Italian banks 3CR 6 August 2016

Here we go again looking for next pressure point in the implosion of capital that has been underway since at least 2007.

We could look at the Indian banking system, or at the Japanese.
Each has its own structural weaknesses which might not survive a real world stress test.
Or we could revert to the grand daddy of all disasters waiting to happen,
that is, the Chinese banks.
Instead, I want to focus on the Italian banks. The reason is not just because of their parlous condition.
No less important is what the failure to fix the problem tells us about where capitalism is headed.
And particular the fracturing of the European Union.

In April, I made the following suggestion: quote

> … if you want just one number to track, keep your eye on European bank stocks, in particular, the Italian banks. Several of them have been trading while insolvent.

Two months later, during June and July, the financial press couldn't take their eyes off the Italian banks.
The CEO of the second biggest French Bank fears that Italy could spur a bank crisis right across Europe.
And that means the rest of the world.
He's calling for taxpayers' funds to be used to shore up the Italian banks.
And he insists that that intervention has to be as swift as possible.

So what is the problem with Italy?

Let's start with some numbers.
Italian banks hold about $500 billion Australian in bad debts.
The national debt is 135 percent of the Gross Domestic Product.
Italy is still in the grip of the longest recession since the war.
Businesses and families can't pay their bills.
The country's largest lender has lost more than 60 per cent of its share market value this year.
That's the broad scenario.

In April, I wound up our session by suggesting that Italy probably wasn't going to go bust because the authorities were paying attention to it.
Well, I was half right – and half wrong.
Yes, the EU Commissioners and European Central Bank are indeed paying attention to Italy.
to assume that 'attention' would mean effective action to remedy the situation.
That is, the recapitalisation of the endangered banks.
What I got wrong was to forgot how competitive capitalism has to be.
Capitals fight each other.
Nation-Market-States conduct those fights.
What suits German capital does not suit Greek capitals or Italian capitals.
Let alone the working people of any of them.
See EU forcing labour-market deforms on France.

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One of the most vulnerable banks is based in Siena.
It got wiped out in a virtual-world stress test.

So why not stump up some taxes to bail out the bad banks?
EU rules about replacing bail-outs with bail-ins.
WOT DAT
Became binding on January 1 this year.
But 'binding' does not mean that the rules came into effect.
And 'binding' means different things for different countries in the EU.

The big German banks enforce a triple standard.
Screw the Greeks to get back the money that Frankfurt lent them before 2008.
Greece has to repay the German banks with compound interest.
Now, Italy is not allowed to bend the rules by bailing out its banks.
Meanwhile, Spain is allowed to run a budget deficit which violates EURO arrangements.
Why the difference?
Because Berlin-Frankfurt needed to get the conservative administration in Madrid returned on 26 June.

In addition, Frankfurt is worried about setting precedents.
If Italy can bend the rules and bail out its banks, Portugal will certainly do the same.
And who will be next?
How many more exits might follow Britains?

Yet another storm cloud looms.
The Italians will vote in a referendum in October to reduce the powers of their Senate.
The PM threatens to resign if defeated
So Italy faced not just a constitutional crisis, but a general crisis.
But also a political, economic, social and constitutional one.
Election of the Five Star movement as mayors in the major cities.

The German end is more complicated than merely serving the big banks.
The last six years have hit middle-income earners.
Few Germans own their own homes. Instead they save.
That worked well enough when interest rates ran ahead of inflation.
But with interest rates around or even below zero, the savers have lost money.
On average, German savers have lost $A3,000 since 2010.
So there's a lot of political anger in the ranks of the ruling party.

But that's not the end of the worries.
Most of the savings are with hundreds of small, local banks or credit unions.
They can't make money either if interest rates are below zero.
But nor can they afford to lend to small or medium businesses.

Germany's financial system won't collapse if these small institutions go to the wall.
But the political costs would be several times greater.
Like the small Italian banks, the capital in these 500 German saving institutions comes from trade unions, small and medium-sized local firms, mum-and pop investors.

In Australian terms, we're talking about the MEBank or the Bendigo Bank.
The far Right is already benefitting from these economic pressures on the better off.

Let me quote the recently retired head of the main research institute in Germany.
His name is Wolfgang Streeck. He's an old-style left Social Democrats:

> Europe is falling apart, destroyed by its most devoted fans, the Germans. In the summer of 2015, … Angela Merkel started a new game, aimed at diverting attention from the economic and political disaster that monetary union had become.

The single currency gives German exporters a huge advantage over the rest of the EURO zone.
I is the stick to beat the weaker economic partners into submission politically.

The coming eruption is more likely to happen at a stress point to which no one is paying much attention. The system is like a water-bed. Relieving pressure at one corner shifts one of the problems out of sight. It doesn't make any of them go away.

Remember that the root problem is not with the banks.
The problem is with capitalism.
Bank profits are their cut of the surplus-value added in the productive sectors.
You can't have capitalism without banks.
Why not?
No regime of credit, no capitalism. No banking institutions: no credit regime.

With the 150th of *Capital* in October next year we need to think about a series to introduce what Marx can tell us about today.

Unless something blows out of the water, next time we shall go back to the 2016 Report of the Bank of International Settlements.
We looked at its thrust last month.
But we need to pay more attention to the threat that the Bank calls the 'Doom Loop'.