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Economy

Banks versus the People: Parts 6-9

- Features -

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IMF declarations that do not please European leaders

In October 2012, the IMF provided a key explanation of why the crisis was getting worse in Europe. Its Research Department wrote that every euro cut from public spending would result in a .90 to 1.70 euro decrease in Gross Domestic Product (GDP). Wolfgang Münchau, who is editorialist at the Financial Times, concludes that in this time of crisis a 3% fiscal adjustment (that is a 3% decrease in public spending) would produce a 4.5% decrease in GDP. Therefore, the current policies being pursued by European governments have been leading to a drop in economic activity making it impossible to decrease the amount of public debt.

[1]As Wolfgang Münchau writes, the IMF's motivation must not be misjudged: "The IMF does not say that austerity is too hard, too unfair, causes too much pain in the short term or hits the poor more than the rich. It says simply that austerity may not achieve its goal of reducing debt within a reasonable amount of time" [2]

Meanwhile, if IMF Managing Director Christine Lagarde hinted that the beginning of some austerity measures should be spread over a longer period of time, and that it might be possible to increase some public spending in order to stimulate the economy, this is because she is under pressure from IMF members from emerging countries (especially the Brics, led by China and Brazil), which are fearful of the boomerang effect of the drop in European imports, and criticise the importance of the IMF's financial engagement in Europe. The IMF's Managing Director expressed this point of view in Tokyo, at the annual assembly of the IMF and World Bank in October 2012. The IMF document and Christine Lagarde's recommendations made European leaders react with discontent. For example, in Tokyo, Wolfgang Schaüble, the Finance Minister of Merkel's government, publicly criticised Christine Lagarde for her untimely remarks. [3]

Wolfgang Münchau considers that the reservations expressed by the IMF on the depth of the austerity measures will in no way modify the attitude of European leaders who are sticking to a hard line position: "European policy makers are paranoid about their credibility, and I expect them to hold on to austerity until the bitter end, when the policy implodes" [4]

The tension between the IMF and the European Commission was expressed publicly again on 14 November 2012. Christine Lagarde contradicted the optimism expressed by Jean-Claude Junker (Luxembourg), who is President of the Eurogroup, concerning the outlooks for Greece. The IMF seems to want to put pressure on the Commission in order to increase its influence on the direction that should be taken in Europe. Emerging countries and the United States have been taking action within the IMF to influence the solutions adopted concerning the European crisis, especially since they are being asked to make a financial contribution.

The IMF looks back on the historical failures of brutal austerity policies

Much has been written about another IMF study, a chapter in its World Economic Outlook report, which was published just before its annual assembly in October 2012. In this chapter, the IMF studies 26 public debt crisis episodes since 1875, in which public debt was greater than 100% of GDP. It analyses the policies that were applied to resolve these crises. One of the episodes analysed was that of the United Kingdom after the First World War. British public debt stood at 140% of GDP. The British government applied a radical policy of fiscal austerity combined with a stringent monetary policy. By making large cuts to expenditures, the government achieved a primary fiscal surplus of nearly 7% of GDP (before the payment of interest) throughout the 1920s, in order to reduce British debt by strictly paying it back. However, public debt did not decrease: in 1930, it was 170% of GDP, and three years later in 1933, it was more than 190% of GDP.

Martin Wolf, the chief economics commentator at the Financial Times, states that the real objective of the British government policy "was to break organised labour. These policies resulted in the general strike of 1926. They spread a bitterness that lasted decades after the second world war." [5] This is exactly what is being done in Europe today. [6]

Wolf suggests that European policymakers and the Spanish government of Mariano Rajoy want to push down wages drastically by using unemployment as a weapon. He states that: "Meanwhile, Spain's real GDP is shrinking. Efforts to tighten fiscal policy are sure to reduce it further." He continues his analysis by stating that the Italian government has been inspired by the same policy. He concludes with a statement that may seem unusual coming from a star journalist at one of the principal financial dailies on the planet: "But fiscal austerity and efforts to lower wages in countries suffering from monetary strangulation could break societies, governments and even states." In fact, as Martin Wolf has been insisting for months, it is because of austerity measures that countries are heading straight for disaster. As proof of his analysis, he points to the overwhelming electoral defeat of Mario Monti in March 2013 in Italy.

As Wolfgang Münchau writes, European policymakers are going to continue pursuing and aggravating these policies.

Why are European policymakers pushing for such harsh austerity policies?

It would be a mistake to believe that European policymakers have become blind. Their motivation is neither to return to economic growth, nor to balance the asymmetric relationships within the eurozone and the EU, so as to create a more coherent whole in which prosperity would reign. Corporate leaders, who shape government action, would like to push forward their great offensive against the hard-won social rights obtained in Europe after the Second World War. From this point of view, the policies pursued recently have been very successful. With the austerity policies that have increased unemployment, workers find themselves in an increasingly precarious position, their capacity to resist and fight has been radically decreased, wages and the various social benefits have been reduced while the tremendous disparities between workers within the EU have been maintained so as to increase the competition between them.

One of the objectives pursued by European policymakers is to improve the capacity of European companies to increase their market share throughout the world. To accomplish this goal, the "cost of labour must be radically cut", as they would say. That would imply inflicting a major defeat on European workers. Other objectives are also being pursued: pushing even further the offensive against public services, avoiding as much as possible a new crash in the banking sector, further strengthening the executive powers (the European Commission and national governments) over the legislative powers, imposing tighter constraints through treaties that set in stone policies that favour the Capitalist agenda…

The political and electoral price to pay may be high, but generally speaking the major political families that dominate European politics have made the bet that even if they lose in the current elections, they will win in the next ones and return to power. In any case, moving over to the opposition does not mean losing a whole set of privileges already acquired in the central State government apparatus, and European institutions, not to mention the local powers they may have (in big cities, regional governments, and so on).

What is complicating the European policymakers' project is the Obama administration's decision to pursue radical austerity policies in the footsteps of the Bush administration. In particular, fiscal cuts in public and social spending are going to be even deeper in the United States. These reductions will not help European companies win market share there. Only Japan seems to be willing to adopt what is only a half-hearted stimulus policy, but this must still be confirmed.

Conclusion:

In light of the objectives described above, there is a total convergence between the IMF and European policymakers. Furthermore, since December 2012, when the Obama administration announced that it intended to tighten austerity measures in the United States, we have no longer heard any critical declarations by Christine Lagarde or other leaders aimed at the IMF concerning the policies pursued in Europe.

We must not misjudge the deeper meaning of the IMF's declarations: if it has taken a bit of distance with respect to European policymakers, it is not to convince them to abandon the structural adjustment policies that are favourable to privatisations and a more intense offensive against the social rights won after the Second World War. It would like to have more influence on the decisions made, and impose its own. We shall see in the upcoming months whether or not it continues asserting that it would be a good idea to slow down the rhythm at which European policymakers want to balance their budgets. While the research produced by some IMF departments contains arguments that contradict dominant policies more or less clearly, the IMF's actions throughout the world have not changed an iota. These are the actions against which we must combat with all our force.

