

Spain's Banking Crisis: The Destructive Impacts of the Financial Meltdown

By [Eric Toussaint](#)

Global Research, June 15, 2012

cadtm.org 15 June 2012

Region: [Europe](#)

Theme: [Global Economy](#)

All eyes are turned toward Spain and its banking sector. After Greece, Ireland, and Portugal, we may ask ourselves if the bailout plans are behind us or whether we are simply in the eye of the cyclone? We must remain lucid and recognize that the financial and banking crisis is far from over, both in Europe and the United States. It will have long-lasting repercussions on the rest of the world economy, and on living conditions everywhere. Yet, in Europe, in the first quarter of 2012, the major media outlets backed the declarations made by European leaders, and representatives of the ECB and private banks to convince public opinion that the policies implemented had enabled the banking system to be stabilized.

According to the prevailing rhetoric, the mounting fear stems from the over-indebtedness of countries, a possible default by Greece, and the adverse effects it would have on Spain and Italy. As far as the banks are concerned, the rehabilitation is supposed to be going forward, and the ECB has everything under control. From January to the early May 2012, the following general message was repeated ad infinitum: "Thanks to the 1000 billion euro loan banks have been given by the ECB in two phases (December 2011 and February 2012) for 3 years at 1% interest, private financial institutions are now in a good position to handle the difficulties facing countries in terms of sovereign debt. The financial markets have been stabilized, and the stock markets have risen after a particularly bad year. Public finances are being cleaned up thanks to the golden rule, which is being adopted everywhere, the efforts made by countries to reduce expenditures, and the reform of the labor market to make it even more flexible and of retirement regimes to cut costs. Some additional efforts must be made, but the end of the tunnel is in sight. Sweet dreams, dear friends!"

In May 2012, this rosy message was strongly refuted. It had become clear that private banks have not fundamentally cleaned up their accounts, have not modified their high-risk behavior, and their Directors have not lost their thirst for hefty bonuses and golden parachutes. Bankers consider that public authorities will always be there to save their skin. Bank bailouts with public funds continue. The depression is deepening, and public debt is increasing due to the combined effect of the bailouts and the depression. Meanwhile, the financial markets are blackmailing the weakest members in the euro zone more than ever before.

The banking system is in the eye of the cyclone, which is continuing along its path, hitting all major private banking institutions one at a time as it hums along, and paying no heed to national borders. Contrary to a real hurricane, which is a natural phenomenon, the financial cyclone is 100% artificial: it is the direct product of the cyclical nature of capitalism, worsened by 30 years of neo-liberal deregulation.

The Spanish case is emblematic because it demonstrates that the crisis does not stem from excessive public debt run up by spending too much money on social programs. In 2007, when the crisis erupted in the United States, and before Spain was submerged in it, Spanish public debt was only 36% of its gross domestic product. Spain was one of the model students in the euro zone with a public debt rate far below the 60% threshold stipulated in the Maastricht treaty, and its fiscal balance was positive (+1.9% of its GDP, whereas Maastricht imposes a maximum 3% negative fiscal balance). At that time, Spanish public debt only accounted for 18% of its total debt. Clearly, public debt is not the culprit, rather the deepening crisis affecting Spain was directly caused by the private sector, namely the real estate and credit sectors.

In May 2012, Bankia, the 3rd largest bank in Spain in terms of assets, requested 19 billion euros in government aid (in addition to the 4.5 billion already given). The Bank of Spain estimates that the Iberian banking system is sitting on toxic assets of 176 billion euros. Various specialists estimate that 40 to 200 billion euros are needed to recapitalize the Spanish banks.

The Spanish private finance industry is far from being an isolated case. Bailed out a second time in October 2011, the French-Belgian-Luxembourg bank group Dexia now acknowledges losses of €11 billion in 2011, and the downslide is not over: it again calls upon governments to recapitalize (at least €10 billion are needed). JP Morgan, one of the big US corporate banks, had to acknowledge losses of \$2 billion in May 2012 (this announcement triggered a \$25 billion loss in its market capitalization within a few days) and far more substantial damages are to be expected. Greek banks are on the ropes, facing a massive bank run, in which top managers and shareholders are also participating, and can only survive today thanks to emergency loans granted on a daily basis by the National Bank of Greece up to an amount of €100 billion, with the ECB's consent. [\[1\]](#)

Among the 800 European banks that borrowed this amount from the ECB, several (including some of the biggest) are again or will soon be short of cash, and they are urging the ECB to renew the same kind of low rate and fairly long term loans.

While attention is focused on the public debts accumulated by States, the main cause of the crisis lies with the balance sheets of private banks (and of some major insurance groups). Indeed they have accumulated huge debts [\[2\]](#) in order to finance high risk operations that often result in abysmal losses that occur as contracts on structured products and other toxic assets reach maturity.

The lesson to be drawn is that we must, now more than ever before, demand the transfer of banks to the public sector under citizen control. We must refuse costly bailouts that increase public debt without solving the bank crisis. Expropriation must occur without compensation for big shareholders (small shareholders will be compensated), and the cost of cleaning up the accounts of expropriated institutions will be paid for by their patrimony at large (for they usually own a patrimony that extends far beyond banks). It is necessary to balance the power relations so that public authorities can repudiate the illegitimate part of the debt and release resources to set up policies that further full employment and public investments in activities that improve people's standards of living, preserve the environment, and break with capitalism and productivism. We have to carry out a number of consistent policies in terms of economic and social alternatives that lead to a post-neoliberal, post-productivist, and anticapitalist society. ³ On our way to radical change, a citizen audit of the debt is a valuable and indispensable tool to raise awareness and mobilize people.

Notes

[1] *Financial Times*, 22 May 2012, "Secret €100bn assistance propping up Greek banks", p. 4.

[2] Debt owed to public institutions (the ECB, Fed, and national central banks), debt owed to Money Market Funds, debt owed to other private banks, debt in the form of bonds that they sell on financial markets, debt owed to their clients who deposit their cash funds there in their regular checking or savings accounts on a daily basis (for example, their salary at the beginning of every month, but this can also be the cash reserves of a small, medium or large company).

[3] See Eric Toussaint, « Huit propositions urgentes pour une autre Europe » ([Eight urgent proposition for another Europe](#)), 4 April 2011

Eric Toussaint
www.cadtm.org
345 Avenue de l'Observatoire
4000 Liège
Belgique

The original source of this article is cadtm.org
Copyright © [Eric Toussaint](#), cadtm.org, 2012

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Eric Toussaint](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca
www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.
For media inquiries: publications@globalresearch.ca