

Should we just let the banks go bust?

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It's been suggested to me that my suggestion that RBS be nationalised is wrong. The counter argument is that if nationalised the debts of RBS would belong to the state and have to be settled.

I disagree, profoundly, with this logic, and in each case because the logic used may seem just that i.e. logical, but it's also fundamentally wrong.

First, RBS is already nationalised. We own 84% of it. But having 16% in the private sector means we cannot take the steps necessary to exploit the assets of this bank for the public good. So we get all the down side and none of the up side. Taking it over would release the potential in it for good including utilisation of its existing platform as a means for ensuring stability in the supply of funding to business and as means for ensuring that the means of exchange continues to exist in a time of crisis.

Second, the idea that banks go bust without consequence is absurd. In the event of insolvency of a bank assets are much harder to recover; losses increase. Liabilities on the other hand are not so easy to write off. The state would have its interest as equity holder wiped out but would pick up the bill for deposit guarantees. So it would be worse off. In the meantime the loss to other banks on inter-bank lending would tip others over: the state would pick up more liability as a consequence. And the business interruption of having a major bank fail would result in untold numbers of businesses failing (just the disruption, I stress, would be enough to do this when cash flow is very often very tight indeed). That would again add considerably to government cost. So the idea that such a bank could fail without cost to the government is just wrong.

And third, assets aren't just those on the balance sheet. They are intangible ones too. They are networks of people (most importantly), organisation and procedures in place, being present in places, having relationships that work, and so much more. There is no doubt many banks will look like failing soon. Despite what was said yesterday in response to bank downgrades that's a reality. But we have at this moment a choice: rebuilding from where we are or throwing out decades of investment that could with the right direction from the top of the political hierarchy be used as for the foundation for

development.

We need banks. Banking is a good thing. I'm a big fan of it, I just have reservations about how it has been done. We need to ensure that all the positives of banking stay in place. If we let most banks that could go bust actually go bust modern western democratic society would fail. Let me as blunt as that. And I am a big fan overall of modern western democratic society - flawed again as I know some parts of it have become. I know of no better way of organising a way to live. It needs to jump to the next paradigm in its development so that it recognises the need to grow sustainably. But I want it to survive.

We can let banks go and watch society collapse with them. Or we can take them over and rebuild in the fashion we want. The second route is painful. The first is a disaster, or worse. And it so happens that in the long run I don't think we are all dead, and some of us will have to live through the transition anyway so I want the easiest route to the best possible outcome from the mess we're in.

That means managing the process. Watching the world collapse around you may be the neoliberal way. The policy got us into this mess. We have a duty to manage our way out of it.

That means we nationalise banks.