LABOUR LEFT
Briefing

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THE CRISIS IN SORRY EVER AFTER LAND

"Sorry."
"Sorry!"
"Really sorry."
"Unreservedly."

Well, that's the banking crisis sorted then. Seated in front of the Treasury Select Committee was £4m of top banking salaries. All trotted out their rehearsed apologies. None had the courage to say where the crisis came from. None were willing to say what they know (and fear) is the most honest way out.

The seeds of crisis were planted back in the days when the neo-cons, Tories, New Democrats and New Labour threw themselves into bed with finance capital. The passions of avarice required new rules if money was to roam the planet, bonking everything that moved. Actually, what the banks were after was no rules at all; certainly not ones that required accountability and transparency.

In return, governments received generous support, and the illusion of everlasting growth. This was the economics of 'Indecent Proposals'. Sadly, as yet, no banker has turned back on their government accusers and said, "Just remember, you were the guys who stripped out the rules in your 'anything goes' liberalisation of markets, you were the ones who unleashed the whirlwind."

No one will ever say this because bankers and politicians are still in cahoots over the world they created. Both want the system to survive. So it is that we have raging arguments about indefensible practices that we will be scapegoated, but the indefensible system itself will be left intact.

Bank chairmen and CEOs parade their contrition by 'forgoing' bonus payments this year. None are offering to do so permanently. Many say they are contractually bound to offer bonuses to the whiz-kids who got us into this mess, because they are the only ones who know how to unravel the exotic instruments at the core of it. If incentives are needed, why not pay bonuses in the form of the banks' own toxic debts? There would be an even stronger incentive to clean it up rather than just pass the debt to the taxpayer. Better still, why not listen to Joseph Stiglitz?

Stiglitz once strode the corridors of the World Bank and the White House as a Nobel Prize-winning economist. His harsh diagnosis today is that to rebuild a credible banking system, banks themselves must be allowed to go bust.

It isn't quite that stark. Stiglitz wants to force banking to return to its own fundamentals. This means separating retail banking from investment banking. The first of these relates to the saving and transmission of money. The second is the world of speculators.

In the USA, there used to be a strict legal separation of these functions under the Glass-Steagall Act. Introduced by President Hoover in 1932, it lasted until Bill Clinton revoked it in the 1990s dash into deregulation. This is the separation we have to insist on today.

Ultimately the government must underwrite all deposits and savings. Under this base a ‘normal’ credit system can be built, money will move around and business can continue its business. But the state and the taxpayer should take no responsibility for toxic debt. All the apostles of free market economics need to live with their own responsibilities for failure.

Banks will scream that chaos will ensue – ‘The poor will be hit hard. Staff will lose their jobs. Pensions will be affected.’ The truth is that the rich only pray in aid of the poor when the rich themselves are threatened.

Let the banks create their own ‘toxic bank’, and throw their own toxic talents into rescuing it. Only when banks collapse should the government step in – nationalising them if necessary – but protecting jobs, savings and normal banking. New banks will be more credible once the shadow of unspecified liabilities is lifted from their shoulders, and the current bailouts just won’t do this.

A large part of the problem is that even banks do not know the size of their toxic debts. Current estimates are that only one half to a third have surfaced. Banks are not going to start lending freely to each other while there are huge doubts about how much crap they have been parcelling up and passing round.

The next crisis in line will be around the holding of derivatives. These are the so-called ‘smart bets’ against changes in interest rates, exchange rates and asset prices. Their global face value is in excess of $1,000 trillion, 150 times greater than the world’s annual GDP. If even a fraction of these crumble, the next tsunami is on its way.

Sitting still and holding tight will not take us anywhere. Nor will attempts to prop up a system broken by its own corruption and greed. We have to take the crisis on the chin and work only with banks that return to being banks. The rest can keep their off-shore subsidiaries and tax havens. They can keep their toxic assets. Let them marry the two. This is their crisis, not ours.

The government (and the taxpayer) will have enough debts to carry over the coming 20 years, as we borrow to build our way out of the recession in the real economy. There is no need to make this harder by nationalising the debts of the speculators who, for decades, privatised the profits of deregulation.

There are no pain-free choices ahead of us. But let us make our choices around the rebuilding of a sustainable real economy not an unsustainable casino one.