Part 7: The Mockery of Banking Discipline

"Markets have become too huge, complex, and fast-moving to be subject to twentieth-century supervision and regulation. No wonder this globalized financial behemoth stretches beyond the full comprehension of even the most sophisticated market participants. Financial regulators are required to oversee a system far more complex than what existed when the regulations still governing financial markets were originally written. " [7]

This remark by Alan Greenspan, chairman of the US Federal Reserve bank from 1987 to 2006, has been repeated by all the leaders of the highly industrialised countries. They have imagined that the banks and other financial corporations would discipline themselves whilst satisfying their own egotistical interests.

Alan Greenspan adds: "Today, oversight of these transactions is essentially by means of individual-market-participant counterparty surveillance. Each lender, to protect its shareholders, keeps a tab on its customers' investment positions. Regulators can still pretend to provide oversight, but their capabilities are much diminished and declining." [8] The supposed will of banks, and other financial market actors, to self-discipline themselves is a smokescreen allowing them to do whatever they like. Alan Greenspan, all the leaders of the industrialised countries, an army of experts and financial pundits are all unashamed liars who think they can treat the citizens like idiots, repeating 'ad nausea' the old song of self-regulated markets. "Since markets have become too complex for effective human intervention, the most promising anticrisis policies are those that maintain maximum market flexibilityâ€"freedom of action for key market participants such as hedge funds, private equity funds, and investment banks" [9]

The financial catastrophes of 2007 – 2008 and their dramatic and durable effects are a stinging denial to these incantations. Financial market actors are totally incapable of regulating themselves and have neither the desire and certainly not the will to do so. As the history of capitalism and its crises clearly shows. So the policy makers have adopted a different line "Self-discipline to reply to problems is over, laissez-faire is over, the markets are always right is over." [10]. In fact, six years after the beginning of the crisis, five years after announcing a return to controls, there has been nothing more than a captivating spin. Leaders and lawmakers, in cosy complicity with the banks, have taken very few real and restrictive measures concerning financial companies.

One serious measure in an ocean of laxity

Since the 1st November 2012, in the European Union it has become prohibited to buy Credit Default Swaps (CDS - see below) to hedge against sovereign debt default if one does not possess this debt [11]. The penalties for doing so have been left to the discretion of each State. This gives a lot of leeway to banks and other financial societies who would dare to brave or break this regulation. It is about the only significant measure that has been taken to introduce some order into the financial sector.

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What is a CDS?

The Credit Default Swap (CDS) is a financial derivative product, created at the beginning of the 1990s, during an intense period of financial deregulation, which is not subjected to any public control. Its original purpose was to be a creditor's insurance, provided by the seller of the CDS, against default on obligations repayments, whether the obligations are issued by a public administration or by a private company. However, it is possible to purchase CDS cover for this kind of risk without holding the corresponding obligation (a practice that has been prohibited in the EU since November 2012 for the minimal 5 to 7% of the CDS market concerning sovereign debt). This is like insuring your neighbours house against fire in the hope that it will burn down, so as to collect the indemnity. The other risk linked to CDSs is the lack of financial means available to indemnify all the big CDS holders. Should there be a series of bankruptcies by private companies having issued obligations, or default by an important bond issuing country, it is quite probable that the CDS sellers will be unable to cover their promises.
The disaster experienced by AIG, the biggest North American international insurance company, in August 2008 (nationalised by President George W. Bush to avoid its total collapse) and the bankruptcy of Lehman Brothers are the direct result of their important spread on the CDS markets where they were very active.

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The Dodd-Franck Act in the United-States and the half-hearted European measures

In the US, a new law, which is half-hearted when compared to the regulations imposed by Franklin D. Roosevelt in 1933 (see below) was adopted during the first Barack Obama term. This is the Dodd-Franck Wall street reform and consumer protection act (which includes the Volcker rules) [12]. Although this law was passed in 2010 the application is delayed. The banks and their lobbyists along with Congressmen and Senators, both Democrats and Republicans, who are under their influence, have managed to severely limit this already half-hearted legislation. [13].

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The separation of deposit banks and investment banks during the Roosevelt administration.

One of the important measures taken by the Roosevelt administration and the European governments (notably under pressure from the European popular movements after the Second World War) was to limit and to strictly regulate the way banks could use public money. This principle of protecting deposits resulted in the separation of deposit banks from merchant banks. The Glass Steagall Act is the best known example of this measure. It was applied for decades, with local variations, in European countries.

After this separation the peoples deposits that had a State guarantee could only be handled by deposit banks. At the same time their field of action was restricted to household and business loans, excluding bond issues, stock exchange activities and all other financial instruments, these activities were the domain of merchant banks that had to find their resources on the financial market

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In the UK, the Vickers commission presented its recommendations to the authorities in 2011, but their response is still awaited. The governor of the Bank of Finland, Errki Liikanen, presented his report commissioned by the EU in October 2012. These two reports go in the same direction as the Dodd-Franck act and the Volcker regulations: [14] starting to ring-fence different banking activities. Neither of them suggest returning to the Glass-Steagall act or to the similar regulations that were in force in Europe at the same time. Nobody suggests a frank separation between deposit and investment bank activities, or the dismantlement of what is known as universal banks, also called full-service financial firms.

These banks are active in all the banking sectors from retail banking to commercial and investment banking, including underwriting and asset management. They intervene within their national territories and outside their countries through their different branch offices and subsidiaries. The great danger here are losses in one of the high risk related activities having to be supported by the deposits in the other, base activities, so putting savers funds in danger. This was the primary concern of Roosevelt and the European governments in the 1930s and 1940s, which resulted in banking regulations that made watertight sectors of these different activities. The Dodd-Franck act, the propositions of the Vickers and Liikanen commissions, the French banking reform law project put before the National Assembly in December 2012 [15], are half-hearted; creating uncertain separations which will prove to be inefficient and limited (if they are ever applied). The commercial and investment sectors within banks do not hesitate to divert savers' funds towards their riskier activities and they will continue to do so because no serious and restrictive measures have been taken against them. [16]

In addition, since deposit banks and commercial and investment banks belong to the same general banking structure, any losses of the commercial and investment sectors will be supported by the retail section (e.g. in France the losses of Natixis bank were paid for by 'Banque Populaire' and 'Caisse d'Epargne' within the BPCE group).
The banks put on the pressure to continue as they see fit

Although the Vickers and Liikanen recommendations are very conciliatory towards the bankers, as is the case in the US, the heads of private banks in the EU are organising intense lobbying so that these propositions remain on the shelf. Challenges, a French financial weekly magazine, reports the reaction of the French banking sector to the Liikanen report. “Most of these kind of reports have ended up in the waste paper basket” said one banker who accepted to speak to Challenges, “Liikanen hardly knows what a bank is” quipped another. “Finland only has subsidiaries or branches of foreign banks”. Challenges goes on to present a differing opinion from Martin Wolf, editorialist at the Financial Times: “This is a step forward. But the next ones must be further forward, not backward.”. [17] The *Financial Times* has also investigated the banking system. In its columns, Christian Clausen, CEO of the Swedish bank Nordea and president of the European Banking Federation, said that the Liikanen report was completely wrong to propose separation between retail banking and trading activities. [18]. Members of the different elected bodies and high ranking civil servants on both sides of the Atlantic, are facing intense pressures. Banks are able to count on the solid support of their highly placed allies, starting with Mario Draghi, President of the European Central Bank and ex-director of Goldman Sachs.

