A Holy Union for a Deuce of a Swindle

Saturday 8 November 2008, by TOUSSAINT Éric (Date first published: 6 November 2008).

The bailing-out of private banks and insurances companies in September-October 2008 amounts to a strong political choice that was anything but unavoidable and that looms large on our future at several decisive levels.
First the cost of the bail-out is entirely supported by public instances, which will lead to a steep increase in the public debt [1]. The current capitalist crisis, which will extend over several years, possibly ten, [2] will result in a reduction of revenues for the governments while their liabilities will rise with the debt to be paid back. As a consequence, there will be strong pressures to reduce social expenditures.
North American and European governments replaced a rickety makeshift scaffolding of private debts with a crushing assembling of public debts. According to the Barclays' bank in 2009 the euro zone European governments should issue new public debt securities to an amount of EUR 925 billion [3]. This is a staggering amount, which does not include new treasury bonds issued by the US, the UK, Japan, Canada, etc. Yet until recently these same governments agree that they had to reduce their public debts. Traditional parties all approved of this bailing-out policy that is intended to help large shareholders under the fallacious pretext that there was no other solution to protect people's savings and to restore confidence in the credit system.

Such holy union means transferring the bill to most of the population, who will have to pay for the capitalists' misbehaviour in several ways: less public services, fewer jobs, further decrease in purchasing power, higher contribution of patients to the cost of health care, of parents to the cost of their children's education, less public investment… and a rise of indirect taxes.
How are bail-out operations currently financed in North America and Europe? The State gives good money to the banks and insurance companies on the verge of bankruptcy, either as recapitalisation or through the purchase of their toxic assets. What do the bailed-out institutions do with this money? They mainly buy safe assets to replace the toxic ones in the balance sheets. And what are the safest assets on the current market? Public debt securities issued by the governments of industrialised countries (treasury bonds issued in the US, in Germany, in France, in Belgium, you name it).

This is called looping the loop. The States give out money to private financial institutions (Fortis, Dexia, ING, French, British, US banks,…). To support this move they issue treasury bonds to which these same banks and insurance companies subscribe, while remaining private (since the States did not demand that the capital they injected give them any right to make decisions or even to be included in the voting process) and deriving new profits from lending out the money they have just received from the States [4] to these same States while of course demanding maximum return. [5]

This huge swindle is carried out under the law of silence. Omerta rules among protagonists: political leaders, crooked bankers, rogue insurers. The major media will not provide a full analysis of how the bail-out operations are financed. They dwell on details – trees hiding the forest. For instance the big question raised in the Belgian press about financing the recapitalisation of Fortis, which is taken over by BNP Paribas, runs as follows: how much will a Fortis share be worth in 2012 when the State intends to sell those it bought? Nobody of course can give a serious answer to such a question but this does not prevent newspapers from devoting whole pages to it. This is called distraction: the philosophy and mechanism of the bail-out operation are not analysed. We must hope that through the combined effect of alternative media, citizens' organisations, trade union delegations, and

political parties of the radical Left, [6] a growing proportion of the population will see through and expose this large-scale swindle. Yet it will not be easy to counter such systematic disinformation.

With the deepening crisis a deep sense of unease will develop into political distrust of governments that carried out such operations. If the political game goes on without any major change the current right-wing governments will be replaced by centre-left governments that will further implement neoliberal policies. Similarly right-wing governments will replace the current social-liberal governments. Each new government will accuse the previous team of mismanagement and of having drained the public treasury, [7] claiming that there is no room for granting social demands.

But nothing is ever unavoidable in politics. Another script is quite possible. First we must reassert that there is another way of guaranteeing citizens' savings and of restoring confidence in the credit system. Savings would be protected if the failing credit and insurance institutions were nationalised. This requires that the State as it acquires ownership also takes over their management. To prevent the cost of the operation to be borne by the large majority of the population that has no responsibility in the crisis whatsoever, public authorities must turn to those who were responsible: the amount necessary to bail-out financial institutions must be taken from the assets of large shareholders and executive officers. This is obviously only possible if all the assets are taken into account, not just the much reduced portion involved in the bankrupt financial companies.

The State should also file lawsuits against shareholders and executive officers who are responsible for the financial catastrophe so as to get both financial compensations (beyond the cost of the bail-out) and prison sentences if guilt is proven. Taxation should also be applied to large fortunes in order to finance a solidarity funds for those who are hit by the crisis, notably the unemployed, and to create jobs in sectors that are useful to society.

Many complementary measures are needed: opening companies' ledgers, including to trade unions, suppressing bank secrecy, prohibiting tax havens starting with a prohibition for any company to have any asset in or transaction with a tax haven, progressive taxation of transactions on currencies or derivatives, monitoring money exchange and capital flow, no new measure aiming at deregulating / liberalising markets and public services, restoring quality public services… The degradation of the economic situation will bring back onto the agenda the transfer manufacturing industries and private services to the public sector as well as the implementation of large-scale projects to create jobs.

This would make it possible to get out of the current crisis while taking people's interests into account. We have to gather energies to create a relation of comparative strength that would be favourable to the implementation of radical solutions with social justice as priority.

P.S.

* Translated by Christine Pagnoulle and Brian Hunt.

* Eric Toussaint, president of the Committee for the Abolition of Third World Debt CADTM-Belgium www.cadtm.org, author of The World Bank: Critical Primer, Pluto Press / Between the lines / David Philip Publisher, London - Toronto - Cape Town, 2008; The World Bank: A Never-Ending Coup d'Etat, VAK Mumbai-India, 2007.

Footnotes

[1] Both the governments and the EC, that ought to monitor adherence to the Maastricht criteria,

carefully avoid the issue. When journalists insist, which seldom occurs, the answer they receive is that there was no other alternative. It should also be specified that like the failing banks the governments carry out off balance or off budget operations so as to hide the exact amount of their obligations in terms of public debt.

[2] It can be compared to the crisis in which Japan was caught from the early 1990s and from which it was barely emerging when it was hit by the present crisis.

[3] Barclays details this amount as follows 238 billion for Germany, 220 billion for Italy, 175 billion for France, 80 billion for Spain, 69.5 billion for the Netherlands, 53 billion for Greece, 32 billion for Austria, 24 billion for Belgium, 15 billion for Ireland, and 12 billion for Portugal.

[4] Of course the new money received from the State will not be used to buy treasury bonds only: it will also be used for new bank restructuring and direct profit.

[5] Over the two previous months Belgium, Autria and Spain had failed to collect eurobond money on the financial markets because institutional investors such as banks, insurance companies or pension funds were too greedy (See *Financial Times* 29 October 2008.)

[6] Let us hope we will be able to rely on MPs who do their job and on journalists in the major media who will be willing to develop a critical analysis of the way the bailing-out operations have so far be carried out.

[7] They could easily expose the sham and try to act within parliament. Since they don't do it, while it is obvious that they know the public debt will soar, it means they subscribe to the chosen direction. Actually they opted for a holy union, which they will only break in the run-up to elections.