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Series: Governments submit to "Too Big to Fail" banks (part 2)

Governments make Gifts Galore to Private Banks

- Features -

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Government aid is made up of guarantees, and injections of capital in order to recapitalize the banks. In the period from October 2008 to December 2011, â ¬1,174 trillion (9.3% of EU GDP) worth of guarantees were underwritten by European Governments as a contingency measure. To these guarantees must be added â ¬442 billion (3.5% of EU GDP) of public capital support to banks. During 2012 and 2013 the recapitalizations continued: about â ¬40 billion in Spain in 2012 alone, more than â ¬50 billion in Greece, about â ¬20 billion in Cyprus, â ¬4 billion more for Dexia bank in Belgium, â ¬3.9 billion for Monte dei Paschi in Italy, â ¬3.7 billion for the Dutch bank SNS, â ¬4.2 billion in Portugal on top of the Portuguese bail-out of the *Banco Esperito Santo* in July 2014., not forgetting Ireland, Slovenia, Croatia This assistance was granted without any government supervision of the use made of the funds.

A quick calculation can give an idea of the importance of capital injections if we compare their volumes to the banks' hard capital. The 20 largest European banks in 2012 have assets of about â ¬23 trillion, considering that on average their hard capital represents 3% of assets, the total hard capital is roughly â ¬700 billion. If we consider that in recent years, European governments have advanced â ¬200 billion of capital into these banks (a precise calculation would take into account the injections into banks such as Fortis, which were acquired by BNP Paribas), we realize that the contribution is quite impressive.

Some authors refer to State guarantees granted to "Too big to fail" banks as implicit subventions and expose their perverse consequences.

The big banks enjoy implicit subsidies

The banks' creditors know this as well. They are thus incited to lend to banks knowing there is, supposedly, no risk involved for themselves. They know full well that should one of these banks go belly-up they would escape the losses in so far as the States would take them on, in its quality of lender of last resort. This gilt edged situation permits banks to negotiate their borrowing at the lowest rates of interest (the interest rate being proportional to the risk involved). If the banks did not enjoy this guarantee from the State they would have to pay higher interest rate levels. The difference between these two rates of interest represents an implicit State subsidy to the banks.

A rigorous study by the European Green party has worked out that the implicit State guarantees to the big banks for 2012 amounts to â ¬233.9 billion [3].

This implicit guarantee has perverse consequences:

- it encourages the big banks to take ever greater risks;
- it encourages the concentration of big banks. Smaller establishments that do not have this same level of guarantee must find their funding at higher interest rates and in case of sharp competition may be forced to close down or be bought out by their competitors;
- these gains are entirely private and do not benefit the population.

Other forms of government aid to banks are:

- Borrowing on the financial markets by issuing sovereign debt bonds. They entrust the sale of these bonds to a group of big private banks called *primary dealers* (generally chosen among the group of the thirty biggest international banks [4]) for whom this activity is a source of income. Then, through their Central Banks the governments repurchase, on the *secondary market*, a part of the bonds they have themselves issued through the *primary dealers*. In January 2014 the US central bank's balance sheet included $2,228 trillion worth of treasury bonds that it had purchased from different banks. The Bank of England had Â£371 billion of *gilts* on its books on 13 March 2014 [5], that is, British Government bonds that were also purchased on the secondary market; on the 31 December the ECB held â ¬185 billion of Greek, Irish, Italian, Spanish and Portuguese sovereign bonds that had all equally been purchased on the secondary market. [6]
- Reductions in taxes effectively paid on banks' profits. They have declared losses in 2008-2009 (and sometimes for other exercises too) that have permitted tax avoidances over several years. In fact losses are carried forward

to following years, thus permitting substantial tax savings. Care must be taken that BNP Paribas does not write down as a commercial loss the $9 billion fine imposed by the US and save the equivalent in tax payments. The French government may cover the fine as it is in close relationship with the banking sector.

- The refusal by Governments to prosecute the banks that are considered "Too big to Fail". [7]
 Since 2007-2008 not one bank in the EU, North America or Japan has had its banking licence (its right to exercise banking activities) revoked. *Out of court* settlements have permitted the banks to carry on business as usual, avoiding condemnation in due form. [8] Not one bank director has been imprisoned (except in Iceland which is not a EU member) or has been prohibited from banking activities. The only judgements have been against bank employees mostly condemned for having damaged their bank's image. This refusal to prosecute the banks themselves is visible through the attitudes taken against traders such as Jerome Kerviel, who have served as scapegoats. In taking this lax attitude towards banks, States encourage *moral hazard*.

- *The refusal to take strict measures against financial institutions, that would avoid repeated banking crises. [9]

- *The refusal to take measures forcing the banks that receive ECB loans to use them in their turn to grant loans to households and small businesses (which are the principal private employers) to stimulate the economy. The banks freely use this money as they see fit without bringing any benefits to the real economy. Since 2012 and 2013 loans to business, especially small business, have decreased. The ECB says that for its next series of loans to banks it will condition them to business and household credits. Wait and see!

Translation : CADTM

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[1] European Commission, "State aid : State aid: crisis-related aid aside, Scoreboard shows continued trend towards less and better targeted aid", Brussels, 21 December 2012. http://europa.eu/rapid/press-release_IP-12-1444_en.htm

[2] The Belgian government acquired 10% of the shares of the biggest French bank BNP Paribas (that has been fined $9 billion by US authorities in June 2014), It so becomes the biggest shareholder but without voting rights on the board of directors and its two chosen representatives take part independently!

[3] Summary at http://www.philippelamberts.eu/233-milliards-deuros-le-subside-implicite-percu-par-les-grandes-banques-en-europe/ (in French) and complete study
http://www.philippelamberts.eu/wp-content/uploads/2014/01/ImplicitSubsidy-of-Banking-sector_Greens-in-the-EP-study_January-2014.pdf

[4] The same banks have been involved in the different abuses and manipulations examined elsewhere .

[5] See http://www.bankofengland.co.uk/markets/Pages/apf/results.aspx

[6] Sovereign bonds of Ireland â ¬9.7 billion; Greece â ¬27.7 billion; Spain â ¬38.8 billion; Italy â ¬89.7 billion; Portugal â ¬19.8 billion.

[7] See: Éric Toussaint, Série : "The Banks and the 'Too Big to Jail' Doctrine (in 9 parts)". Part 1 published 9 March 2014, http://cadtm.org/Les-banques-et-la-nouvelle

[8] According to its CEO, in June 20014, the $9 billion fine that BNP Paribas must pay to US authorities to avoid a condamnation will not affect the bank's financial health. See Patrick Saurin and Éric Toussaint, "BNP Paribas sanctionnée par les autorités des États-Unis: il faut aller plus loin",

published 13 July 2014, http://cadtm.org/BNP-Paribas-sanctionnee-par-les (in French or Spanish)

[9] See: Éric Toussaint, "Comment les banques et les gouvernants détruisent les garde-fous", published 13 January 2014, http://cadtm.org/Comment-les-banques-et-les (in French)