The voices of a few oversight authorities are starting to rise against laxity.

Among the oversight authorities a few voices are rising to criticise the absence of effective banking regulations. Andrew Haldane, director of the department of financial stability at the Bank of England, spoke out, at a financial directors meeting, in London in October 2012, criticising the fact that the 29 SIFIs (Systemically Important Financial Institutions - see below) take advantage of the dangers their crashes would produce in order to obtain,, cash flow from, among others, the BCE, the Federal Reserve and the Bank of England in favourable conditions. He considers that the credits advanced to them by the public institutions amount to an annual subvention of $700 billion.

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The G20's list of SIFIs (Systemically Important Financial Institutions)

In November 2011 the G20 established a list of 'Systemically Important Financial Institutions (SIFIs)'. Just like 'Lehman Brothers' these banks are considered to be too important for their governments to let them to go bankrupt, they are 'too big to fail'. By their size, and the effects that would result if one of them failed, they have become preponderant in the international financial system. In 2011, among the 29 banks listed eight were of US origin (JP Morgan, Bank of America, Morgan Stanley, Goldman Sachs, Citigroup, Bank of New York Mellon, Wells Fargo, State Street), four British banks (HSBC, Lloyds, Barclays and Royal Bank of Scotland), four French (Societe Generale, Credit Agricole, BNP Paribas and BPCE), three were Japanese (Sumitomo, Mitsubishi UFJ FG, Mizuho FG), two German banks (Deutsche Bank and Commerzbank), two Swiss (UBS, Crédit suisse), one each from Italy (Unicredit), Spain (Santander), the Netherlands (ING), Sweden (Nordea), and China (Bank of China) and one Franco-Belgian (Dexia). In 2012, the G20 withdrew three banks from the list (Dexia, Commerzbank and Lloyds), and added two (the Spanish 'BBVA', and the British 'Standard Chartered').
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Andrew Haldane claims that the higher ratio of assets to equity which will be generalised in 2018 – 2019 is totally insufficient and will, in no way, reduce the effects of a bankruptcy. He recommends the drastic reduction of the size of banks. Thomas Hoenig, at the US Federal Deposit Insurance Corporation, an institution created during F. D. Roosevelt's presidency of the United States to regulate the banking system, states that the separations put into place between the different banking activities are in fact porous. He supports the adoption of 'Glass-Steagall' type regulations to radically ring-fence merchant banking from retail banking. He also estimates that the levels of equity required as from 2018 – 2019 should be increased by at least threefold. [19]

Epilogue:

Victory of the bankers thanks to the oversight authorities

In January 2013, the Basel committee [20] postponed the application of one of its principal measures, the liquidity coverage ratio (LCR) regulation, requiring banks to constitute reserves capable of affronting a crisis for thirty days. The measure was to have applied as of 2015, but it has been postponed until 2019! The financial press clearly announced this decision on its front pages as a victory for the banks and a step backwards for the authorities. A Financial Times title on 8 January 2013 said, “European banks gain after Basel rules eased”[Financial Times, “European banks gain after Basel rules eased”, 8 January 2013.]] The Economist headlined: “Bank liquidity. Go with the Flow. Global regulators soften their stance on liquidity” [21]. Not only has the application of these rules been postponed to 2019, in other words 'put off indefinitely', but the banks may include in the LCR; structured and other toxic products. It's all poppycock.

More news to please the bankers came a few weeks later. Michel Barnier, European Commissioner in charge of financial affairs announced that he will not follow the principal recommendation of the Liikanen report concerning the separation of deposit banking and trading activities. Headlines in the the Financial Times on 30 January 2013 read: “Brussels retreat on key bank reform” [22]. The paper explains that the European commission has retreated in its proposition to protect deposit banking activities from the undesirable effects that may arise from highly speculative and risky trading activities.
Conclusion: It is necessary to break away from the dictatorship of the banking system. Through a radical shift in policies, it would be possible to protect the deposits of ordinary people, to finance socially useful production and guarantee employment and the working conditions in the sector. These changes would require a public service for savings, loans and investment.

Banking (the service that protects savings and supplies loans for social uses such as productive development) is too important to be left in the hands of a small number of private bankers (the 1% as the 'Occupy Wall Streets now call them), who, by definition seek only to maximise their profits. Speculation and all activities that support it must be prohibited, and so must all transactions related to tax havens. Since banks use our money, enjoy state guarantees, and must provide the fundamental services society needs they must be socialised and placed under citizen's control. [23]

Part 8 :Banks bluff in a completely legal way

If a bank posts significant losses (a major corporation goes bankrupt and cannot pay back a loan, or more often, due to losses on financial products traded on the derivatives market, such as ABS-RMBS, and CDOs, in particular linked to the real estate crisis or bad bets on how the exchange rate or interest rate will evolve, and even sometimes losses on government bonds…), it must absorb these losses with its capital (its equity). [24] If its capital is inadequate, then it should go bankrupt! In theory, according to the rules of prudence, a bank cannot lend more than 12.5 times its capital. This rule is based on the postulate that with an 8% equity-to-assets ratio, [25] a bank cannot go bankrupt, because it is very likely that its losses will be less than 8%, therefore it will be able to survive. We are going to show that in reality, banks can develop activities (take risks) that go far beyond this ratio. Instead of 1/12.5 (8%), the equity-to-assets ratio is often no better than 1/20 (5%). In addition, several very large banks have a 1/25 (4%) ratio, or even 1/33 (3.33%), all the way to 1/50 (2%). We are going to show how this can be done in a completely legal way.

The Basel Committee (see text box) has introduced the idea of dropping the leverage ratio to 3%, which is scandalously low. Authorising a bank to "lend" 33 times its capital, leaves in place a situation in which a (small) loss of 3.33% of its assets would result in bankruptcy. Such a decision is almost a guarantee that the banking crises are far from over.

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The Basel Committee and the Bank for International Settlements

The Basel accords were drafted by the Basel Committee on Banking Supervision. This committee has changed since the 1980s, and today its members include central bankers from the G20 countries under the supervision of the Bank of International Settlements (BIS, see below) in Basel. It has four main missions: to strengthen the security and stability of the financial system, to set minimum standards for prudential banking oversight, to spread and promote best banking and financial surveillance practices, and to promote international cooperation for prudential oversight. The BIS is an international organisation established in 1930, which promotes international monetary and financial cooperation. It also plays the role of the bank for central banks. Its mandate covers four areas of activity: a forum for the discussion and analysis of the monetary policies of central banks, an economic and monetary research centre, a prime counterpart of central banks for their international transactions, and an agent or trustee in connection with international financial operations. It has members from 56 central banks including those of the G10. Several committees and organisations dedicated to monetary and financial stability and monitoring the international financial system have been created within its walls, like the Basel Committee and the Committee on the Global Financial System (CGFS). [26]
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Before examining this question in more detail, we are going to explain why banks are looking for high leverage, the great impact it has on swelling bank assets, the banks' increasing need for borrowing, and the risks inherent in such activities.

