

A mature approach to nationalised banking

Published: January 13, 2026, 8:17 pm

A week or so ago [I wrote that if we faced](#) another economic meltdown we should face reality and nationalise banking as a whole for the duration of what, as Vince Cable clearly thinks it is, the economic war. I made it clear that I was writing in a particular context and conditionally i.e. I was only proposing this if and when we saw another major banking failure threatening global economic crisis.

However, those who I might call the usual right-wing suspects through their hands up in horror, seeking examples, as they always do, of banks that might not need nationalisation for some particular and special reason (for example, being owned by a charity) as if that proved that the banking system as a whole was in good order and quite able to survive even if some banks would need another massive state bailout.

Candidly, I find that logic bizarre: we have seen the consequences of bailing out banks once without interfering in their structure and without demanding complete and effective reorganisation of the system they use to hold the world to ransom. I can see no reasonable grounds for repeating that exercise and nothing but state control could now result in the reorganisation we need when, as I think almost inevitable, the banks fail again.

Is there evidence to support my view? I think it's accumulating thick and fast. The [IMF is now demanding](#) that 16 banks be recapitalised in Europe at a cost of \$300 billion.

And that is only the small beer: these are the banks that failed stress tests which did not take the possibility of sovereign debt default into account. We know that debt default is now, for all practical purposes, inevitable. We know as a consequence that many other banks, most of them subject to recent downgrades, are vulnerable. the number is so great that the banking system as a whole (and banking is a system, it cannot be viewed as a series of separate entities each standing independent of the other) is now likely to fail again at some point fairly soon. I am not being melodramatic: I'm simply stating what is an observable, and obvious, trajectory of likely events consequential upon current economic happenings. That's why having a plan to deal with this situation seems so vital to me.

And I noticed this morning that Samuel Brittan, writing in the Financial Times, is also

demanding a fundamental role in the change of banks, and the nationalised banks behave as if they are nationalised banks. [As he puts it:](#)

My ... proposal [is] for the future of the three UK banks in which the state has acquired a large stakeholding: namely Northern Rock, in which the state holding is 100 per cent; RBS, in which it is 83 per cent; and Lloyds (including HBOS), in which its holdings are 41 per cent. .. The official policy is to privatise these holdings when the time is ripe.

My alternative proposal is to use the state-owned banks as the nucleus of Mr Posen's proposed state lending bank for small and medium enterprises. Who knows what obstacles well-paid lawyers could think up? But in principle this could start next week. The main thing needed would be a Treasury directive to these banks to replace profit maximisation with a requirement to promote economic recovery. In practice this would mean that they would lend for projects which would be just below the threshold of viability in normal banking terms. To the conventional mind this should surely be more appealing than burying bank notes in holes in the ground for private enterprise to extract, or dropping these notes by helicopter. Anything extra lent by these banks would add to demand in the economy and if there is any value at all in the structures they help to finance, they should add to its supply potential as well. Above all, being bank loans, they would not add to that horror of horrors, the UK budget deficit. And if any European Union officials are disposed to argue the point, the mess they are making in their own euro backyard should soon silence them.

Quite so. Absolutely right: it sounds like he's embraced my idea of [Green Quantitative Easing](#).

As he adds:

Whether any of this would be necessary in a world with an adult attitude to budget deficits is far from certain. But in the world as it is, it is surely far better than doing nothing or leaving everything to the Bank of England. It is time to remember that banks exist to serve the public and not vice versa. There may be practical objections to my proposal. But its fate should not depend on the reactions of heads of banks or their spokesman.

Two important conditions are noted therein: first that we have an adult debate, and secondly that the banks' self-interest, and the noisy protests of their trolls who populate much of the internet and media, be excluded from this conversation so that the interests of the people of this country be considered above all else.

That's not too much to ask, but right now it seems almost impossible to imagine. And yet, give it weeks, and this is what we must do. Indeed, as Samuel Brittan says, giving instructions to the three banks in question to start lending today on the basis of their nationalised status would be a quite extraordinarily simple, effective, and purposive approach to solving our current economic problems.

The trouble is George Osborne is still playing heeding the bankers right now. And until that changes we're in trouble.