Credit Suisse and the power of money

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In order to avoid being dragged into the abyss by the country's second-largest bank, the government in Bern has pledged Switzerland's fate to the country's largest bank come what may. This is the significance of their decision on Sunday to let UBS take over Credit Suisse (CS) and to cover the risk of the merger. It could not have demonstrated more clearly that it is not the people but big capital that determines politics.

The financial institutions are both on the list of the 30 "global systemically important banks" that are considered "too big to fail." The merger creates a monster bank with a balance sheet total of CHF (Swiss francs) 1.5 trillion ($1.6 trillion), almost twice the gross domestic product of Switzerland, which amounted to CHF 771 billion in 2022. If it enters a tailspin, it will trigger a tsunami that will drag the Swiss state budget and parts of the world economy into the abyss.

"This puts the Swiss government and the National Bank at enormous risk," writes the German weekly *Die Zeit*. "If this monster institute gets in trouble, it takes the whole country and its population hostage."

The takeover of its competitor promises to be a lucrative business for UBS. It paid 3 billion francs in shares for the bank with a balance sheet total of 531 billion francs, which was still worth 7.4 billion francs at the time of the deal. 22.5 CS shares were exchanged for 1 UBS share.

Nevertheless, the Swiss National Bank (SNB) and the Federal Government covered the risks of the merger with more than CHF 200 billion in public funds. By way of comparison, the Swiss federal budget will amount to around 80 billion Swiss francs in 2023. The SNB provided extraordinary liquidity assistance totalling CHF 200 billion, of which CHF 100 billion is secured by the Confederation. An additional CHF 9 billion in guarantees to UBS for any losses resulting from the acquisition of certain business units of CS have also been provided.

Neither the parliament nor the citizens, who have a broad right to organise referendums in Switzerland, were questioned. Even the shareholders of the two banks could not participate. The government decided by emergency law. In some cases, there was not even a legal basis. For example, the law for the 100 billion franc guarantee to the central bank is to be enacted only in the coming months.

While representatives of the government, the central bank and the financial regulator constantly sought to reassure the markets with talk about "manageable" risks, in reality they are enormous. "Of course, the meltdown scenario is by no means off the table," commented *Der Spiegel*. "It is still entirely unclear whether the Swiss emergency merger is the end point of a short, ten-day rollercoaster ride on the capital markets or the start of a hellish ride that will also plunge other institutions into the abyss because panic is spreading around."

On Monday, after the announcement of the merger, the stock exchanges reacted extremely nervously. In particular, bank share prices collapsed. Credit Suisse's share price fell by 63 percent, falling below the agreed purchase price. UBS itself lost 13 percent, while Deutsche Bank, Commerzbank and BNP Paribas temporarily lost around 8 percent.

If UBS is also in the throes of the banking crisis, this could mean losses of up to two and a half times the annual federal budget for the state budget and the National Bank due to the guarantees and supports. In addition, there would be the devastating economic consequences of the collapse of a dominant major bank. This makes the government hostage to UBS.

The press conference at which the government announced the merger on Sunday evening had something surreal in this regard and recalled "The Visit of the Old Lady," a tragicomic play by Friedrich Dürrenmatt.

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The presidents of the two major banks, the president of the National Bank and the head of the financial supervision authority, which is supposed to control the banks, as well as Federal President Alain Berset (Social Democrats) and Finance Minister Karin Keller-Sutter (Free Democrats) sat next to each other and unanimously assured each other of their respect and trust in three languages. Keller-Sutter was not all too troubled to assert that she had her own account at both banks and would not withdraw her money.

There was not a word about how this devastating crisis came about. Not a word about who is responsible. Not a word why, 15 years after the 2008 financial crisis, after politicians vowed to regulate the financial sector and curtail banks that are "too big to fail," the exact opposite is happening.

Indeed, the Credit Suisse crisis is the initial culmination of a development in which the financial elites have shamelessly enriched themselves at the expense of the majority and governments and central banks have pumped huge sums into the financial markets. The rise in key interest rates by central banks is now causing the financial bubble to burst. The crisis is an expression of the impasse of the capitalist system, which subordinates all areas of society to the accumulation of profit.

Credit Suisse proved to be the weakest link in the tearing chain because, among other things, it was particularly unrestrained at cashing in. The bank's clients included suspected drug dealers, potentates, corrupt politicians and risky hedge funds. In 20 years, the management approved 42 billion francs in bonuses. It recently decided to distribute 354 million euros to 500 top managers, provided they manage the rescue of the bank—including the reduction of 9,000 jobs—on their own. Even after the merger with UBS, the bonuses are to be paid out as planned.

The costs of the crisis, on the other hand, will be imposed on the working population in the form of austerity measures, social cuts and job losses. In Switzerland alone, 10,000 jobs are expected to be lost if the two banks combine their activities. They currently employ 123,000 people worldwide. UBS plans to reduce the combined bank's costs by CHF 8 billion annually by 2027.

The banking crisis is an unmistakable sign that the class struggle is returning in Switzerland, after decades of suffocation by subservient trade unions and governments in which all parties from social democracy to the far-right Swiss People's Party work together. It must and will take a socialist direction.

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