ECB doles out billions to the banks

A Christmas bonus for European financial elite, austerity for the masses

Stefan Steinberg
23 December 2011

Just a few days before the traditional Christmas holidays, the European Central Bank (ECB) has undertaken to pump additional hundreds of billions of euros into the pockets of the European and international banking elite.

The move follows a drastic warning by ECB chief Mario Draghi on Monday. In a speech to the European Parliament, Draghi warned of a credit crunch if the ECB did not provide further financing to the banks. A report issued by the ECB on Monday declared that tensions in the financial markets had "intensified to take on systemic crisis proportions not witnessed since the collapse of Lehman Brothers three years ago." A fresh infusion of funds to the banks was urgently necessary, Draghi argued, in order to allow them to lend money to consumers and businesses.

The ECB then announced it was introducing an emergency programme and taking the unprecedented step of permitting banks to borrow unlimited amounts of money at an interest rate of just 1 percent over a repayment period of three years. The banks jumped at the opportunity. On Wednesday, 523 European banks rushed to borrow almost half a trillion euros. Stock markets rose by an average of 1 percent the same day.

Draghi's action has the support of a number of European government leaders. In particular, French president Nicholas Sarkozy has argued for some time that the release of additional funds from the ECB would enable the banks to buy up the state bonds of ailing European economies such as Greece, Portugal and Italy.

What is notable about the decision of the ECB, however, is that not a cent of its latest loans goes toward bailing out endangered European economies. Instead, the entire sum has been awarded to the banks and will benefit only those major bank stockholders, hedge fund managers and finance speculators whose criminal activities have wreaked so much havoc with European economies in the first place. The ECB loans will strengthen the hand of the very same financial elite that is demanding the implementation of drastic austerity measures across Europe.

The improbability of banks using the new funding to buy up the state bonds of economies locked into recession and facing bankruptcy was underlined by a report from analysts at the Royal Bank of Scotland (RBS).

Following the money grab on Wednesday, the RBS estimated that nearly two thirds of the total sum of €489.2 billion will be used by the banks to restock their vaults and roll over short-term loans. This means that only €191 billion of the sum made available by the ECB is accessible for fresh investment.

Significant in this respect is the behaviour of Italian banks, such as UniCredit and Intesa, which lined up for a lion's share of the ECB money. According to a Reuters report, a quarter of the funds borrowed—€116 billion—went to Italian banks, which in turn are the biggest investors in their own country's state bonds. Their first priority is to dump Italian bonds, not to buy new ones. The latest measure by the ECB enables them to do precisely that, in the form of security offered to the ECB in exchange for the latest loans.

Rather than offering consumers and small businesses opportunities to borrow, as Draghi maintains, it is precisely the consumer who bears the entire risk of the ECB operation.

In its own assessment of the ECB move, the British *Daily Telegraph* concludes: "Banks accessing cheap ECB funds will lend this on to lowest risk credits, such as blue-chip corporate borrowers, to make an easy profit and rebuild their earnings and invigorate their living dead balance sheets. Bonuses all round."

While the markets responded positively on Wednesday to the ECB Christmas bonus, the relatively small increase in the indexes indicates that they expect the ECB to deliver even more. Having pressurised the ECB to "open up its spigots" for months, the markets regard the latest half a trillion euros as a down payment with more to come.

While Draghi and the ECB guaranteed bankers their Christmas bonus, Germany's leading banker Josef Ackermann lectured an audience of businessman on the necessity for new, vicious austerity measures in addition to those that have already been imposed across Europe. Addressing an Economic Forum in Essen, Ackermann warned that Europe was falling behind its rivals in Asia and needed to undertake drastic structural reform.

The key proposals put forward by the Deutsche Bank chairman were further measures to deregulate the service industries, increased flexibility of the labour market (i.e., the right employers to hire and fire without restriction) and the privatisation of large spheres of the economy still subject to state subsidies.

Ackermann has pinned its sights on the 40 to 50 percent of European state budgets that are still allocated to some sort of spending on social necessities, such as social welfare payments, education and infrastructure projects. All of the social gains achieved in the post-war period must be swept away in order for European workers to successfully compete with their Chinese counterparts, he argued.

In his Essen speech, Ackermann declared that if the price for such social devastation was the loss of democratic rights on the part of sovereign European nations, then so be it. To the approval of his well-heeled audience of businessmen and economists, Ackerman arrogantly pronounced: "It is neither the pressure of the financial markets, nor the imposition of tighter finance policy which endangers democracy, but rather the excessive indebtedness."

Ackermann speaks on behalf of a financial elite that knows from experience it can rely on the complete servility of the political establishment across Europe, including all of its social democratic/socialist parties and the trade unions.

In the course of the past 18 months, this elite has been able to engineer the sacking of five European governments and the installation of two technocratic governments in Greece and Italy. The administrations of these governments, led by bankers, take their orders directly from their former paymasters.

At the last major European summit held in Brussels, the same financial lobbies were able to ensure that they will not have to take any hits in the event of the further bailouts of European economies. They also applauded the plans for a "debt brake", stripping countries of their traditional right to determine budget policy. This is the source of the very real threat to democracy in Europe.

Having benefited from the hundreds of billions of state funds invested in the banks since the collapse of Lehman Brothers, the ECB is now pouring vast new sums into the vaults of the banks. The result is that a number of the banks assessed to be "too big to fail" in 2008 have grown bigger and more powerful than ever.

A report released by the G20 nations at the start of November listed 29 so-called Global Systemically Important Financial Institutions (G-SIFIs). The G20 report declares that the collapse of any one of these banks, two thirds of which reside in Europe, could result in a meltdown of the entire global financial system.

According to the report, the balance sheets of two Swiss banks exceed the gross national product of Switzerland by a factor of five. A handful of British banks control funds in excess of the British GDP to a factor of four. In Germany, the combined resources of Deutsche Bank and one other bank, Commerzbank, exceed the country's GDP. In another indication of the increasing domination of the finance markets over European politics, Spanish prime minister Mariano Rajoy has just appointed the former Lehman Brothers banker Luis de Guindos as his new finance minister.

Rather than benefiting states confronting bankruptcy, or consumers and businesses facing ruin, this latest ECB infusion into the vaults of the banks will only intensify the wealth and power of a tiny elite at the expense of the livelihoods of broad masses of the European population.