

Britain's Bankers Given a Free Rein by Government's "Project Merlin"

By [Julie Hyland](#)

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The manoeuvres by the Conservative/Liberal Democrat government with the banks express the cynicism and contempt towards working people characteristic of the ruling elite throughout the financial crisis.

Last week, the government unveiled Project Merlin—the outcome of four months of negotiations between government officials, bankers and legal advisers over bonuses and lending. To much fanfare, it was announced that banks would make available some £190 billion to small businesses, increase their contribution to the Business Growth Fund by £1 billion, and provide an additional £200 million to the government's Big Society Bank, aimed at encouraging the voluntary sector to take over public services.

In addition, it was agreed that cash bonuses at banks bailed out by the government would be limited to £2,000 and that they would publish the pay of their five highest-earning individuals.

The moves were intended to placate public resentment at the huge tranches of public finance handed over to the banks, after their parasitic and even criminal activities precipitated the worst economic collapse since 1929. In order to finance this bailout, the coalition government is imposing severe austerity measures. In the last weeks alone, local authorities have announced they are carrying through the closures of libraries, swimming pools and other facilities and are laying off thousands of workers.

Project Merlin was intended to demonstrate that the banks understood the public's anger and, at government insistence, were making amends. The deal reflected "the explicit consideration and reflection the banks have given to the public mood," the Treasury said. Chancellor George Osborne stated, "Britain needs to move from retribution to recovery."

Far from the government securing concessions, however, it was the banks that won the day, yet again. The figure on lending to small business is only a target to aim for, not an agreed sum. Even then, it is gross rather than net, enabling banks to include loan repayments by businesses. Lending will be set at commercial rates of interest, making it unaffordable for many small businesses.

As for pay, the government had dropped a proposal that disclosure would apply to five highest earners outside the boardroom. Instead, it covers only those reporting to the chief executive, exempting the traders who are often the biggest earners.

According to the Financial Times, RBS and Barclays, "which have big investment banking divisions, fear that disclosure of star traders' pay could lead to a 'witch-hunt' and that the

vilification of individuals in the media could drive some out of Britain.”

It was the banks themselves that initiated talks with the government, with the sole aim of clearing the way for the upper echelons to begin raking in their extravagant bonuses again.

For two years, many bank CEOs have “voluntarily” forgone their bonuses. Now they have had enough. In January, Barclays’ chief executive, Bob Diamond, told the Treasury Committee that the concern was how to put the “blame game behind us? There was a period of remorse and apology for banks [following the 2008 crash]—that period needs to be over.”

Diamond is now set to receive a bonus of £8 million plus. So reportedly is Stuart Gulliver of HSBC. Almost immediately Project Merlin was completed, it was announced that the CEOs at Royal Bank of Scotland and Lloyds—both bailed out by the last Labour government—were to take their bonuses. Stephen Hester, chief executive of RBS, will draw £2.04 million, and the outgoing chief executive at Lloyds, Eric Daniels, £1.45 million in stocks.

Between them, the bonus pool at Britain’s four biggest banks—Barclays, RBS, HSBC and Lloyd—will see top bankers and traders share some £5 billion.

According to the Financial Times, Project Merlin was the initiative of “Oliver Letwin, a longtime Rothschild banker and now Cabinet Office minister”. He was seen as a go-between with the banks that could help “depoliticise” the row over bonuses and in so doing, help both the banks and the government get out of their “mutual hole”.

In an effort to deflect criticism, Osborne announced separately that a government levy on the banks would be raised by £800 million this year. But as the Guardian pointed out, the £2.5 billion will be split between 40 banks. It is “roughly the same as the pool for bonuses at just one British bank, Barclays” and is “about a fifth of the money that will be paid by shoppers and businesses as part of the coalition’s VAT rise.”

Osborne was said to be so nervous at the reaction that his token measure would get from the City that he announced it at 7:30 a.m. in order to give the markets time to get used to it. He needn’t have worried. The stock market shrugged off the news, with shares in the major banks rising slightly.

Even so, the increased levy was condemned by many analysts for being politically motivated. “There is clearly a desire to be seen to be bashing the bankers again for political reasons,” said Simon Maughan, analyst at MF Global complained.

Behind the scenes, the government is slashing taxation of the major corporations. It was George Monbiot in the Guardian who disclosed that taxation laws were being changed so as to enable multinational corporations and banks to significantly cut the tax they currently pay on overseas subsidiaries. Currently, UK-based corporations with subsidiaries in other countries are not taxed twice on the same money, Monbiot explained. “They have to pay only the difference between our rate and that of the other country. If, for example, Dirty Oil PLC pays 10% corporation tax on its profits in Oblivia, then shifts the money over here, it should pay a further 18% in the UK, to match the corporate tax rate of 28%. But under the new proposals, companies will pay nothing at all in this country on money made by their foreign branches.

“Foreign means anywhere. If these proposals go ahead, the UK will be only the second country in the world to allow money that has passed through tax havens to remain untaxed when it gets here. The other is Switzerland. The exemption applies solely to ‘large and medium companies’...it is not available for smaller firms. The government says it expects ‘large financial services companies to make the greatest use of the exemption regime’.... The main beneficiaries, in other words, will be the banks.”

In addition, corporations will “still be able to claim the expense of funding its foreign branches against tax it pays in the UK. No other country does this. The new measures will, as we already know, accompany a rapid reduction in the official rate of corporation tax: from 28% to 24% by 2014. This, a Treasury minister has boasted, will be the lowest rate ‘of any major Western economy’.... By the time this government is done, we’ll be lucky if the banks and corporations pay anything at all.”

The treatment of the banks makes a mockery of Prime Minister David Cameron’s claim that “we are all in it together”, as it does the Liberal Democrat pledges to clamp down on the “murky world of capitalism.”

Labour led the way in its utter subservience to the financial oligarchy, but this finds distilled expression with the coalition. It is, quite literally, a government of the Square Mile, for the Square Mile.

A study by the Bureau for Investigative Journalism found that the City of London accounts for more than half of the Conservative Party’s funding. The City’s share has risen from £2.7 million, or 25 percent of its funding in 2005, to £11.4 million last year.

The increase is seen as the outcome of an “aggressive charm offensive” by then Tory Treasurer Michael Spencer—a city financier and chief executive of the world’s largest Internet stockbroker, ICAP—who stood down in October 2010.

Nearly 60 donors gave more than £50,000 to the Tories last year. Amongst the largest donations are more than £4 million from City figure David “Spotty” Rowland and £1.9 million from hedge fund manager Stanley Fink.

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Articles by: [Julie Hyland](#)

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