British government mounts world's largest bank bailout

By Jean Shaoul
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Alistair Darling, the Chancellor of the Exchequer, has just announced the world's biggest bailout for a single bank in a bid to rescue the Royal Bank of Scotland (RBS).

One year after an initial bailout, the government is to put an additional £25.5 billion into RBS, in which it already has a 74 percent stake. In addition it has set aside a further £8 billion in case the bank runs into further trouble, as is widely expected. While RBS insists it will only use this £8 billion in a dire emergency, the annual fee for this sum indicates a high probability of failure.

In order to maintain the fiction that this is still a private and not a publicly owned bank, the government's additional equity stake, equivalent to a further 12 percent stake, will not have voting rights, allowing RBS to retain its listing on the London Stock Exchange.

Despite the bailout, there is to be no attempt to control the bank's activities. It will be business as usual as far as proprietary trading is concerned—trading in risky financial instruments. While the government has announced a cap on cash bonuses for top banking executives, this is only a deferment for three years and still leaves numerous ways of circumventing the cap.

The Treasury will also underwrite £282 billion of its toxic assets, less than the £325 billion RBS had applied for in February. This is in return for the bank agreeing to accept a larger proportion of the costs should it prove unable to recover the book value of its assets.

Darling even presented this as a gain for the taxpayer at RBS' expense. He said, "The likely risks [to] the public finances have been reduced". This is a barefaced lie and all the financial institutions and commentators know it. The British Treasury stands four square behind RBS and will have to pick up the tab when these toxic assets turn out to be worthless.

Furthermore, no one knows exactly which assets are being underwritten by the government and whether this is indeed a realistic appraisal of RBS' assets. Nor is it known who will control the loans covered by the Asset Protection Scheme. In the short term, this subterfuge allows the government to reduce its own contingent liabilities in a bid to preserve its AAA rating with the credit ratings agencies.

Darling also said that he would no longer prevent RBS from carrying forward last year's losses and any future losses to offset its future tax liabilities. This amounts to a further £10 billion subvention to the bank at taxpayers' expense.

The total cost of the RBS bailout has now reached £53.5 billion and far surpasses all previous banking bailouts anywhere in the world. It dwarfs the $45 billion (£27.4 billion) state handout to Citigroup in the United States.

Supposedly in the interest of promoting competition in the banking sector, something that the Labour government has worked assiduously to reduce over the last 12 years, Darling announced that RBS would have to sell off some of its high street branches currently branded as RBS, its insurance subsidiaries such as Direct Line, Churchill and Green Flag, RBS Sempra, its commodity trading arm, and its global payments division. In other words, the profitable parts of the bank are to be hived off leaving the government holding the rump.

The Treasury will also give a further £5.7 billion to the Lloyds Banking Group, which now includes the failed Halifax/Bank of Scotland (HBOS). However, the form of the payment means that the value of the government's stake in Lloyds will remain at 43 percent. This capital injection means that Lloyds will withdraw entirely from the government's toxic asset protection scheme. This sleight of hand reduces Lloyds' costs, while rendering the taxpayers' implicit liabilities invisible and off balance sheet.

In addition, Lloyds will be required to sell 600 of its branches, the Cheltenham & Gloucester Building Society, its TSB brand, and more than 3.5 million customer accounts.

Lloyds is to raise a further £13.5 billion in a rights issue, generating a record fee of £350 million for its underwriters and lawyers. That this is possible is due entirely to the Bank of England's quantitative easing scheme, whereby printing hundreds of billions of pounds has served to prop up the value of property prices and some of Lloyds/HBOS' assets.

The way that Darling introduced these measures is instructive. Posing as some kind of bank regulator, he sought to present this plundering of taxpayers' money as not only a net saving but also a major government initiative to increase competition. All of this is a complete fiction.

Within a couple of days of Darling's announcement that the banks were to be required to sell off some of their braches and subsidiaries, it emerged that the European Commission had insisted on the divestment as a condition for receiving State Aid. Without the break-up, the rescue would have been illegal. It was forced upon an unwilling government that had fiercely resisted all calls to break up the banks.

And while 10 percent of the banks' personal accounts or 7 percent of branches are scheduled to be sold, none of this compensates for the wave of mergers and takeovers in the sector in the last few years. Prime Minister Gordon Brown himself personally sanctioned Lloyds' takeover of HBOS, even though it breached competition rules.

More importantly, given the current market conditions and the banks' previous inability to sell their subsidiaries in the run up to their collapse last year, it can only mean a fire sale of the banks' best assets. As such, it constitutes yet another subvention to the financial oligarchy.

Finance union Unite has warned that 25,000 branch jobs are at risk. RBS said that the future of 6,000 of its staff is in doubt has announced that at least 3,700 jobs will go in the next two years. HSBC has announced 1,700 job losses in its second round of the restructuring of its 50,000 UK workforce

In all, the government will pour a staggering £39.2 billion into the two banks, although the real cost when the tax concession is taken into account is at least £50 billion. It follows so-called "stress testing" by the financial regulators that found RBS to be in a dreadful state. The scale of this latest rescue outstrips the £37 billion bailout to "stabilise" the banks in October last year and demonstrates that Britain's financial crisis is far from over.

This latest sum is truly colossal. To put it in perspective: it is far larger than the government's entire spend of £34 billion on nursery, primary and secondary schools in 2007-08. It is equivalent to £2,000 for every family in the land.

Furthermore, in so far as none of the commentators have any expectation that this will lead to more lending to business or households, the entire sum will go on keeping the banks afloat. It is the clearest indication yet that the banks are as good as dead. Essentially in a vegetative state, that they exist at all is solely a result of the government's life support system.

In rescuing the banks again and pledging working people's livelihoods for years to come, the government has demonstrated that the Treasury's coffers are nothing more than the financial oligarchy's personal piggy bank.

The implications of the financial crisis, of which this latest bailout is but a part, are spelt out in the latest report from the International Monetary Fund. It puts Britain's structural deficit at 6.8 percent of GDP. With interest rates certain to rise above their currently unprecedented low rates, it singled out Britain as being particularly vulnerable. As it is, debt service charges on government debt will eat up at least twice as much of tax revenues as before the crisis.

The IMF forecast that the *increase* in interest charges would be equal to the transport budget. While the government has not published its estimate of the annual cost of debt servicing, it has said that debt servicing charges in 2013-14 will be a massive £58 billion. When interest rates rise, the charge will be even higher, underlining the very real concerns about Britain's creditworthiness and even solvency.

The IMF said it would take spending cuts and tax rises equal to about 8 percent of GDP to bring down the debt to GDP ratio to the 60 percent ratio that has been the average in the G20 nations as a whole. This translates into a massive 20 percent cut in government spending.

http://www.wsws.org/articles/2009/nov2009/scot-n09.shtml