Leverage

With the neoliberal deregulation that began in the 1980s, there was a radical drop in the ratio between the equity (capital + reserves) that banks had to hold and the volume of their debts (the equity + debt = bank liabilities). For 1000 euros of capital, the number of euros that banks could borrow increased considerably, which is what is known as leverage. The banks progressively increased this leverage with the authorisation of oversight authorities. The goal was to increase profitability for shareholders, who were investing in the bank by increasing the amount of money banks borrowed. Why is the highest possible leverage an objective for the big banks? How does this process increase the bank's profitability for the shareholders?

Maximising ROE

The notion of ROE (return on equity) gives us a key for understanding this question. In a nutshell, a bank's equity is made up of the capital put up by shareholders. [27] 25 years ago, in theory, equity represented about 8% of a bank's assets. For example, a bank that had â‚¬100 billion in assets (in the form of household and corporate loans, sovereign debt bonds, corporate bonds, and other financial securities), would have had â‚¬8 billion in capital.

In these conditions, to achieve an ROE of 15%, it would need to make a net profit of â‚¬1.2 billion (i.e., 15% of 8 billion). To make such a net profit on assets worth â‚¬100 billion seems to be quite easy, as it represents only 1.2% of the total amount.

The ballooning of bank assets to increase ROE

Starting in the mid-1990s, a whole new range of financial products developed very rapidly, including different types of derivatives and structured products. The big banks wanted their share of this buoyant sector. They were convinced that if they did not launch operations, they would lose ground and perhaps be taken over by their competitors. The yield on these products is relatively low – generally less than 1%. Therefore, a bank that has shareholders who want the ROE to increase from 20 to 30% is pushed to increase its assets exponentially while at the same time loaning more and more money to maximise leverage. In the example mentioned above, the bank's assets would increase by 300% in ten years to reach â‚¬300 billion, whereas the capital would not be increased. It would still represent â‚¬8 billion, or 2.66% of the total assets. This tremendous asset growth was made possible by the bank increasing its debt load.

Between 2002 and 2011, banks increased their assets by 250%
According to the IMF [28], worldwide bank assets increased from $40 to $97 trillion between 2002 and 2007. Between 2007 and 2011, they continued their upward climb to $105 trillion. [29]

If we consider the entire European banking sector, assets expanded from â‚¬25 trillion in 2001 to â‚¬43 trillion in 2008, or 3.5 times the GDP of the EU! [30]

Given the severity of the crisis, we could have expected a rapid restructuring of the banking sector with the shrinking of bank assets and the closing of the weakest banks. That did not occur â€" the volume of assets has not decreased since the crisis erupted in 2008. [31] Whereas the volume of their assets was â‚¬43 trillion in 2008, it was â‚¬45 trillion in 2011. While European GDP experienced a slight decrease, European bank assets continued expanding and represented 370% of European GDP in 2011! [32]

Between 2007 and 2011, Deutsche Bank's (the biggest bank in the world) assets increased by 12.4%, those of the British bank HSBC (number 2 in the world) by 22.2%; those of the biggest French bank, BNP Paribas, by 16%; Crédit Agricole's by 22%; those of Barclays by 12%; the biggest Spanish bank, Santander's, by 37.1%; those of the principal Swedish bank, Nordéa, by 84.1%; those of Commerzbank, the second-largest German bank, by 7.3%; those of the Italian bank, Intesa, by 11.6%; and those of the second-largest Spanish bank, BBVA, by 19.1%. Of the 18 main European banks, only three experienced a decrease in assets: the Royal Bank of Scotland (-28%), ING, the main Dutch bank (-3.3%), and the largest Italian bank Unicredit (-9.3%). [33]

Consequences of increasing leveraging

The first consequence is that banks have taken increasingly high risks, [34] which has resulted in a series of bank failures. Second, the bank bailouts by public authorities have meant that the people of Europe and the US have had to mop up the losses. In many countries (Ireland, Iceland, Spain, Belgium, the United Kingdom, Germany, the Netherlands, the United States, Cyprus, and Greece), public debt has skyrocketed since 2008 due to bank bailouts.

Nonetheless, as indicated above, six years after the beginning of the biggest banking crisis since the 1930s, governments and oversight agencies are proposing to "rein in" leveraging to 1/33. In other words, a bank that has 1 euro in equity capital can borrow 32 euros and engage in business activities of 33 euros. This kind of "control" will inevitably lead to other banking crises.

Several phases led up to the general use of leveraging.
Basel I: encouraging the deregulation banks expect
First phase: from 1988 onward, the Basel I Accords stipulated that banks must be in a position to rely on equity amounting to 8% of their operations. This means that if they have 1 euro in equity (generally shareholders' money), they are allowed to loan 12.5 euros. This also means that in order to loan 12.5, when they only have 1 in equity, they can borrow 11.5. Compared with regulations that had been implemented since the 1930s, such a measure was already a significant move towards increasing bank activities by pushing them to lend more. Now in light of the Basel II Accords (which are discussed below), 8% seems to be a high requirement.

We should, however, qualify what has been described in the previous paragraph. Actually, the amount they can loan (on the basis of one euro in equity) is not 12.5, but 25 (as is the case for BNP Paribas), or even 50 (as is the case for Deutsche Bank or Barclays), while adhering to the Basel I recommendations (and indeed to those of Basel II, currently in force). How can this be? Because they can play on the denominator of the equity to assets ratio, since the ratio does not apply to all assets. Indeed Basel I (just as Basel II and Basel III, which are discussed below) makes it possible for banks to reduce the value of their assets depending on their exposure to risk. The value of assets is calculated on the basis of the risk they are exposed to. Securities on sovereign debt from OECD members are not supposed to be exposed to any risk at all. Loans to AAA and AA- rated banks are considered to entail a 20% risk. Basel 1 set up five categories of risk depending on the debtor: 1) States or public authorities, 2) corporations outside the finance industry, 3) banks, 4) individuals and small companies (retail), and 5) others.

How a ratio of 4% can be turned into a ratio of 10%

If the Banxia bank has 4 in equity and 100 in assets, that would represent a ratio of 4%, whereas it must attain a level of 8% under Basel 1 (and Basel 2, which applies in 2013-2014). How can it attain that ratio without changing anything? By weighting its assets as a function of the risk taken. A theoretical case will help us understand this situation: Out of those 100, it holds government bonds from countries whose rating is between AAA and AA- representing an amount of 30. It can then subtract those 30 from its total assets. Why? Because the legislation in force considers that loans to countries rated between AAA and AA- does not require any capital to offset possible losses. That leaves 70 in assets for which it must hold a sufficient amount of capital. Its capital / assets ratio (4/70) is now 5.7%, which is still inadequate.

Let's continue the process. Of the remaining 70, 30 consist of loans [35] to banks or companies rated between AAA and AA-. In this case, since the Basel 1 (and Basel 2) rules consider that these loans represent only a 20% risk, the Banxia bank can consider that that 30 in debt only counts for 6 (20% of 30). Therefore, Banxia no longer needs to come up with equity for assets equivalent to 70, but assets of 70 minus 24 – that is, 46. The equity / assets ratio therefore improves greatly, attaining 8.7% (4 in equity for 46 in assets weighted for risk).

