Debt, Bank Bailouts and Austerity Measures. Proposal for Radical Change

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Nine years after the outbreak of the financial crisis that continues to produce damaging social effects through the austerity policies imposed on victim populations, it's time to take another look at the commitments that were made at that time by bankers, financiers, politicians and regulatory bodies. Those four players have failed fundamentally in the promises they made in the wake of the crisis – to moralise the banking system, separate commercial banks from investment banks, end exorbitant salaries and bonuses, and finally finance the real economy. We didn't believe those promises at the time, and for good reason. Instead of a moralising of the banking system, all we've had is a long list of misappropriations that have been brought to light by a series of bank failures, beginning with that of Lehman Brothers in 15 September, 2008.

Since 2012 alone, the list of bailouts includes: **Dexia** in Belgium and in France (2012, the third bailout), **Bankia** in Spain (2012), **Espírito Santo** (2014) and **Banif** (2015) in Portugal, **Laiki** and **Bank of Cyprus** in Cyprus (2013), **Monte dei Paschi**, **Banca delle Marche**, **Banca Popolare dell'Etruria e del Lazio** and **Carife** in Italy (2014-2015),**NKBM** in Slovenia (2012), **SNS Reaal** in Holland (2013) and **Hypo Alpe Adria** in Austria (2014-2015), and those are only a few examples. The most intolerable thing is that the public authorities have decided to pay ransom to these banks by having the citizens bear the consequences of the low dealings of their directors and shareholders. A separation or "ring-fencing" between commercial banks and investment banks remains no more than wishful thinking. The so-called banking reform undertaken in France in 2012 by Pierre Moscovici, the French Finance and Economy minister, turned out to be a sham. As for bankers' remunerations, the ceiling on the variable compensation adopted by the European Parliament on 16 April, 2013 had as its immediate consequence… an increase in the fixed compensation and recourse to an exemption clause provided for in the law.

No measures designed to avoid further crises have been imposed on the private finance system. Governments and the various authorities meant to ensure that the regulations are respected and improved have either shelved or significantly attenuated the paltry measures announced in 2008-2009. The concentration of banks has remained unchanged, as have their high-risk activities.

There have been more scandals implicating the fifteen to twenty biggest private banks in Europe and the United States— involving toxic loans, fraudulent mortgage credits, manipulation of currency exchange markets, ofinterest rates (notably, the LIBOR) and of energy markets, massive tax evasion, money-laundering for organised crime, and so on. The scandal of the Panama papers shows how banks are using the tax heavens. The *Financial*

Times reported that the British prime minister, David Cameron, had intervened personally to prevent offshore trusts from being dragged into an EU-wide crackdown on tax avoidance.

The authorities have merely imposed fines, usually negligible when compared to the crimes committed. These crimes have a negative impact not only on public finance but on the living-conditions of millions of people all over the world. People in charge of regulatory bodies, such as Martin Wheatley, former director of the Financial Conduct Authority in London, have been sacked for trying to do their job properly and being too critical of the behaviour of banks. George Osborne, the Chancellor of the Exchequer, dismissed Martin Wheatley in July 2015, nine months before the end of his five-year contract.
Although obviously to blame, no bank director in the United States or Europe (with the exception of Iceland) has been convicted, while traders, who are mere underlings, are prosecuted and sentenced to between five and fourteen years behind bars.

As was the case for the Royal Bank of Scotland in 2015, banks that were nationalised at great public expense to protect the interests of major private shareholders have been sold back to the private sector for a fraction of their value. Salvaging the RBS cost £45 billion of public money, while its reprivatisation will probably mean the loss of a further £14 billion.

Lastly, as to whether banks are now financing the real economy, the efforts deployed by the central banks have failed to spark, as yet, even the beginnings of a real recovery of the economy.

Because we feel, in particular in the light of Greece's experience, that banks are an essential element of any project for social change, we propose that immediate measures be taken to attain the following six goals:

- – 1. Restructure the banking sector
- – 2. Eradicate speculation
- – 3. End banking secrecy
- – 4. Regulate the banking sector
- – 5. Find an alternate means of financing public expenditures
- – 6. Strengthen public banks

In a second part, we will develop our arguments in favour of socialising the banking sector.

