

Make Banks Bear the Moral Hazard, but Not Yet

We all laugh at horoscopes and the people who read them, but I am not sure the financial pages of our newspapers (or the people who read them) are much better. Had I, for example, never read a single article in them, not only would I have been none the poorer, but I suspect I would have been none the less wise (or foolish).

Idly casting my eyes over a recent [article in the financial pages](#) of the *Daily Telegraph* about another banking apocalypse to come, I came across this comforting thought: “In a crisis no one is thinking clearly.”

This certainly applies to me, because I can't make up my mind about banks. Neither can anyone else from the looks of it. Recently on the BBC financial webpage, we read: “ ‘[Rock Solid Deutsche Bank Shares Slide 5%](#),” while shortly thereafter we read: “Deutsche Bank Shares Soar 11% on Bond Buyback.” I have known evener amusement park rides.

Yesterday everyone was sure the Deutsche Bank was as good as finished, the main reason for this belief being that its chief executive said it was “rock solid” and was backed up in that assessment by the German Finance Minister, Herr Schäuble. This is evidence in itself of the esteem and trust that our business and political leaders enjoy, and of their reputation for probity and truth-telling. However, fairness demands that I point out that shares in Deutsche Bank have declined by 40 per cent since the beginning of the year, so that a further 5 per cent decline is but an *amuse-gueule*, to use a gastronomical metaphor. Moreover, the shares of some other banks, in Italy for example, have declined further. In the estimate of investors, banks everywhere are once more in trouble.

The news of the Deutsche Bank's travails was greeted with glee in Greece, at least if social media posts are a true gauge of the public mood. "Our thoughts are with the bank in these difficult times," said one. Another showed a photo of empty supermarket shelves and claimed they were the result of financial panic in Germany (actually, the shot was of a supermarket in the Bolivarian Republic of Venezuela). I do not think you would have to be a complete and uncritical admirer of Freudian psychology to see in the posting of this photograph an element of wish-fulfilment. As believers in the European Project (whatever it is) ceaselessly tell us, the European Union is the guarantor of peace and goodwill in Europe.

But to return to the banks. The Greeks, of course, believe that they have been sacrificed on the altar of bank bailout, and that they themselves, as a nation and as individuals, are as innocent of their predicament as, say, an amoeba in a drop of water. And it is certainly true that, having lived high on the hog (or higher than they would otherwise have lived) on foolishly lent money, they now find the fools who lent them it are insisting on repayment—or at least some minimally plausible simulacrum of repayment—so they can pretend that their money is not lost and thus stave off bankruptcy.

The Greeks are not the banks' only detractors, of course. The banks and their senior staff are looked upon with disfavor all over the Western world, as being greedy, predatory, and parasitic. The rise of Bernie Sanders must surely be in part attributable to the conduct of the banks and their senior staff. The enormous salaries and bonuses these men and women receive, many times more in a year than the average or median person earns in a lifetime, excite rage and envy. Nor are the recipients true entrepreneurs. If they take risks, it is not with their own money, the type of risk-taking that could justify fantastic returns (though probably not even then in the mind of Bernie Sanders).

The bankers not only did not pay for the collapse of their institutions eight years ago, but after they were rescued, huge salaries and bonuses continued to be paid to them as if nothing much had happened and no one was at fault. The episode seemed to have abrogated a whole theory of capitalism that the successful thrive and failures go to the wall. The banks' having become so prepotent, so essential to everyone's lives, they had in effect the power of blackmail over governments and peoples.

In my own little way, I am not fond of my banks. Their charges have increased greatly, sometimes to what seem to me outrageous levels. I am charged for depositing money as well as for withdrawing it. The excuse is that, with interest rates close to zero, they have to find alternative ways of making a profit. But there is still surely a margin between the rate at which they borrow and at which they lend? The services they offer are so close to identical that one suspects a cartel. I suppose they might retort that it is the banking equivalent of convergent evolution, according to which animals of totally different genetic descent evolve similarities in response to similar environmental pressures, without any prior plans to become similar.

But no misgivings about the banks or the misconduct of their upper echelons is sufficient to make me look forward to a banking apocalypse, with all of them teetering over in the manner that Southeast Asian countries were once feared to go communist in the days of the so-called domino theory, any more than I want whole governments to collapse because they are rotten and self-serving. Hatred or its little brother, exasperation, are no guide to policy.

In Europe the banks are hated but not those responsible for cobbling together the Euro, which in fact brought about the crisis in Greece, Spain, Portugal and Ireland. The banks are merely the most visible symbols of what happened. The article in the conservative *Daily Telegraph* suggested (despite the

fact that no one in a crisis thinks clearly) that the next time around, assuming that there will be a next time round, the banks should be allowed to fold because of the moral hazard of not allowing them to fold.

Where the banks are concerned, I am a little like Augustine and chastity. Lord, make them bear the moral hazard—but not just yet.

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