Now let's assume that of the other 40 in assets, 2 are loans to companies or banks to which the rating agencies have assigned poor scores – that is, under B-. In this case, the risk is 150%. These 2 debt assets then count for 3 (150% of 2). The equity required to counter this risk has to be calculated in terms of 3 and not 2.

Let's suppose that of the 38 in remaining assets, 10 represent loans to SMEs. In this case, 10 counts for 10 because banks' SME debts cannot be lightened, since the Basel authorities consider that they represent a high risk. The "risk" is 100%.

The remaining 28 in assets consist of loans to individuals. The risk for loans to individuals is 75%, and therefore these 28 assets count for 21 (75% of 28).

In this theoretical case, the equity calculated in terms of risk end up representing 40 (0+6+3+10+21) for total assets of 100. The equity / assets ratio is 4/40, or 10%.

https://internationalviewpoint.org/IMG/jpg/pt81.jpg

Bingo! The bank with equity that only accounts for only 4% of its total assets can declare that its actual ratio is 10%, and it will be congratulated by the oversight authorities.

Do you think this is all just theoretical? That what has just been described does not really correspond to what the banks and oversight authorities actually do? Think again. In the next part, you will find a very real example, and there are many such examples. In the meantime, below is a table that summarizes the applicable rates for weighting risk, both in Basel 1 and Basel 2.

Table of risk weightings [36]

[https://internationalviewpoint.org/IMG/jpg/p82.jpg]

As indicated above, the Basel Committee places a lot of faith in the rating agencies. Yet it is a well-established fact that these agencies have been wrong time and again. They assigned ratings of AAA to AA- to companies like Enron, Lehman Brothers, AIG, RBS, and Northern Rock right up to the day they went under. Similarly, the rating agencies gave AAA ratings to toxic structured products like CDOs until 2007-2008, before they collapsed.

However, the Basel authorities have also adopted discriminatory measures regarding loans to SMEs (which of course are not rated by rating agencies, and therefore represent a 100% risk according to the established standards) and to households (a 75% risk according to Basel), which has caused banks to reduce direct credit to these participants in the real economy. A large share of loans to households has been securitized – that is, removed from banks' balance sheets and sold to other financial institutions. The reason for banks' restricting credit to SMEs and households since 2008 is that the loans they grant to them are too heavy in terms of asset weighting. Private banks have prevailed on the Basel authorities to encourage the development of securitized financial products rather than direct loans to people in the productive economy.

9th part :BanksÂ - Fudged health report

Neoliberal euphoria and Basel II

The Basel II accords were drafted at a time of neoliberal euphoria when capitalist bankers had obtained the cancellation of the few prudential rules that still remained from the 1930 Great Depression.
Basel II coincided with Alan Greenspan, chairman of the Federal Reserve, the US central bank, [37] speechifying about the ability of financial markets to regulate themselves and recommending the suppression of any constraint that still shackled the said bankers' â€˜creativity'.

The Basel II accords were implemented in 2004-2005, just before the outbreak of the financial crisis in 2007, and are still valid in 2013-2014. The Basel III accords that were drafted in 2010 as the crisis was deepening, and revised in 2011, [38] are still only at the stage of interpretation and negotiation. They are not to be fully implemented until 2018-2019. This is why it is really worth beginning by taking the time to understand the Basel II accords, whereas most commentators focus on the Basel III measures as though they were already effective. Supervising authorities, governments in cahoots with major private banks, and most of the media attempt to convince citizens that constraints have been imposed on the finance industry.

This is a lie. As we shall see even the Basel III measures will not really change the slack regulations that allow banks to act as they please. Indeed banks will still be able to cook their books and fiddle their health reports thanks to the system whereby their assets are weighted relative to the degree of risk. They will also be allowed to legally trade off the balance sheet, and thus be prompted to take more risks. These two facts alone are enough to undermine the array of small measures that have been widely and loudly advertised. To show how harsh the Basel III standards are, banks grumble and try to get the authorities to soften the measures or delay their implementation. This is just taking the public for a ride. Leaders and supervisory authorities show how complicit they are with large private banks.
Before we turn to Basel III, let us examine the Basel II accords that are currently effective.

Basel II: licence to kill

Basel II increased the deregulation that had been condoned by Basel I. Two major points are to be highlighted in Basel II: 1. capital requirements were lowered; 2. banks were allowed to devise their own method for calculating their assets to achieve the required equity/assets ratio.

Basel II and lower capital requirement

Capital requirements were lowered at the banks' request: they only amount to 2% of weighted assets, now! Yes, that's right, only 2% of assets, weighted according to the level of risk, is required. Beyond the 2% of hard capital (i.e. capital brought by shareholders or retained surpluses) in order to reach the 8% target, Basel II allows banks to include as equity a number of elements, such as subordinated debt securities, which are only remotely related to capital. It is up to national authorities to define what banks can take into account beyond the 2% of hard capital in order to reach 8%. In other words: the 8% requirement stipulated by Basel I has been retained, but the method of calculation has been radically changed:
– on the numerator side (equity), the categories of debt that banks can include have been extended way beyond hard capital;
– on the denominator side they have been allowed to define the way they weight assets according to risks.
In part 8 we saw how Banxia could fiddle its assets. Now Basel II also makes it possible to fiddle with the equity side and what the bank can add to reach an 8% ratio.

In the lingo of the Basel accords we speak of Tier 1 and Tier 2. [39] Basel II considers that Tier 1 (i.e. 4% of risk-weighted assets) consists of two parts: 2% of hard capital and 2% in which the banks can take various elements that are not part of the company's equity strict sensu into account. French or Belgian banks (with the blessing of their national regulators) have included for instance hybrid securities (half-capital, half-bond). Tier 2 embraces even more remote elements. Japanese banks in the 1990s for instance had been allowed by their national authorities to include their latent stockmarket capital gains in Tier 2. A few years later when the Japanese housing bubble broke out, they found themselves below the regulation ratios overnight. Yet this did not lead the Basel committee to draft a stricter definition of what could be included in Tier 2 or even in Tier 1. Not before 2010 did it announce more demanding standards to be implemented in 2018 or 2019, if ever!

To get an idea of what a bank is allowed to use to reach the 8% target, here is an extract from Dexia 2008 annual report:

â€˜BIS eligible capital consists of two parts:

Tier 1 capital which comprises share capital, share premium, retained earnings including current year profit, hybrid capital, foreign currency translation and minority interests, less intangible assets, accrued dividends, net long positions in own shares and goodwill;

Tier 2 capital which includes eligible part of subordinated long-term debt, less subordinated debt from and equities in financial institutions.

Tier 1 capital is required to be at least 4% and Total eligible capital at least 8% of RWAs.' [40]

We find similar statements in Dexia 2012 annual report. [41]

Basel II: Banks decide on the asset value to be considered

Basel II is based on total trust in bankers: each bank can decide on its own model to assess risk. This is what practically all major banks do.

As set out in the Basel II 2006 revision, â€˜the Committee permits banks a choice between two broad methodologies for calculating their capital requirements for credit risk. One alternative, the Standardised Approach, will be to measure credit risk in a standardised manner, supported by external credit assessments. The other alternative, the Internal Ratings-based Approach, which is subject to the explicit approval of the bank's supervisor, would allow banks to use their internal rating systems for credit risk.' [42] Obtaining such approval is fairly easy for large banks.

