

# **A Review: Eric Toussaint's "Bankocracy" - On the financial crisis of 2007/8**

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**Pete Green, Left Unity Economic Policy Commission convenor, reviews *Bankocracy* by Eric Toussaint, just published by Resistance Books and IIRE.**

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As I was preparing this review a couple of items in the news caught my eye. One was that George Osborne in Brussels was arguing for a reduction in the regulatory burden on the City of London which he claimed was damaging the ability of financial institutions to promote economic growth.

The other was that despite wrecking one of Britain's largest banks HBOS back in 2008 and despite a new report exposing their role, none of the three former top executives would even be fined because a six-year statute of limitations ran out last year. HBOS, itself the result of a disastrous merger of the Bank of Scotland with the Halifax, was taken over by Lloyds which shortly after also had to be rescued with a government bail-out of £20 billion.

Neither of these items would have come as any surprise to the author of *Bankocracy*, a book which is replete with comparable examples from across the EU and the USA. Eric Toussaint is perhaps best known to readers in Britain for a series of exceptionally useful primers on issues relating to the IMF, the World Bank and the debts of "developing" economies and as a leading figure in the Brussels based Committee for the Abolition of Third World debt. More recently he acted as coordinator of the Truth Committee on the Greek Public Debt set up by the Greek Parliament. *Bankocracy* first appeared in French in 2014 although the English edition contains a brief postscript which refers to Syriza's failure to take up any of the proposals of the Truth Committee. It also provides a sharp dissection of the way the European Central Bank's priorities since its creation have been the protection of the interests of European banks and the richest 1% which remains very relevant to the unfolding disaster in Greece. Hopefully, Toussaint and his collaborators on the report will soon provide a more detailed examination of recent events across the Eurozone.

In the meantime the translation of *Bankocracy* into English is very welcome. This is not another book retelling the narrative of the financial crisis of 2007/8 in great detail. The opening chapter "2007-8: The explosion of private debt" summarises the critical issue in a dozen pages. The speculative bubble in the US housing market which burst in 2007 had such calamitous consequences internationally because of the build-up over previous decades of high levels of private debt among households and within the financial sector itself. The debts of governments in most countries only rose significantly as a result of the crisis and the bail-outs of the banks themselves.

Toussaint does not explore the broader theoretical debate among economists about the relationship of financialisation to crises in general although there is a brief nod to the work of Marxists such as Chesnais and Husson in France, and Lapavistas and Onaran in Britain, on such issues. Rather his

focus is very much on the specific contribution of the banking system to the crisis and the costs and consequences of those bail-outs. He shows in detail how the largest banks across Europe in particular have, with state support and infusions of billions of cheap central bank money, not just survived the crisis but seen their profits restored at the expense of the vast majority.

One particular strength of the book is the clarity of its explanations of a wide variety of complex terms and institutional practices within the financial sector which many people find mystifying. If you want to understand what's meant by shadow banking, credit-default swaps, leverage, and securitisation, or the consequences of the Basel 2 (and the new Basel 3) Accords on capital-asset ratios for the banks internationally - this is the book for you (although for a less obviously radical but frequently amusing and more wide-ranging lexicon I'd also recommend John Lanchester's *How to Speak Money*).

Another strength is that the book exposes banking criminality and scandals as much more pervasive than a few 'bad apples' to use the old cliché. As a consequence of successive waves of deregulation of the banking system since the early 1970s all manner of swindling and dubious practices became rampant across the whole of the financial sector. The involvement of HSBC in tax evasion and drug money laundering is one example Toussaint explores in detail but there are many others. As he reveals it's not just that the big banks are 'too big to fail'. Major banks and bankers (with the occasional exception of a junior trader caught fiddling his accounts) are as he puts it 'too big to jail'. "Banksters" is one term he doesn't use but a reading of his book soon reveals how apposite it is.

There is too much material here to summarise adequately but three more themes are worth noting in brief. One is how banks in the wake of the subprime housing market collapse switched into speculation on the commodity markets driving up the prices of raw materials and agricultural produce to record highs in 2007-8 and once again in 2010. JP Morgan Chase and Goldman Sachs together came to own more metal storage warehouses than Glencore the world's largest mining company. The point was to hold commodities off the market in order to drive prices up further. It's worth adding that in 2015 as the banks offloaded their stocks they helped to drive prices down again rapidly, inflicting serious damage on the exporting economies.

Another related theme concerns the consequences of what's known as Quantitative Easing or QE, essentially a process whereby central banks, especially the Federal Reserve, Bank of England and the ECB, have pumped huge quantities of new 'virtual' money into the banking system. Yet despite this, and unprecedentedly low interest-rates, bank lending for investment in the productive sectors of these economies remained weak. Instead the money helped fuel further speculative bubbles in property and stock-markets globally. Toussaint correctly predicted in 2014 that one or more of these bubbles was likely to burst with serious consequences for the global economy. What the ECB did succeed in doing in response to the Eurozone crisis in 2012 was to prevent another wave of banking collapses by issuing over a trillion euros in new 'liquidity'. But Greece of course was denied access to such funds after the election of Syriza.

The book concludes (apart from the new postscript) with a chapter on Alternatives. These are divided into various sections. The first is headed "Immediate measures for finance in general and banks in particular" and contains a list of 18 concrete measures approved by the CADTM. These include radically reducing the size of banks, restoring the former split between commercial and investment banking, prohibiting derivatives and various types of speculation. The second section provides arguments for a comprehensive socialisation under popular control of the financial sector. Others refer to ending austerity and debt audits such as those undertaken by Toussaint and the CADTM in Latin America and now Greece.

There is little here with which I would disagree. I would question whether the division between

immediate measures and the socialisation of the biggest banks could ever be sustained in practice. As we have seen in Greece even where banks are supposedly 'publicly owned' they can still engage in the same dubious practices such as facilitating capital flight and tax evasion as their private competitors. Toussaint's conclusion, that left-wing governments must really get to grips with these issues if they are to deliver any significant improvements for the vast majority, is certainly correct.

**Pete Green**

*Bankocracy* by Eric Toussaint, 334pages, £15.

To order a copy of *Bankocracy*, visit [www.resistancebooks.org](http://www.resistancebooks.org)

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\* <http://socialistresistance.org/7887/bankocracy-a-review>