

## What happens if things really go wrong with banking nex...

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This is an interesting question. What should the UK do if we really face economic meltdown?

First, what's economic meltdown? It would be a major Euro default giving rise to a major bank failure. Or US default as was threatened this summer with a similar outcome. Nothing as is likely as one of these two.

Of course such things by themselves need not represent economic meltdown, but they would if they gave rise to just one major bank failure — as is likely. The moment that happened the domino effect would begin to roll as banks are not independent entities, they constitute an interdependent system (something few still seem to have got their heads round). Then we would face major economic meltdown.

That meltdown would happen because of banking failure. Let's be clear why: banks that under the prevailing accounting rules are insolvent have to cease trading. If there's risk that they cannot meet their liabilities then the game is over: they have to go bust. And a major government default could trigger that.

Of course we've been here before. Northern Rock (a tiny bank) failed in 2007 and Lehman with somewhat bigger impact in 2008. Then it was mortgage debt that brought banks down. Now it could be government debt. The recognition that the debt won't be repaid, at least in part, coupled with the near likelihood of a crash in the value of that debt as a result, which is exacerbated in accounting terms by what are called 'mark to market' rules that means assets are often valued at market worth and not at their realisable value (which can be more) means that a bank collapse is likely in the case of default, and with that the whole system is then likely to fall over in turn as firstly inter bank credit ceases due to the risk involved and the write down in inter-bank debt results in yet more accounting write offs.

This scenario is now entirely foreseeable. The risk is not even remote, it's high.

In that case, what's the plan? What's going to happen when we face cash point

machines closed, payments systems failed and normal commerce collapsed because bank payment is not possible? We know what happened last time. The banks were propped up (and rightly so) but were then left to carry on much as before. What will happen this time?

And I stress, this is not an idle question: Greece is tottering and where Greece goes right now others seem to follow.

Vickers will report today on what he sees as the politically feasible policies for banking that the Condems might deliver if only the economy were stable from now for a decade or so, and the wrangling will immediately begin about a) whether we'll get ring fencing b) when we'll get ring fencing and c) why it will put up the cost of credit immediately (as I guarantee you it will — there's nothing like a government report threatening their future to provide bankers with the opportunity for a little immediate racketeering). And yet if the banks fall over in the meantime all that's irrelevant. It's as if Vickers is living in a time warp where the assumption is that Osborne was right and austerity had saved us all from Armageddon. But that's not the case. Coordinated worldwide austerity, promoted by bankers and their friends has changed the assumptions Vickers should have been using: the luxury of having time on our hands is no longer available.

That means we need to have a plan available for action that will be needed if the banks fail again now.

It's an issue to which I'll be giving some attention over the course of this week. I'm not sure we'll need it by next weekend, although you can't quite be sure. What I do know is that's a lot more realistic a wrking assumption than those Vickers is using.