The standardised approach calls upon standards devised by the Basel committee that supports the influence of rating agencies. In the theoretical example introduced in part 8, we used the standardised approach. Bank claims on States or public sector entities that are rated between AAA et AA- are weighted as 0% risk (par. 53). As a consequence, the corresponding assets should not be counted at all. This in turn means that banks do not require equity to write off possible losses on these claims. Claims on banks or corporates [43] that are rated between AAA et AA- are weighted as 20% risk, so banks can deduce 80% of assets corresponding to such claims. Claims on banks and corporates rated between A+ and A- are weighted at 50%, claims on banks and corporates rated between BB+ and B- at 100%. If their rating is below B-claims are weighted at 150%. Claims on individual persons are weighted at 75%, and on small and medium size businesses at 100% since these are not rated by rating agencies.

[https://internationalviewpoint.org/IMG/jpg/pt91.jpg]

Dexia: a telling illustration of a soft option adopted by the Basel Committee and national supervisory authorities

The case of Dexia is a telling illustration of how dangerous the system of risk-weighted assets is, whether using the standardised approach or the internal rating approach.

In June 2011 Dexia passed the stress test imposed by the European supervisory authority on 90 major European banks with flying colours. [44] Four months later it had to be bailed out for the second time in three years. The report Dexia presented to pass this test is revealing.

While the total amount of (non weighted) assets reached 567 billion euros, risk-weighted assets only amounted to 141 billion euros. In the theoretical example of part 8, risk weighting had made it possible for a fictitious bank, Banxia, to reduce its assets from 100 to 40. Dexia did much better than this in June 2011 when its assets shrank from 100 to 25. Hats off to the DexiaÂ conjurers! â€˜Reality' surpasses fiction!

https://internationalviewpoint.org/IMG/jpg/pt92.jpg

In its report to the European authority Dexia claimed that the equity / risk-weighted assets ratio reached 12.01%. Enough to dazzle regulators! If non weighted assets had been taken into account, the ratio would have been only 3%, which would have been closer to reality. If the supervisory authorities did not allow banks, including Dexia, to add financial products that are not capital to their hard capital, their ratio would have been even more disturbing. We ought to emphasize that if the Basel III regulations (to be fully implemented in 2018-2019) had been in force regarding the equity / NON weighted assets ratio and the equity / weighted assets ratio, Dexia would still have passed the test. Which shows that Basel III does not provide any solution.

Banks: the art of deception

The case of Dexia is by no means isolated. In 2011, according to the Liikanen report, equities amounted to between 2 and 6% of non weighted assets of major banks. In the case of the Deutsche Bank, equities amounted to hardly more than 2% (which involves a degree of leverage of 50). For ING and Nordea (Sweden), equities came to just under 4%. For BNP Paribas, Crédit Agricole, BPCE, Société Générale or Barclays, they represented about 4% (degree of leverage of 25). For the Spanish banks Santander and BBVA, Italian banks Intesa Sanpaolo and Unicredit, or the Belgian KBC, they reach about 6% (with a degree of leverage of about 16). [45]

Yet all these banks passed the stress test in June 2011 presenting an equity/weighted assets ratio of over 10%. On the basis of their 2012 annual report, published in 2013, we calculated the equity /weighted assets ratio and that for equity /non weighted assets for two major European banks with a reputation for stability: BNP Paribas and the Deutsche Bank. As the following illustration shows, the results are liable to worry even the most trusting.

[https://internationalviewpoint.org/IMG/jpg/p93.jpg]

If the *Financial Times* is to be believed – and it is certainly not in its interests to create panic in the marketsâ€" the Deutsche Bank's situation is even more worrying and scandalous than the above diagram suggests. The leverage ratio of Europe's biggest bank that appears to be 2.7% (or 1/37) is really only 1.6%Â (1/62)! [46] This implies that if the Deutsche Bank were to register a Â«Â minorÂ Â» loss of 10 billion â‚¬ out of its 2000 billion â‚¬ of assets, it would be on the verge of bankruptcy; if the loss was 32.2 billion, all its capital would be swallowed up! In the same article, the Financial Times claims that the UBS's ratio (the major Swiss bank) would come to 2.5%, that of the Société Générale (France) 2.8%, and that of Barclays (the United Kingdom) 2.5%. [47]

Basel III will not introduce true financial discipline

The general principles of Basel III were adopted in 2010 and are to become effective worldwide as of 2018 or 2019, they include only one significant change: instead of the 2% hard capital demanded by Basel II, banks will have to put up 4.5% of hard capital [48]. To this will be added a further 3.5% of assets that will be loosely calculated to reach the 8% previously required by Basel I and 2.

However the fundamental fact to remember is that assets will continue to be calculated according to the risk they present. This completely invalidates all claims about Basel III providing solutions to the banking crisis. Clearly, the requirement of 4.5% hard capital in proportion to risk-weighted assets is a joke, opening up endless possibilities for cooking the books.

A study carried out by the Basel Committee in 2012-2013 concluded that the same type of assets may be risk-weighted within a range of 1 to 8 depending on the bank. Bank X may estimate that it needs only 1/ 8 the capital that Bank Y considers necessary to cushion the risk on interest rates in a given portfolio of derivatives. Out of 15 major banks in 9 different countries, the average variable of difference is from 1 to 3, all assets included [49]. A Barclays bank study shows that risk-weighting is used by banks to reduce required equity to a minimum. Barclays reports that 20 years ago banks considered that weighted assets represented on average 53 % of their total assets, whereas in 2012, they represented only 32% [50]. The European Banking Authority (EBA), has published a study showing that half of the risk-weightings calculated by banks are not based on any objective factors. The study was carried out using the accounts presented by 89 banks from 16 EU states. It also shows differences of 70% in the evaluation of the same type of risk from one bank to another [51].

Nevertheless, the Basel Committee ignores the evidence and maintains the present system of risk-weighting. Even though certain other official bodies, such as the OECD, have begun to produce documents in favour of abandoning the risk-weighting of assets. In a recently published OECD report, the authors propose counting assets without weighting them for risk, in order to obtain a reliable equity/assets ratio [52].

Furthermore, several regulators recognize this. Andrew Haldane, director of the Department of Financial Stability at the Bank of England, affirms that the increase in the ratio of equity to the banks' balance-sheets which is to be generalised as of 2018-2019 is totally inadequate and unlikely to diminish the risks and effects of bankruptcy. Thomas Hoenig, of the US Federal Deposit Insurance Corporation, an institution created during the Roosevelt presidency to regulate the banking system, also considers that the level of equity to be required from 2018-2019 needs to be multiplied by at least three [53].

Like the author of the OECD report cited above, Andrew Haldane and Thomas Hoenig are in favour of abandoning risk-weighting in the calculation of assets and wish to see an absolute ratio (i.e. with no weighting) between equity and assets. Dan Tarullo, one of the governors of the Federal Reserve, has declared that an equity/non risk-weighted assets ratio fixed at 3% (as decided by the Basel Committee) is insufficient. The US authorities intend to impose a ratio of 5% on their biggest banks, which goes to show that the Basel Committee's decision , within the framework of Basel III, to fix a ratio of 3% [54] really is minimalist. Let us also bear in mind that the Vickers Commission, charged by the British Government in 2011 with making recommendations to answer the banking crisis, suggested a ratio of 4%. The British prime minister found this too restrictive. Last but not least, the Financial Times blazoned an editorial on the subject, proposing a 6% ratio [55].

