Workers' Liberty

For international working class solidarity and socialism

Nationalise the banks!*

Michel Husson, 28 September, 2011

The crisis has taught us a lesson: “neoliberal Europe” was a badly-conceived thing, which has become more and more rickety over the years and appears to be incapable of standing up to the “stress test” of crisis. Right now, there are only two ways out: either everyone is going to take their marbles home and quit; or the whole edifice will have to be rebuilt, from top to bottom. But sticking plasters are being stuck over sticking plasters. How things turn out in Greece will serve as a barometer for this whole stop-starting process: everyone knows that Greece won’t be able to pay its debts, but everyone is acting as if it could succeed in its impossible task, by means of bail-out plans and inadequate loan extensions, and break its economy in order to pay back its debt.

The other side of the problem is obviously the exposure of European banks to the risk of a Greek default, although it was they who pushed the country into debt. If Portugal, Ireland and Greece defaulted, the loss would be 100 billion euros, but if Italy and Spain followed (for two thirds of their debt), the loss would reach 800 billion euros[1], which is more than is held by the European Financial Stability Fund (250 billion euros today and 440 billion euros in the future). That the next President of the European Central Bank (ECB) is Mario Draghi, the ex-chief of the European arm of Goldman Sachs, which helped Greece cook its books, is just another element of the comedy that we are watching unfold.

When the crisis broke, states came to the rescue of the banks. But they didn’t match this aid with any kind of re-thinking of the way finance works. To take one example, “naked Credit Default Swaps” [in which the buyer does not own the underlying debt — you don’t own the thing on which you are buying insurance] were not banned, and they allow one today to speculate on public debt which the buyer does not even own. The bill for the crisis has passed from the private sector to the public sector, and states are looking now to pass the bill on to the taxpayer, with all the sense of fairness and equity that you’d expect. The debts weren’t cleared — they were just passed on: that is what explains the persistence of the crisis.

Things are even more tangled up by the fact that state budgets are inextricably linked with banks’ balances, with a total absence of transparency. It is not even certain that the banks know exactly where they are at themselves. One thing, however, is clear: that the “stress tests” which were supposed to evaluate the resilience of banks were either “laughable” or “pathetic”, to use the words of [French senior civil servant] Jacques Attali. All this explains [IMF chief] Christine Lagarde’s recent pronouncement about the “urgent” need to recapitalise a certain number of European banks. But the banks do not want to hear this and prefer to moan about the too-restrictive (for their profits, that is) rules of [the new package of banking rules requiring banks to have greater holdings backing up their investments] “Basel III”.

The only rational means of untangling the skein of debts would be to nationalise the banks, to take everything back to square one, once and for all, and to organise the inevitable default of the most exposed countries. The distributions of dividends would be forbidden, and a citizens’ audit would make it possible to target illegitimate debts. This nationalisation could be permanent (the radical option) or it could be temporary (the moderate option) like in Sweden in the 1990s.

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* From *Politis*, 15/9/2011. Translation by Edward Maltby.

[1] “Bazooka or peashooter”, *The Economist*, 30 juillet 2011.

Ultra-left fantasy? No, just objective analysis. It is striking that two economists, authors of a book[2] which defends the virtues of the market against a "French fantasy" make the same argument: "recapitalisations must take place under states' hands, and in certain cases temporary nationalisations"[3].

That liberals see that the logic of the banks cuts against "the public interest" and are calling for "coercion" should give pause for thought. From this point of view, the spinelessness of the left is dreadful. When they are not bowing down before the financial markets, like Papandreou or Zapatero, they are competing to make austerity. François Hollande[4]: "We have to balance our public accounts from 2013… I am not saying that in order to give in to any sort of pressure from the markets or the ratings agencies". Martine Aubry[5]: "3% in 2013, as it is the rule today".

Finance is trembling!

[2] Augustin Landier & David Thesmar, « Le grand méchant marché », Flammarion, 2007

[3] Augustin Landier & David Thesmar, « Un fonds européen pour recapitaliser les banques », *Les Echos*, 7 septembre 2011

[4] Leading French Socialist Party member

[5] Other leading French Socialist Party member