

## Don't panic - do this instead - the plan for getting ou...

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Is the second global financial crisis in four years breaking? I am quite sure it is. At best (and I mean this is the best scenario we can hope for) there will now be a realisation that the Euro does not work; much Euro denominated debt is near worthless (Spain's has to be - how can it repay when over 40% of its young people are out of work? - it's a tautological impossibility) and double dip recession is inevitable. That's the best scenario we're in.

The worst is nothing is done about that realisation of the economic reality we face and bank balance sheets meltdown as bond values plummet leaving banks facing such enormous drains on their asset worth that they're moved into insolvency and can no longer put notes in their cash point machines. Then we're just, at best, three days from social break down as that's the average food stock most of us have in our food cupboards.

That means the time for thinking is short: we had a month last time until the first bank (Northern Rock) failed and a year until the entire system nearly fell over after Lehman. This time it will be shorter: we know how these things work now. That we means we need a plan, and soon.

So here is my plan:

- 1) Get the printing presses working creating money - billions of it - now. You may think that sounds crass - but I mean it. We cannot afford runs on banks: the cash to prevent them has to be available. If it isn't we could have a crisis.
- 2) Prepare for quantitative easing now, or better still: let's cut the crap out of the middle of QE and simply let governments borrow from their central banks, which is all QE really is. I know the EU forbids that: someone had better get their head round some pretty urgent changes to some rules in the EU very soon if we're going to have anything left to argue about.
- 3) Either way, we have to make sure banks are both liquid in the short instance and

more importantly solvent in the long term. That's going to mean two things. The first is that big loans from government are going to have to be made to these banks to keep them solvent - but loans, I stress - not the bung that QE represented last time if that can be avoided.

4) Then existing shareholders of those banks are going to be wiped out: that's the deal this time; nothing more or less. After that governments are going to have to replace the capital of these banks with new share investment. That's done through nationalisation. Let's not beat around the bush. It's the likely outcome for most banks this time round. And because the problem is systemic those who do not agree may simply have to be brought under state control anyway; like it or not. We can't have some bankers holding out through Dubai this time to hold us all to ransom thereafter.

5) Long term banking reform will be essential: never again must we let this scenario recur. The intent to do this must be announced and planning for it - much broader based planning than that done to date, must begin. The important thing about that is to make clear we're not going to put Humpty Dumpty back on the wall again: this time all the King's horses and all the king's men are going to do something more constructive with their time and cash than restore something that's broken to its perch.

6) All the above has to be done by EU too - state of emergency has to be appreciated there by Germany in particular: no one can sit around this time and think "I'm all right Jack / Hans / Jacques". This is a systemic failure. If they fail to appreciate that then we're in deeper trouble.

7) With banking under state control then trading in sovereign debt can be also brought under control: the phased deleveraging becomes possible as losses then begin to equal gains as mutuality has been created in the market.

8) It has to be made clear that the banks that are nationalised will remain under public control for a considerable period. There must be no silly game as in 2009 of pretending they should remain in the market with an aim of being refloated imminently.

9) The banks should be split in tow - whether nationalised or not. Investment banking has to be split from main street banking and lending from main street banks to investment banks should not be allowed.

10) Main street banks should be used to refloat the UK economy - building new models of investment on German lines where a mix of equity and loans has to be provided to ensure business and their banks have common long term goals.

11) The use of tax havens by nationalised banks should be banned. All payments to tax havens should be subject to tax withholding to prevent cash being moved into their feral environment.

- 12) The special rights of the City of London should be abolished.
- 13) Coordinated capital controls to stop attacks on currencies should be set up.
- 14) A financial transaction tax is needed - including a [Spahn clause](#) to seriously penalise speculation.
- 15) Tax on financial speculation should be higher than that on trading profits and income from work.
- 16) As banks are unravelled and debt with it consolidation will be required.
- 17) Credit controls for consumer debt are needed - especially for credit card and related types of debt to limit excess borrowing and associated risk.
- 18) Stiff controls on door step and other secondary lending and loan sharking are essential.
- 19) Sate banks have to offer the equivalent of 'social fund' loans to those on benefits and low incomes to cover short term crises with repayment direct from benefits over reasonable periods at low interest rates to ensure financial access for all at low rates.
- 20) That will do for now - I have no doubt refinement will be needed over the next few days though.