I. IMMEDIATE MEASURES

1. Restructure the banking sector

Radically reduce the size of banks in order to eliminate the "too big to fail" risk systemic banks |1| represent.

Separate commercial banks from investment banks. Commercial banks will be the only financial institutions authorised to take in savers' deposits and to receive public support (public underwriting of savings deposits and access to cash from the central bank). These commercial banks will be authorised to grant loans only to private individuals and local and national companies and public entities. They will be prohibited from conducting activities on the financial markets. What that means is that they will not be allowed to engage in securitisation: loans will not be able to be turned into tradable securities and commercial banks must keep the loans they grant on their books until full repayment is made. The bank that has granted a loan must bear the risk for that loan.

Investment banks must not be entitled to public underwriting; in case of failure of a bank, all losses will be borne by the private sector, beginning with the shareholders (on the totality of their assets; see below).

Prohibit credit relations between commercial banks and investment banks. Following Frédéric Lordon's principle of imposing a real "apartheid" between commercial banks and investment banks, under no circumstances will a commercial bank be allowed to be involved in a credit relation with an investment bank. |2|

2. Eradicate speculation

Prohibit speculation. As Paul Jorion proposes, speculation must be prohibited. *"In France speculation was authorised in 1885, and in Belgium in 1867. As a matter of fact speculation was defined very clearly by the law aimed at* 'prohibiting wagering on the upward or downward movement of financial securities.' *With such a prohibition, anyone who practices speculation would be guilty of an infraction; whether they're in Bank X or Bank Y would make no difference."* |3| That could include sanctions on banks that speculate on their own account or on the behalf of their clients.

Acquisition of tangible property (raw materials, commodities, land, buildings, etc.) or securities (shares, bonds or any other security) by a bank or other financial institution with the intention of speculating on its price will be prohibited.

Prohibit derivatives. This means that banks and other financial institutions who want to cover themselves against various types of risks (associated with exchange rates, interestrates, payment defaults, etc.) will have to go back to using traditional insurance contracts.

Require banks to request authorisation before placing financial products on the market. Investment banks will have to submit any new financial instrument to the oversight authorities (this does not apply to derivatives since they will have been outlawed) for authorisation before they are placed on the market.

Separate consulting activities from market activities. We are also in agreement with the Belgian economist Eric de Keuleneer, who proposes separating consulting activities from market activities: *"It is not right for banks to take on risky debt whilst advising their customers about the quality of these debts, or that they are currently able to speculate on gold, whilst 'selflessly' advising their customers to purchase gold."* For that, he proposes re-creating brokerage activities.

Prohibit high-frequency trading and shadow banking. Strictly limit what can be included in off-balance-sheet entries. |4| Prohibit short sales and naked shorting.

3. End banking secrecy

Prohibit over-the-counter financial markets. All transactions on financial markets must be recorded, traceable, regulated and controlled. Until now, the main financial markets have been over-the-counter – that is, they are subject to no oversight whatsoever. This is true of the FOREX market (5,300 billion dollars each day), |5| the derivatives market, the markets for raw materials and agricultural products, |6| etc.

End banking secrecy. Banks must be required to communicate all information regarding their directors, their various entities, their customers, the activities they conduct and the transactions they carry out for their customers and on their own account. Similarly, banks' accounting must also be legible and comprehensible. Lifting bank secrecy must become a basic democratic imperative for all countries. Concretely, that means that banks must make available to the tax authorities: – a list of names of beneficiaries of interest, dividends, capital gains and other financial revenues; – information on the opening, modification and closure of bank accounts in order to establish a national directory of bank accounts; – all information on movements of capital into and out of the country, including in particular identification of the order giver.

Prohibit transactions with tax havens. Banks must be prohibited from engaging in any transaction with a tax haven. Failure to comply with the prohibition must be subject to very heavy sanctions (including the possible revocation of the banking license) and heavy fines.

4. Regulate the banking sector

Require banks to radically increase the volume of their own funds (equity) in relation to their total assets. |7| Whereas equity is generally less than 5% of a bank's assets, we believe that the legal minimum should be raised to 20%.

