

Funding the Future

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Mervyn King [said yesterday](#) the UK was facing the biggest crisis since the 1930s, if not ever.

This morning twelve UK based banks had their credit downgraded by up to 5 notches - which is a seismic shift for some of them. Laughably the BBC, ITV and even Guardian, clearly acting on instruction to prevent a bank run developing said this was no indication of there being any problems in the banks in question or in the UK economy. The right wing blogosphere duly agreed.

I utterly disagree: this was clear indication that rating agencies think these banks can fail and if they do they won't be bailed out. For those thinking they're safe because their deposits will be covered by the government - think again. There is no way on earth the government can cover this risk without printing massive sums of money. A seismic reappraisal of the value of cash would at the very least result. The risk warning has been issued.

And tonight Spain and Italy have had their ratings downgraded - which the same journalists who were saying such things did not matter domestically are say matters in these cases. A little integrity and consistency would help.

Oh, and the stock market went up because those with wealth think they are going to be bailed out by governments, again.

Let's state what this means, very clearly. The second global financial crisis in three years is underway. This is #gfc2 as twitter has it.

This crisis is bigger than the nineteen thirties: there is further to fall financially and contagion can spread quicker. The safety nets are in some ways thinner as the expectation of support is higher, the durability to stress if that fails substantially weaker. And I suspect there is little King can do about this. The failure of Osborne for more than a year; the pernicious impact he has had on Europe in persuading inactivity that has destroyed the prospect of recovery and created the current malaise and his intellectual inability to realise that intervention is needed all leave us beyond hope of current recovery.

And that leaves us in a position where incrementalism may no longer be a viable solution to what is happening around us. The risk that money might collapse is now real; the stress that might create unimaginable.

The chance that we will need new currencies urgently in Europe is high. The prospect that significant and rapid revaluation of cash even in the UK is distinct if the capacity to repay debt does not exist: the elimination of that debt requires acts of extraordinary courage and foresight. That's not to say they aren't possible. It's just to say that the people to deliver them are not at the table right now.

We will need states to take coordinated control of banks.

We will need a new Bretton Woods.

We will need global reckoning of debt cancellation - but with it the creation of new liquidity that allows normal discourse to continue.

We will need measures to constrain interest. Measures to control inflation - which is a real risk with major currency realignment - have to be taken. Deflation risk also has to be addressed.

Legal implications regarding debt settlement have potential enormous capacity to create disruption over coming months.

The need to control order and prevent chaos if any risk of a run on a bank emerges has to be addressed. I remain forthright in the view that much cash will have to be printed - even if all recalled in a year or two before it can cause harm and a massive shadow economy.

Existing structures and structural constraints are going to fail - they were not designed for this scenario. Vince Cable said recently this may be like war: assume it is. Rationing may well be required of some goods. Food on tables is a massive priority right now.

Is all this melodramatic? No, it's realistic. Mervyn King understated what we're heading for.

I genuinely believe what is coming can be managed. I believe the right decisions can be made. Will the people of the courage to make them step forward and be chosen for the job when few are in the ranks of those who got us into this mess? I do not know. I just hope so. A great deal hangs on it.