Conclusions

From the beginning of the 1980s the private banking sector has unshackled itself from the restrictions imposed and maintained following the 1930 banking crisis. The regulatory authorities and the governments, henchmen to neoliberalism, have slackened the reins and the banks have made the most of it, taking their revenge on the social achievements won by popular struggles as they went. The current crisis, which began in 2007-2008, has not pressed the authorities and regulators into establishing real control over private capital. The measures taken to put a resemblance of order back into the financial sector are totally insufficient to avoid new crises and incapable of restraining unbridled profit-seeking.

There must be complete and radical rupture with these methods, which put the burden of saving the banks onto the shoulders of their victims. It is time to finish with the reasoning whereby this system offers impunity and golden parachutes to those who create chaos. The governments are at the beck and call of the big banks and put the administrations at their service; there is an ongoing relationship of complicity. The number of ministers of finance or prime ministers who come directly from the banking sector and return to it afterwards has continually increased since 2008.

The newly announced measures of Bank control are no more than cosmetic, they are purely and simply a cover-up. Strict and unavoidable rules and regulations must be imposed that reach well beyond those of Basel III, in particular. But frankly this crisis should motivate measures that touch the very structure of the financial and capitalist systems.

Banking is too serious a matter to be left in the hands of private bankers, it must be socialised (this implies expropriation) and put under the control of the population (bank employees, customers, associations and public services), it must be subjected to public service rules [56] and its returns be used for the common good.

Public debt taken on to bail out the banks is definitely illegitimate and must be repudiated. A citizens' audit must determine which other debts are illegitimate or illegal and allow an anti-capitalist alternative to take shape and mobilise

These two measures must be included in a larger programme [57].

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[1] Parts 1-3 appear at Banks versus the People: The Underside of a Rigged Game! and Parts 4-5 at More Banks versus the People

[2] Wolfgang Münchau, "Heed the siren voices to end fixation with austerity", Financial Times, 15 October 2012

[3] Financial Times, "German minister rebukes IMF head. Schaüble criticises Lagarde call to ease up on austerity", 12 October 2012.

[4] Wolfgang Münchau, "Heed the siren voices to end fixation with austerity", *Financial Times,* 15 October 2012

[5] Martin Wolf, "Lessons from history on public debt", Financial Times, 09.10.2012, http://www.ft.com/cms/s/0/e26e46ae-1138-11e2-8d5f-00144feabdc0.html#axzz2NJgt4l1b

[6] See Eric Toussaint, "The greatest offensive against European social rights since the Second World War", Part 3 in the series Banks versus the People: the underside of a rigged game!, published on 12 January 2012, http://cadtm.org/The-greatest-offensive-against also appears at end of

[7] Alan Greenspan, The Age of Turbulences, Penguin press, New York, 2007, 2007, p. 529.

[8] Idem

[9] Idem, p. 530

[10] Speech by Nicolas Sarkozy, 25 September 2008 in Toulon (mentioned by Eric Toussaint et Damien Millet, AAA. Audit Annulation Autre politique, Seuil, 2012, p. 34)

[11] Source: Regulation (EU) NoÂ 236/2012 of the European Parliament and of the Council of 14Â March 2012 on short selling and certain aspects of credit default swaps Text with EEA relevance http://eur-lex.europa.eu/LexUriServ... As the title indicates short selling is also considered. Short selling is the sale of a stock that we do not hold at the moment, but intend to buy later to balance the end of the account. The regulations contain numerous exceptions that will permit the practise to continue. See also :

[12] . See Daniel Munevar, "Un pequeÃ±o recordatorio de parte de JPÂ : La importancia de la Volcker Rule", 25 May 2012 (in Spanish only), http://cadtm.org/Un-pequeno-recorda...

[13] See Matt TaÃ¯bbi, "How Wall Street Killed Financial Reform", Rolling Stone, 10 May 2012,http://www.rollingstone.com/politic... See also Les Echos, "La réforme de Wall Street reste aux deux tiers inachevée" (in French), 12 December 2012, p. 28

[14] . See Erkki Liikanen (chairperson), High-level Expert Group on reforming the structure of the EU banking sector, October 2012, Brussels. Erkki Liikanen is governor of the Finnish central Bank. At the initiative of Michel Barnier, eleven experts formed a work group to diagnose the situation of European banks and to propose reforms to the European banking sector. One of the interesting points of the Liikanen report is its official confirmation of the depravity of the banks, the staggering risks taken to make maximum profit. The group was created in February 2012, and delivered its report in October 2012. See: http://ec.europa.eu/internal_market/bank/docs/high-level_expert_group/report_en.pdf The data concerning the day-to-day financing needs is found in chart 2.5.1, p.27. This document will hereafter be called the Liikanen report.

[15] See complete text: http://www.assemblee-nationale.fr/1...

[16] See the excellent critic by GaÃ«l Giraud of the proposed banking reform act in France and on the Dodd Franck, Vickers et Liikanen reports: http://www.lavie.fr/www/files/medias/pdf/gael-giraud-note-separation-bancaire.pdf GaÃ«l Giraud shows that the propositions are more favourable to the status quo and so to the banks than the recommendations made by the commissions.

[17] Challenges, Â«La cloison bancaire est bien fragileÂ», 11 octobre 2012, p. 28 See alsoÂ : "I fear that under the pressure of the bankers too much trading will become exempted from separation measures. Martin Wolf in Financial Times "Liikanen is at least a step forward for EU banks", 4 October 2012

[18] *Financial Times*, "Nordea chief takes a swipe at Liikanen", 30 October 2012

[19] . Remarks taken from Andrew Haldane and Thomas Hoenig in: Financial Times, "Warnings over steps to reform biggest banks", 28-29 October 2012, p. 3

[20] The Basel committee unites the central bankers of the G20 countries under the auspices of the Bank for International Settlements at Basel (BIS). It has four principal missions: the reinforcement of the security and reliability of the financial system, the establishment of minimum standards in the prudential control of banks, the promotion and development of better banking practices and the promotion and cooperation in matters of international prudential control

[21] The Economist, "Bank liquidity. Go with the Flow. Global regulators soften their stance on liquidity", 12 January 2013, p. 60.

[22] *Financial Times*, "Brussels retreat on key bank reform", 30 January 2013.

[23] See Patrick Saurin, "Socialiser le système bancaire" (in French), 2 February 2013, http://cadtm.org/Socialiser-le-systeme-bancaire

[24] The author would like to thank Aline Fares for her generous advice and for the assistance she provided in doing the research. I would also like to thank Damien Millet for proofreading this text and Pierre Gottiniaux for the computer graphics. The author takes full responsibility for the

opinions expressed

[25] In general, the term “assets” represents a commodity that has a realisable value or that can generate income. Meanwhile, “liabilities” are the part of the balance sheet made up of a company’s resources (the capital put up by the partners, provisions for liabilities, and any debt). See: http://www.banque-info.com/lexique-bancaire/a/ (in French).

