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Save the banks, not the bankers

One of the biggest fire brigade operations in the history of the international financial markets is now taking place: The central banks are flooding the capital markets. A country which doesn't have a red cent to pay for health insurance for the children of the poor is pumping US$ 700 billion into saving finance market capitalism. Estimates by the IMF put the worldwide cost of the crisis at a probable US$ 1,400,000,000,000 (1.4 trillion).

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In the meantime the crisis has reached Europe. At full blast. The stock exchanges are tumbling, banks and insurance companies have been left reeling. Even Josef Ackermann is calling for the state now: A European emergency aid plan is supposed to save bankers and shareholders at home. In secret midnight meetings, European governments agreed on packages to assist and rescue the financial world. Now banks are being nationalised. And taxpayers are having to pledge sums of money which would be enough to overcome poverty on the old continent completely.

Little Ireland alone has to put up EUR 400 billion for its banks. Iceland is faced with national bankruptcy. German banks also dealt enthusiastically in the toxic waste of the US mortgage market. The German state banks, IKB and Hypo Real Estate are probably only at the beginning of a whole series of threatened bankruptcies. A lot of people gambled. Until very recently Ackermann & Co and their speculative dealings were still producing fantastic profits. Now German taxpayers are footing the bill.

The financial crisis is spreading ever more widely: Soon the debt pyramids of the hedge funds and private equity funds will collapse. A

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number of small and medium-sized businesses risk being buried under the rubble. The banks' own capital is melting away. It is no longer sufficient to cover all the losses. As a result, none of the banks trusts the others any more. They are refusing to give loans to one another. The money markets have collapsed. Money is short, and has become very expensive. Too short and too expensive. Even healthy companies are finding it harder and harder to get loans or can only get them at excessively high interest rates. The increasing cost of finance is putting a brake on investment. Private consumption too is being cut back. In uncertain times, consumers are counting the cost of their euros before spending them. With negative effects on growth and employment.

The politicians and central bankers have acted. There is no alternative to the current rescue measures. If nothing is done, a chain reaction will follow and the entire economic cycle will collapse. But the principle of "We'll only help you if you help us" must apply. Public money can only be supplied in exchange for ownership rights and direct influence on business policy. We must save the banks that we need for the economy to function, but not the gambling bankers and shareholders. The case of Hypo Real Estate is a classic example of how not to do it. Now taxpayers have put up a total of EUR 26.5 billion. But the finance institute still belongs to the shareholders.

The tremors of the current earthquake were felt a long time ago. Speculative bubbles don't come out of nowhere. Well before the latest crisis, assets were being amassed in huge quantities. Thanks to a worldwide redistribution policy from the poor to the rich. Tax cuts for the wealthy and the part- privatisation of the social security systems smoothed the path. In Germany too, income from profits and investments has been rising since 2000 almost seven times more than wages and salaries. Financial assets in Germany have trebled since the beginning of the 1990s. The flood of liquidity which emerged produced great pressure for it to be invested.

Asset managers are competing for the capital in circulation with promises of high returns. But safe investments are not ten a penny. As a result, speculation rears its ugly head. So cocktails of allegedly safe investments, not quite so safe investments and "radioactive waste" were mixed together. What emerged was a stew whose contents no one could identify, except those who were making good money out of it. Speculative bubbles grow particularly well in a climate where there is no transparency and excessive opportunities to get into debt. A regulatory framework full of holes and supervisory agencies which were asleep encouraged such a climate.

The myth of market self-regulation has been well and truly brought down to earth. Now is the time to learn lessons from the crisis. Redistribution from the poor to the rich must stop. The chronic failure of the market must be prevented in future by a better regulatory framework. And the losses of actors in the financial markets must not be taken into public ownership. In the best free market traditions, the first thing to do is to work out who and what are responsible.

If speculative losses are paid for by the public, this will motivate the acrobats of the financial markets to continue taking risks. Therefore the European financial market sector in future must pay out of its own pocket for an organisation to be jointly liable for its losses. One model for such a European Stability and Security Fund could be the emergency fund currently being set up by major banks like JP Morgan, Goldman Sachs, UBS & Co. Such a fund would come to the aid of those banks threatened by liquidity problems. In this way the banks would take on liability for their own conduct, not the taxpayers of Europe. An institution like that disciplines the actors on the financial markets.

In addition, the financial world must pay for the rescue measures. A European tax on financial transactions should in future be levied on all purchases of stocks and shares and foreign currency, at 0.01 %.The only exception should be for new share issues. A tax of this kind makes speculation more expensive and plugs some of the holes in the budget resulting from the crisis.

But individual liability must also be regulated differently too. There must no longer be any scope for contracts which allow managers to gamble away millions and then have a soft landing based on fully comprehensive insurance cover. At very least, they must make a personal contribution to compensate for some of the damage which they themselves have caused, amounting to a year's salary.

As well as solving open questions of liability, a regulatory framework is needed which works better in a preventive way. Better bank regulation can restrict the lax provision of loans. The swamp of shadowy banks must be dried up: Special purpose entities must be listed in bank balance sheets again. Credit derivatives should only be traded in regulated futures markets. We need an "MOT test" for financial market products. These must in future be standardised, tested and only then permitted.

Credit risks must no longer be passed on in full by the banks to third parties. The banks must in future carry at least 30 % of the risks on their books. Loans to hedge funds and private equity funds must also be based on more of the bank's own capital in the future. To this end, we need a higher risk weighting of these loans within the Basel II framework.

Early warning systems must be thoroughly modernised. An international credit register would make the financial system more transparent. This "Credit Protection Agency for the Banks" will help us to recognise an accumulation of risks in good time. Rating agencies should be subjected to a state licensing procedure and public quality control. A European publicly-run rating agency would be even better.

These reforms will not prevent new bubbles from emerging. But we will reduce the frequency and check the growth of speculative bubbles. This would stabilise the financial system and thus also the real economy. That is reason enough to act now. But the central problem of the liquidity flood can only be solved by a different distribution policy. This requires a change of course in fiscal, economic and social policy, but above all it also means higher wages. The German Metalworkers Union, IG Metall, now has the right answer to this problem.

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