Prohibit socialisation of the losses of banks and other private financial institutions. This means prohibiting public authorities from guaranteeing private debt with public funds.

Restore unlimited liability of major shareholders in case of bank failure. The cost of a failure must be recoverable from the total assets of the major shareholders (be they individuals or corporations).

In case of bank failure, the deposits of clients of the commercial bank must continue to be guaranteed by the State, up to the limit of a reasonable amount of savings for an upper-middle household (estimated today at 150,000 euros – and subject to democratic debate).

Tax banks heavily. Banks' profits must be strictly subject to legal provisions regarding taxation of companies. In fact, the rate banks currently pay is very significantly below the legal rate, which itself is far too low. Banking transactions involving currency |8| and financial securities must be taxed. Short-term bank debt must be taxed in order to promote long-term financing.

Systematically prosecute bank directors who are guilty of financial crimes and misdemeanours **and revoke the banking licences of institutions** which do not comply with the prohibitions and are guilty of misappropriation.

Find another way to save banks. In addition to the measures mentioned above – unlimited liability for major shareholders (covering all their assets), guarantees on deposits up to 150,000 euros and prohibition of guaranteeing private debt against public funds –, a mechanism needs to be created for orderly failure of banks, consisting of two structures: A private bad bank (owned by private shareholders and incurring no cost for the public authorities) and a public bank to which deposits, as well as safe assets, are transferred. Certain recent experiments can serve as inspiration – in particular the measures taken in Iceland since 2008. |9|

5. Find other ways of financing public debt

Require private banks to hold a quota of public-debt securities.

The central banks should again grant loans at zero interest to public authorities. Unlike the current practice of the ECB as a result of the European treaties, the central bank would be able to provide zero-interest financing to the State and all public entities (towns, hospitals, social-housing entities, etc.) in order to conduct socially equitable policies in the context of the environmental transition.

6. Strengthen existing public banks

and re-create them in countries where they have been privatised (they would of course be subject, like all other banks, to the concrete measures discussed above). In France, in 2012 a collective called *"Pour un Pôle Public Financier au service des Droits !"*("Toward a public financial institution to protect our rights!" |10|) that supports the creation of a public banking structure. The serious disadvantage of this project is that it fails to get to the root of the problem in that alongside an insignificant public banking sector, private banks and a cooperative sector which is cooperative in name only would continue to exist. In Belgium, where the government privatised the last public banks in the 1990s, in 2011 the State bought back the bank "part" of Dexia, of which it is 100% owner. Dexia Bank has become Belfius and still has private status. Belfius needs to become a true public bank and the concrete measures formulated above need to be applied. The State paid 4 billion euros – an amount the European Commission itself considered quite unreasonable. What should have been done is this: Belfius should have been created at no cost to the public finances as a public banking institution funded by the deposits of the Dexia Bank's customers and all the safe assets. The bank should have been placed under citizen control.

The working conditions, jobs and income of the personnel should have been guaranteed while the remuneration paid to the directors should have been sharply reduced. The board members and directors should have been barred from holding a position in a private institution. Charges should have been pressed against the directors of Dexia by the ministry for the criminal wrongdoings they committed. Report No. 58 filed by the French Senate on the Société de financement local (SFIL) evaluates the cost of Dexia's failure at approximately 20 billion euros (13 billion for France, including 6.6 billion earmarked for recapitalisation, and the rest to cover part of the early repayment penalties on toxic loans; 6.9 billion euros for Belgium, corresponding to the nationalisation of Dexia Bank Belgium and the recapitalisation of Dexia) as of the date of the report. On 1 February, 2013, France created a 100%-public structure (with the State owning 75%, the CDC 20% and the Banque Postale 5%) in order to acquire 100% of the Dexia Municipal Agency (a subsidiary of Dexia Crédit Local), which became the Caisse Française de Financement Local (CAFFIL).

II. SOCIALISE THE BANKING SECTOR

Putting the concrete measures we have mentioned above into practice would constitute progress in resolving the crisis in the banking sector, but the private sector would continue to occupy a dominant position.

Perennial long term measures are also needed.