[26] Source: Banque de France

[27] This is the capital a company holds, besides what it has borrowed. Equity falls under the liabilities on a company’s balance sheet. Source: http://www.lesclesdelabanque.fr/Web.... Equity also includes reserves, that is the profits that were not distributed and kept in the reserve fund.

[28] IMF, Global Financial Stability Report, Restoring Confidence and Progressing on Reforms, October 2012, http://www.imf.org/External/Pubs/FT..., p. 82.

[29] More than half of worldwide bank assets are in the hands of EU banks. Of course, if we include the Swiss banks that percentage is even higher.

[30] These firgures are from the Liikanen Report (see below). See also: Damien Millet, Daniel Munevar, Eric Toussaint, 2012 World Debt Figures, table 30, p. 23, which give data that agrees from another source.

[31] The situation may vary from one country to another: in some countries, bank assets have shrunk, which has been counterbalanced by expanding assets in others

[32] In Ireland, in 2011, banks assets represented 8 times the country’s GDP. In Cyprus, in early 2013, banks assets represented 9 times its GDP. In the United Kingdom, they were worth 11 times the GDP. Finally, in the Grand Duchy of Luxembourg, bank assests represented 29 times the GDP

[33] Liikanen Report, High-level Expert Group on reforming the structure of the EU banking sector, October 2012, table 3.4.1., p. 39

[34] Here is a quick reminder of the role of leveraging in the collapse of Northern Rock in the United Kingdom. Northern Rock was originally a building society, which changed its legal structure in 1997 and adopted an aggressive strategy in the real estate sector. Between 1997 and its collapse in 2007, it grew by 23% per year to become the 5th largest British mortgage bank, with 90% of its loans concentrated in the real estate sector. To finance its development, it marginalised customer deposits as a means of financing its operations, and instead started relying on short-term borrowing. It optimised its leveraging capacity, which exceeded the 1 to 90 ratio. The bank was nationalised in February 2008 with funds from the public treasury and taxpayers.

[35] This can be loans or financial instruments. It can also be structured CDO products that were rated AAA to AA- prior to the crisis that erupted in 2007-2008

[36] This table was compiled from documents adopted by the Basel Committee: see Basel 2 version 2004: http://www.bis.org/publ/bcbs107.pdf#page=1&zoom=auto,0,849; see Basel 2 version revised in 2006: http://www.bis.org/publ/bcbs128.pdf . Regarding risk weighting, see page 20 on

[37] Alan Greenspan chaired the Fed from 11 August 1987 to 31 January 2006

[38] BIS, â€˜Basel III: A global regulatory framework for more resilient banks and banking systems’, December 2010 (revised June 2011) http://www.bis.org/publ/bcbs189_dec2010.htm

[39] See the 2006 revision of Basel II: Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework http://www.bis.org/publ/bcbs118.htm p. 12 to 19

[40] See http://www.dexia.com/EN/shareholder_investor/individual_shareholders/publications/Documents/annual_report_2008_UK.pdf, pp. 128-29.

[41] See http://www.dexia.com/EN/shareholder_investor/individual_shareholders/publications/Documents/RA_2012_EN.pdf, p. 78.

[42] See Basel 2 2006 revision: http://www.bis.org/publ/bcbs128fre.pdf, page 33 (paragraphs 50-51).

[43] These can be loans to banks or corporates, or securities (for instance bonds issued by banks or firms).

[44] These 90 banks represented 65% of European bank assets. See (in French): http://www.lesechos.fr/entreprises-secteurs/finance-marches/dossier/0201290575344-stress-tests-bancaires-un-nouveau-round-en-pleine-crise-de-la-dette-131527.php By the way, the two Cyprus banks at the heart of the crisis in March 2013 had also passed the test without any problem. Of those 90 banks, 59 (namely the biggest ones) had used their internal risk-rating approach

[45] This paragraph is about equity compared with assets. For Barclays and Deutsche Bank, see the Liikanen report, figures 3.4.18 et 3.4.19.

[46] See Financial Times, “Banks feeling bruised by new capital ratios”, 5 July 2013, p. 15. The FT’s calculation refers to the 4th quarter of 2012. This is the “ratio of adjusted tangible equity to adjusted tangible assets.”

[47] In Â«Â Solvabilité réelle des banques systémiques mondialesÂ Â», Olivier Berruyer compares the leverage effect of the 28 banks considered as systemic by the G20, See (in French only) http://www.les-crises.fr/solvabilite-banques-systemiques/

[48] For a more favourable presentation of Basel III, see Finance WatchÂ : Â«Â Basel III in 5 questionsÂ Â», May 2012 http://www.Finance-Watch.org/.../_Basel-3-in-5-questions.pdf For the EU, certain elements of Basel III are to be implemented in 2014. The accord still has to be finalised, despite the fact that the European Parliament adopted the reform of banking prudential rules CRD IV-CRR on 16 April 2013. See http://www.europarl.europa.eu/news/en/pressroom/content/20130416IPR07333/html/Parliament-votes-reform-package-to-strengthen-EU-banks Note that the bank Natixis has synthesized Basel III and the reform of banking prudential rules CRD IV-CRR: http://cib.natixis.com/flushdoc.aspx?id=70138. Finance Watch has also produced a position paper on the subjectÂ : http://www.finance-watch.org/press/press-releases/505.

[49] See Brooke Masters and Patrick Jenkins, Â«Â Risk models fuel fears for bank safetyÂ Â», *Financial Times,* 1 February 2013. See also a paper published by Finance Watch in the context of an audition at the BundestagÂ : see graph p. 5 http://www.financewatch.org/ifile/Publications/Hearings,%20speeches,%20presentations/20130507_Bundestag_StatementCRDIV.pdf.

[50] See the Financial Times, 1 February 2013

[51] Brooke Masters, Â«Â Bank risk weightings in spotlight after EBA uncovers discrepanciesÂ Â», Financial Times, 27 February 2013.

[52] OECD, “Business models of banks, leverage and the distance-to-default”, January 2013, http://www.oecd.org/finance/BanksBusinessModels.pdf

[53] The summary of remarks by Andrew Haldane and Thomas Hoenig is based on : Financial Times, “Warnings over steps to reform biggest banks”, 28-29 October 2012, p. 3.

[54] According to the *Financial Times*, in early July the Basel Committee decided to give the banks until 2015 to reach the ratio of 3%. See the Financial Times, “Basel fuels bank safety metric fearsÂ Â», 5-6 July 2013

[55] FT, Â«Â In praise of bank leverage ratiosÂ Â», 11 July 2013, p. 8. “ … there is a strong case for complementing the risk weighted metric with a blunter tool/ a leverage ratio, limiting how many assets can accumulate on given equity, regardless of the perceived risk. (…) the leverage ratio should be tough enough to bite. A threshold that is twice as high as the one agreed in Basel would not be a scandal”.

[56] Banking should be entirely public sector, eventually integrating a small cooperative element with which it would coexist and collaborate.

[57] See Damien Millet and Eric Toussaint, “Europe: What emergency programme for the crisis?“ http://cadtm.org/Europe-What-emergency-programme, published on 1 July 2012