Banks go too far from home

The RBS disaster also illustrates another dimension of today's capitalism. As Lord Turner, chairman of the UK Financial Services Authority, declared, banks have grown "*beyond a socially reasonable size*."[22] Moreover, because of their obsession with size and their me-tooism (see other chapters), many, if not most of the banks have now moved far from their local origins and branches. These are now replaced with ATMs and faceless online operations. The financial sector has also moved from its traditional core business (deposits and loans, remember these basics?) and, simultaneously or subsequently, from its balance sheets. According to New York University professor Nouriel Roubini, half of the estimated $3,600 billion losses on U.S.-generated assets having resulted from the financial crisis have been incurred abroad![23] Ireland is another case in point. In 2010, the net exposure of banks to central and local government debt showed the German Hypo Real Estate as most exposed (€10.3 billion), followed by RBS (4.2 billion), Allied Irish Bank, Bank of Ireland, as well as Crédit Agricole and BNP Paribas (both from France), Danske Bank (Denmark), et al.[24]

20 See e.g. "*19 Facts About The Deindustrialization of America That Will Make You Weep*" by Michael Snyder (September 27, 2010) on www.businessinsider.com. Centrist candidate François Bayrou made it a key theme in the French 2012 presidential campaign, and it was endorsed by the main contenders.

21 Read my blog post on the subject matter on Lib Dem Voice: "*From shipyards to wind turbines –Britain needs BETS*" (www.libdemvoice.org, February 15, 2010).

22 Read e.g. "*FSA chairman Lord Turner sparks debate on tougher punishments for bailout bankers*" (The Independent, December 13, 2011).

23 Source: www.rgemonitor.com (February 2009). It can go both ways: end-February 2009, the Dutch ING weighed up the possibility of applying for U.S. bailout funds because of the importance of operations in the country.

24 "*Ireland debt crisis: European banks' exposure*" (Daily Telegraph, November 15, 2010). See also: "*Goldman Sachs publishes list of banks exposed to PIIGS*" on www.investmenteurope.net (July 14, 2011).

What are the real economic benefits of having all those banks operating in Dublin?

Why did Dexia, a Belgian-French bank (still ranked 49th in Fortune Global 500 in 2010) having specialized in financing public institutions and municipalities announced a €3.3 billion loss in February 2009, and another €11.6 billion loss three years later? Mostly because the financial group had moved too far from its shores instead of staying focused on its core business (some “communes” and “municipalities” in France and Belgium badly need infrastructure and social projects). Fiscal year 2008 losses were attributable to the sale of the U.S. FSA (acquired in 2000 and in which millions were still injected a few months prior to the sale due to subprime mortgage-related affairs), and other counterparty operations involving Lehman Brothers and… Icelandic banks (here we are again). Year 2011 losses still owed to the aftermath of the previous U.S. crisis, with Greece-related loans coming on top. What a waste of money! Imagine what could have been done for local and regional economies in the U.S., Belgium, France and elsewhere with just a small portion of those amounts! Fortunately, not all the banks follow the same money flows, but the exceptions are a rare species. Yet naturally not totally immune – who can be in this globalized economy? – the relative stability or even good performance of Canadian and Swedish banks amid the latest financial turmoil may be explained by at least four factors: more conservative management, more effective regulatory schemes, more on-balance-sheet activity, and more locally driven operations, with more calculated risks abroad. In other words, not going far for the sake of it.[25]

When everything is too far and out of reach, one should not be surprised to fall victim to distant events. Apparently,

25 A higher degree of disclosure and reporting transparency should be added as a plus point for Canadian banks. Check the sustained annual report rating and ranking of top Canadian banks BMO, Scotiabank, CIBC, RBC, Toronto-Dominion in the “*Annual Report on Annual Reports*” on www.reportwatch.net.

analysts, economists, media and politicians have short memories: think back to the long Japan's depression, 1987's "Black Monday" (Dow Jones' largest one-day fall), the 1997 Asian turmoil, the burst of the "Internet Bubble", Argentina's crying, etc.[26] In most cases, the crises were made worse due to incoming and outgoing international capital flows that inflated and then destabilized local economies. By the way, with the exception of Joseph Stiglitz, Naomi Klein and a few others, not that many commentators (and certainly not IMF ones) mention that some Asian economies, e.g. Malaysia and Thailand, recovered more quickly from the late-1990s financial crisis thanks to the role of public initiatives, the insulation of some parts of their economies, and more protected financial sectors. Speak softly, or you are labeled a protectionist! What else than "protecting" national – and banking – interests have most governments in Japan, Asia, America, Europe done in the latest financial crises? Do as I say…

26 The mix of country and corporate crises could be traced in CDS (credit default swaps) well before the Eurozone crisis: a top five of credit derivatives outstanding published in the Flemish business daily De Tijd (November 6, 2008) was showing Italy as riskiest, followed by Spain, Deutsche Bank, Brazil, and General Electric Capital. At that time, Greece was not yet at the top of the list…