

Bail out 2

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If you listened to UK politicians yesterday you would think the banking crisis was solved. 300 odd pages of report from John Vickers and a promise to implement plans after the effective careers of all currently involved in politics and banking are over and apparently the problem is solved.

With respect to all in question, no it isn't.

Robert Reich, a former US Labor Secretary [tweeted overnight](#):

50% probability Greek default. US banks counter-party debt huge. Prepare for another Lehman Brothers. Second big bank bailout on the way?

I'd argue on two counts. Greek default is inevitable. It's disorderly default he's referring to, I think. And there's no question mark at the end: that's also inevitable.

As the Guardian has said in an editorial on Vickers this morning:

The careful cost-benefit terms in which .. concession[s] to the bankers [are] justified stir deeper questions. The commission has measured every dimension of finance's problems, but the crisis has bent the yardsticks. They talk of removing subsidies so risk can return to a market price, and yet investment risks are not currently priced by reason but by depressed animal spirits. There are some really bold ideas for breaking from the slump, such as a [national investment bank](#) to put idle hands and idle money to productive work. The commission, however, opted to stick within the conventional wisdom, stating blithely on page one that it is never for the state but for "the private sector disciplined by market forces" to make investment decisions. But after all that has happened, it is not longer good enough to hold the old truths to be self-evident.

I agree: on blackboards in economics seminars markets great make decisions. In practice they're made up of people with no magic power and no greater ability to know what to do than the state. Worse though, because they think they are superior they pay themselves more and still, as we've seen, get it spectacularly wrong.

All of which is [why I argued yesterday](#) that the state has to be ready now for another failure by bankers, as it is inevitable.