

OPINION “Banks and financial institutions do not manage to live in a capitalist system”, writes Tommy Jacobson, Swedish investment company executive.



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In my book, “Marknaden skall vakta sin tunga” (loosely translates “The market should carefully watch it’s tongue”) I have attempted to describe and also to personally understand how the financial crises we have experienced, and which is now ending (?), has influenced myself and how it will influence the future financial picture. My book project began as the storm peaked on the financial markets, in November of last year. I sat at home watching CNN and saw all of these financial bigwigs, normally full of self confidence heading for the nearest exit while at the same time screaming for government intervention and rescue packages. I thought to myself, “So this is the previously almighty market. A collection of frightened rats that desperately try to abandon the sinking ship known as capitalism.”

I have always considered myself a faithful capitalist. I believe in the market economy and I believe in individual rights, and by that, I also believe in individual responsibility. During a period when the crises collapsed earlier this year, I, for the first time, had doubts about capitalism. It appeared clearly that capitalism did not fulfill its role as an engine for society and a generator of prosperity.

I have now corrected that picture a bit. I still believe, in agreement with many other people, that capitalism is superior to other social systems. During this period of crises I have not seen even one serious debater question capitalism and present a valid and serious alternative.

The problem instead is that our banks and financial institutions do not manage to live in a capitalist system.

In a time of economic rise, or even during economic boom, bankers and other financiers at

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Written by Tommy Jacobson

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various financial institutes are quite comfortable in a capitalist environment. They want the government and public authorities to stay away. Bonuses and salaries should, of course, be decided on by the banks themselves. At the annual shareholder's meetings dividends are pushed through with accuracy. There is no discussion on how “system critical” these institutions are in the good times.

Then comes the period we are currently experiencing. The system shows itself as not durable. Bubbles have been built by politicians and overly smart financiers, which have created instruments that they themselves have no idea how they function. Everything collapses and the same people who just recently sang the praises to the market are now changing their tune.

Overnight one can see some of the advantages that socialism has to offer.

One realizes suddenly that one is “system critical” as it is usually known. Being system critical really only means that everyone is in agreement that they are too important to be allowed to go bankrupt. The system critical concept becomes a free ticket for the government to print more money and come to the rescue.

These hybrid capitalists are rubbish and stand out as quite pathetic, in my opinion. They are staunch capitalists in economic good times and socialists in times of crisis. In my opinion it is clear that an institution that sees itself as system critical in declining times should remain consistent in boom times, and therefore be subject to government regulations and a set of rules and regulations for i.e. compensation systems in the bank.

The real capitalists in today's society are the entrepreneurs. They get, and must be allowed to reap the fruits of a successful company. And they must also pay the price for mis-management. An entrepreneur that sees their company go under can never, unlike a bank director, run to the government for newly printed money under the pretext that their company is system critical. He or she must to pay the ultimate price – Bankruptcy.

Another popular element in the debate regarding the crises has been to search for scapegoats. We as human beings have a strong need to rationalize and simplify our existence. If we can find one, or maybe two players at who we can point the blame, we can more easily understand the reality. Unfortunately, life does not offer that type of luxury. In the book I have attempted to map

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out some of the players that can be blamed for much of the crises. Some of them are naturally the more obvious ones.

The Clinton administration perhaps began the bubble with the vision that all American citizens should have the opportunity to own their own homes.

From the beginning perhaps this was a good idea, or maybe it was an ice-cold plot to win more votes. That we will never know. It led to financial institutions more or less being forced to loan money to people without the means to take loans to finance their own homes. Clever people at the banks started to create instruments that became so complicated that no one really understood how they functioned. Credit rating firms judged these instruments with generous indemnity, according to the principal that it is safer to package 100 bad loans together than offering 100 loans separately. And the media kept the fire burning. This was not only an American phenomenon, as so many have claimed. Around the world investors judged these securities and then invested enormous sums in these empty shells.

But a group seldom named is the people who, so to say, are at the lowest end of this economic industrial food chain – the private American borrower. For every single home loan that in the end fell, there was a private, unique person that really had signed their name on a promissory note for a loan that they could not afford.

I live by the principal that each individual should be responsible for his or her own actions. In this case it means that these borrowers, however sorry we feel for anyone who loses their homes, also plays a part in the outbreak of this financial crises.

In my opinion, this leads us to an interesting realization. In all big events, both global economic and geo-political events, at the very core of what is happening there are private individuals who make aggregated decisions that may affect the entire world.

In this case it resulted in a total infarction of the global financial system.

I suppose that this is an insight that we learn over the years. It gets more and more difficult to

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see the world in black and white, right or wrong. It becomes more and more difficult to tell the “good guys” from the “bad guys”.



What conclusion will tomorrow’s historians, who in 50 years time will be studying the global financial crises that played out during 2008-2009, reach as a lasting impression?

In all the work to extinguish the fires around the world while this crises has continued, I think that one part has landed a little in the background of the debate. It is the enormous transfer of capital that has occurred, and continues, from the traditional economic powers in the west, especially the USA of course, to countries like China and those on the Arabian Peninsula. That movement of capital, and therefore the power and influence, will in my opinion show itself as the historical expression from the financial crises of 2008-2009.

Tommy Jacobson

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