TV review

# Britain's Banks: Too Big to Save?

JOURNALIST ROBERT Peston's BBC documentary, Britain's Banks: Too Big to Save?, gave a useful explanation of how Britain's banks have operated over the last two decades, leading to the banking crash of 2008.

**Sean Figg**

Today Barclays, HSBC and Royal Bank of Scotland have a portfolio of loans and investments valued at over £1.5 trillion, greater than the value of the entire British economy. Peston warns that since 2008 "nothing has substantially changed" in the way the banks are run and that now, with public finances in ruins after £1.2 trillion of bailouts and underwriting, Britain's banks would be "too big to save" should another crisis develop.

In the 1980s the Basel Accords on bank regulation were introduced in response to a banking crisis precipitated by Latin American governments defaulting on international loans. The period saw the explosion of a "shadow banking sector" as deregulation made the accords, in comparison, look like a huge inconvenience for profit-hungry bankers. Companies, that were financed by the banks but outside the scrutiny of the regulators, were set up. The use of complex financial instruments became ever more widespread.

*There was a chorus of calls for greater regulation of the banking sector after the bank collapses - locking the stable door after the horse had bolted. But why would new regulation work any better than the Basel Accords or other international agreements?*

Peston illustrates the new banking practices rather aptly, with a trip to the races. He describes derivatives as nothing more than "a bet that something will be a certain price at a certain time" and that bankers were using expected returns that had not yet materialised as up-front capital. This is no different to spending your winnings before the horse has even come in! This speculation meant that by 2008 the combined "value" of just one type of derivative was over $600 trillion worldwide, some ten times global GDP!

### Fractional reserves

PESTON DESCRIBES the contradiction that lies right at the heart of capitalist banking, a system called "fractional reserve banking". If everyone with deposits in a particular bank wanted to withdraw them at the same time the bank would not be able to pay out because most of the money has been loaned or invested. Today the banks retain less than 1% of deposits.

When put like this, the seemingly intangible idea of "confidence" clearly has a strong material basis! One expert comments that "confidence is the financial system" which is nothing more than a 'complex pyramid of claims'. Peston shows a clip from Mary Poppins to illustrate the fragility of this system. The character Michael, being pressured by his thrifty father to invest his tuppence pocket money, precipitates a bank run by shouting "the bank won't give my money back!", thus creating a panic.

Socialists would agree that banking along capitalist lines is very unstable. But we would point to a more fundamental contradiction of the banking system than Peston. For ordinary people banks are about having somewhere safe to put your money or somewhere to get a mortgage or loan. However, the raison d'etre of banks is the pursuit of profit. Providing a basic service to society is incidental. For the super-rich the banking system is a means of lining their own pockets.


**Journalist Peston warns that Britain's banks would be "too big to save" if there was another banking crisis.**
*photo Paul Mattsson*

### Regulation

THERE WAS a chorus of calls for greater regulation of the banking sector after the bank collapses - locking the stable door after the horse had bolted. But why would a new raft of regulation work any better than the Basel Accords or other international agreements to regulate banking? The super-rich found ways around those regulations and they would be able to do so again. As long as the motivation of all banking activity is profit, the incentive to take risks with our money and charge us excessive interest and costs is permanently there.

Another interviewee argued that the only other choice was to break up big banks so that they are no longer "too big to fail", but he also added that modern capitalism needs big banks. Where else would multinational companies and international speculators with trillions put their money? And how else would they move it?

The most important issue isn't the size of the banks but that the Con-Dems, and New Labour before them, refuse to use the government's majority stake that they have in some banks to exert any real control, as shown by the bonus debacle. They are completely committed to allowing them to run along failed capitalist lines. Also, they do not want to take control of all of the main banks.

The socialist solution lies in taking the banking sector into public ownership, and using that ownership to exert democratic workers' control so that the banks are run in the interests of the majority. That is the only way to cut short the super-rich's 'day at the races' and prevent another banking crisis in the future.

## Comment

# Three decades of 'reform' and 'flexibility'

SINCE THE election in 1979 of Margaret Thatcher's Tory government the people of this country have been subjected to a diatribe of rubbish under headlines such as 'reform' and 'flexibility'.

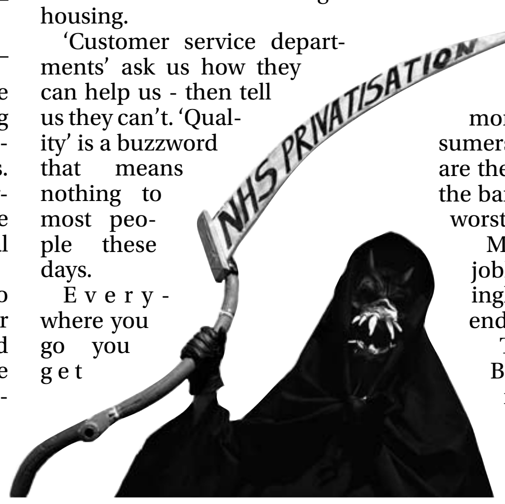
**Craig Johnston**
*RMT union executive member*

These reforms have led to the privatisation of nearly everything - whether it was the former nationalised companies or public services. There has been a rapid commercialisation of everything and the establishment of a maze of internal markets for almost any function.

We were told this would lead to massive improvements and greater competition, it was even suggested that this competition would drive down costs whilst improving standards. 30 years on all this is exposed as utter rubbish.

Many of our public services have either been axed altogether or they have virtually ceased to exist. Our streets are filthy, our roads are full of holes, the current Westminster regime has just scrapped a school building programme and there is nowhere near enough social housing.

'Customer service departments' ask us how they can help us - then tell us they can't. 'Quality' is a buzzword that means nothing to most people these days.




Everywhere you go you get ripped off, whether it's to park your car in a council car park or buy a ticket to travel on a privatised train.

Costs have rocketed whilst things have got worse - everything now has a cost. Even using a public toilet at many mainline railway stations can cost you 30p or more!

Meanwhile a faceless elite snatch as much money as they can from consumers and the public purse. These are the privateers and their friends, the bankers. This is capitalism at its worst.

Many of our young people are jobless, desperate and increasingly hopeless - many of the old end up forgotten.

Thatcher, Major, Blair and Brown have all followed these ideals slavishly and under Cameron and Clegg it looks as if things can only get worse unless we fight back.

# Stop the mental health service cuts

THE FUNDING of Mental Health Action Group Sheffield (MHAGS) is in jeopardy. We get our core grant from Sheffield city council, which plans to reduce the service down to one day a week.

MHAGS aims to provide an alternative to hospital psychiatric wards for people suffering mental health problems, and also to give these vulnerable people somewhere to socialise. Our group is user-run by the members and through an elected committee.

We feel the grant cut is unacceptable as this would have a serious impact on our members' wellbeing, resulting in many returning to psychiatric wards costing tax payers more money.

Now new information states we will have to bid to obtain a contract for our core grant. This presents a major obstacle as we will be competing with national charitable organisations.

We provide a meeting place in comfortable surroundings and several activities for our members. These include computing, arts, craft, photography, exercise and other pastimes. Day trips are often arranged. We have a fully functional kitchen and provide meals on a daily basis. These are all possible through our fundraising efforts.

Before Nick Clegg became deputy leader of the Con-Dem government, he made a pledge at the University of Sheffield to support mental health across the country. This demonstrates another u-turn by Clegg.

We would welcome help with highlighting this before Sheffield council. It's now imperative that we demonstrate solidarity in all struggles in unions and the voluntary sector.

***Stephanie Milnes, MHAGS chairperson, and Tim Jones, campaign coordinator***