FINANCIAL TIMES

November 5, 2013 11:50 pm

Anthropologists will be baffled by bondholder escape

From Mr Daniel J Aronoff.

Sir, The former UK chancellor of the exchequer Nigel Lawson has put his finger on the core impediment to full recovery: the debt overhang on banks forces them to hoard their capital and restrict lending ("The decision not to break up RBS was wrong", November 5).

The implosion in the value of bank assets that occurred during the financial crisis saddled the banking system with a capital deficiency and there are only three ways to remedy this: slowly, by retaining profits over time, or quickly by restructuring debts, or by pumping in taxpayer equity. Governments and bank regulators have refrained from forcing losses on to bank creditors and initially opted for taxpayer infusions, but when the taxpayer bailouts threatened the solvency of sovereigns, they adopted the slow route.

Why governments chose to risk default and prolonged recession in preference to forcing private sector bondholders to realise the losses incurred on their investments is a mystery that social psychologists, political scientists and anthropologists will wrestle with for many years. There is no moral or economic justification for it. It is inequitable to the citizens who must suffer involuntary unemployment, and it breeds protean moral hazard problems for the banking industry. It is little wonder that such a blatantly reverse Robin Hood policy has stirred discontent among the electorate.

Daniel J Aronoff, President/CEO, The Landon Companies, Royal Oak, Michigan, US