard, analyst at Seymour Pierce, said. Chancellor George Osborne said it was "important and authoritative", while Cable, now business secretary, claimed the report would not be "subject to lobbying".

The banks have made clear they will not tolerate any infringement on their activities and will try to water down the measures still further. They complain that ring-fencing retail deposits will prove too costly.

Vickers was forced to reject accusations that his commission had caved in to pressure from the government and the banks. "I absolutely reject any notion we've bottled it," he said. "We're absolutely independent from the banks and government."

The commission had considered the effect of its recommendations on London's attractiveness as a major financial sector and concluded they would have a "broadly neutral effect on financial services".

Sections of the media complained that the Vickers Commission represented a lost opportunity that could backfire with disastrous consequences. The *Independent* blasted the failure to restructure "Britain's dysfunctional and dangerous banking system": one, it complained, where giant banks "do not only take deposits and make loans—they also place large bets with borrowed money. The blanket state guarantee of banks' liabilities means that when these gambles pay off bankers generate large profits and pay themselves obscene bonuses. But when these gambles fail, as they did in spectacular fashion in 2007/08, the taxpayer ends up with the bill. Profits are thus private; losses are socialised. This is not capitalism: it is a welfare state for bankers and their financial backers."

Under the headline, "The banks get away with it again", Philip Stephens in the *Financial Times* noted that Britain's banks "still pose a serious threat to the nation's long-term stability and prosperity."

Dependent on taxpayers underwriting their profits and pay, their role in the 2008 crash "has left most British households facing cuts in their standard of living as steep as any since the 1920s".

"Sir John has seemed more attuned to political expedience than to the wider national interest," he wrote.

But the Vickers Commission is of a piece with all the measures implemented since the 2008 bailout. It makes clear that no one is to be held to account for the greatest economic collapse since the 1930s, and the banks and CEOs are to continue raking in enormous profits and bonuses.

The entire political system is dominated by the financial oligarchy, whose interests are sacrosanct regardless of the consequences of their domination. In contrast, the livelihoods of millions of working people and their families can be trashed, as the government imposes the most severe austerity measures on the population since the 1930s.