If the experience of the last few years demonstrates anything, it's that banks must not be left in the hands of capitalists. If, through popular mobilisation, we can see to it that the measures discussed above (which are open to further discussion in order to improve and complement them) **are applied, capital will do everything possible** to recover part of the ground it will have lost, finding multiple ways of getting around the regulations, using its powerful financial resources to buy the support of lawmakers and government leaders in order to deregulate, once again, and increase profits to the maximum without regard for the interests of the majority of the population.

Socialising the banking sector under citizen control is necessary

Because capitalists have demonstrated just how far they are willing to go, taking risks (risks whose consequences they refuse to be held accountable for) and committing crimes for the sole purpose of increasing their profits, because their activities regularly result in heavy costs borne by society as a whole, because the society we want to build must be guided by the pursuit of the common good, social justice and the reconstitution of balanced relations between human beings and the other components of nature, the banking sector must be socialised. As Frédéric Lordon proposes, a "*total deprivatisation* of the banking sector" |11| needs to be carried out. Socialisation of the banking sector in its entirety is recommended by the labour federation Sud BPCE in France. |12|

Socialising the banking sector means:

- **expropriation, without compensation** (or compensated by one symbolic euro), of large shareholders (small shareholders will be fully compensated);
- **granting a monopoly of banking activities to the public sector**, with one single exception: the existence of a small cooperative banking sector (subject to the same fundamental rules as the public sector).
- **creating a public service for savings, credit and investment**, with a twofold structure: a network of small 'high street' branches, on the one hand, and on the other, specialized agencies in charge of funds management and financing of investments not handled by the ministries in charge public health, education, energy, public transport, retirement, the environmental transition, etc. These ministries will be provided with the budgets necessary to assure their investments and efficient functioning. The specialized agencies will intervene in areas and activities that are beyond the competence and spheres of action of the ministries in order to ensure that all needs are covered.
- **defining, with citizen participation, a charter** covering the goals to be attained and the missions to be carried out and which places the public savings, credit and investment entities at the service of the priorities defined by a democratic planning process;
- **transparency** in the financial statements, which must be shown to the public in understandable form.

The word "socialisation" is used in preference to "nationalisation" or "state ownership" to make clear the essential role of citizen oversight, with decision-making shared between directors, personnel representatives, clients, non-profit associations, local officials and representatives of the national and regional public banking entities. Therefore, how that active citizen oversight will be exercised will need to be defined by democratic means. Similarly, the exercise of oversight over the banks' activities by workers in the banking sector and their active participation in the organisation of the work must be encouraged. Bank directors must issue an annual public report on their stewardship. Preference must be given to local, quality service, breaking with the policies of externalisation currently being pursued. The personnel of financial establishments must be encouraged to provide authentic counselling to the clientele and to break with current aggressive sales policies.

Socialising the banking sector and making it a public service will make it possible:

- – for citizens and public authorities to escape the influence of the financial markets;
- – to finance citizens' and public authorities' projects;
- – to dedicate the activity of banking to the common good, with among its missions that of facilitating the transition from a capitalist, production intensive economy to a social and environmental economy.

Because savings, credit, security of deposits and the preservation of the integrity of payment systems are matters of general interest, we recommend that a public banking service be created by socialising the totality of the firms in the banking and insurance sectors.

Because banks are today an essential tool of the capitalist system and of a mode of production that is devastating our planet and grabbing its resources, creating wars and impoverishment, eroding, little by little, social rights and attacking democratic institutions and practices, it is essential to take control of them so that they become tools placed at the service of the greater number of people.

Socialising the banking sector cannot be conceived of as a mere slogan or demand, sufficient unto itself and which decision makers would put into practice because they understand why it makes sense. It must be seen as a political goal to be reached through a process driven by a movement of citizens. Not only is it necessary for existing organised social movements (including trade unions) to make it a priority of their agenda and for the different sectors (local governmental bodies, small and medium companies, consumer associations, etc.) to adopt the position, but also – and above all – for bank employees to be brought to an awareness of the role played by their profession and the fact that it would be in their interest for banks to be socialised; and for bank users to be informed at the point of use (for example, through occupations of bank branches everywhere on the same day) so that they can participate directly in defining exactly what a bank should be.

Only large-scale mobilisation can guarantee that socialisation of the banking sector can actually be achieved in practice, because it is a measure that strikes at the very heart of the capitalist system. If a government of the Left does not take such a measure, its action will not be able to truly bring about the radical change needed to break with the logic of the system and bring about a new process of emancipation.

Socialising the banking and insurance sector must be part of a much broader program of further measures which would trigger the adoption of a transition to a new, post-capitalist and post-productive model. Such a program, which needs to be European-wide but which may first be put into practice in one or several countries, would include abandonment of austerity policies, cancellation of illegitimate debt, implementation of an overall tax reform with heavy taxation of capital, an overall reduction in working hours with compensatory hiring and maintaining of wage levels, socialisation of the energy sector, measures for ensuring gender parity, development of public services and social benefits and the implementation of a strongly determined environmental transition policy.

At this point in history, socialisation of the entirety of the banking system is an urgent economic, social, political and democratic necessity.

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Footnotes

|1| Philippe Lamberts, the Green MEP, proposes a maximum of 100 billion dollars in assets. "By way of comparison, the total assets* of BNP Paribas and Deutsche Bank, respectively, in 2011 were 2,164 billion euros and 1,965 billion euros." http://www.philippelamberts.eu/les-7-peches-capitaux-des-banques/ We feel that the maximum size should be significantly smaller, in particular in smaller countries. 100 billion euros is a multiple of Cyprus's GDP, and it's more than a quarter of Belgium's.

|2| http://blog.mondediplo.net/2013-02-18-La-regulation-bancaire-au-pistolet-a-bouchon (in French)

|3| Paul Jorion in *Financité*, November 2013 (in French).

|4| For example, limit off-balance-sheet items to guarantees and signed commitments. Discussion is needed.

|5| See Eric Toussaint, "Comment les grandes banques manipulent le marché des devises" ("How the major banks manipulate the currency market"), published on *Le Monde.fr* on 13 March 2014 and available in English as Chapter 18 of Bankocracy (available in .pdf form athttp://cadtm.org/IMG/pdf/Bankocracy_web.pdf; also available in paper from CADTM)

|6| Eric Toussaint, "Banks Speculate on Raw Materials and Food", 10 February 2014http://cadtm.org/Banks-speculate-on-raw-materials

|7| This would mean abandoning the system of weighting assets for risk, which is particularly unreliable since the weighting is left up to the banks themselves. For an explanation of the system of asset weighting based on risk, see http://cadtm.org/Banks-bluff-in-a-completely-legal

|8| Eric Toussaint, *"Il faut imposer une véritable taxe Tobin au lobby bancaire"* ("A real Tobin Tax must be levied on the banking lobby"), an op-ed published by the daily *L'Humanité* on 25 February 2014 and also at http://cadtm.org/Il-faut-imposer-une-veritable-taxe (in French)

|9| Interview with Eva Joly by Renaud Vivien, "Iceland refuses its accused bankers 'Out of Court' settlements", http://cadtm.org/Iceland-refuses-its-accused

|10| See their site (in French): http://pourunpolepublicfinancier.org/. The public banking entity promoted by the collective would include public financial institutions (the Banque de France, the Caisse des Dépôts and its financial subsidiaries, OSEO, the Société des participations de l'État, the Banque Postale, UbiFrance, the Agence française de développement, the Institut d'émission des départements d'Outre-Mer, CNP Assurance) or ones whose activities constitute a public service (the Crédit foncier, Coface). Any bank or insurance firm in which the State acquires a majority share or which may be assigned public-service missions would be part of it. In Belgium, a site created by the PTB is dedicated to promoting the need for a public bank (in French or Flemish):http://www.banquepublique.be/

|11| Frédéric Lordon, "L'effarante passivité de la 're-régulation financière'" ("The frightening passivity of 'financial re-regulation'"), in *Changer d'économie*, les économistes atterrés, Les liens qui libèrent, 2011, p. 242 (in French).

|12| See in particular these links (in French): http://www.sudbpce.com/files/2013/01/2012-projet-bancaire-alternatif-definitif.pdf; http://cadtm.org/IMG/pdf/PLAQUETTE_BANQUES_SUD_BPCE.pdf;http://cadtm.org/Socialiser-le-systeme-bancai

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