

Bankers or democracy and the nation state? Which is it ...

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Having taken a (relative) break from blogging it's all too obvious how rapidly world events are developing.

Spanish banks are now recognised to be broke. If we are candid, so too are the UK's banks. Tim Bush at PIRC reckons their undisclosed losses are between £40bn and £80bn, and knowing Tim as I do I am sure he is right. Portugal is bailing out banks. The Irish have voted to accept austerity, a loss of sovereignty, the exodus of their young and the loss of hope which has always been such a part of their national narrative. And still those in power don't get it. Merkel insists against all logic that all Europe can be like Germany. Osborne demands that we have austerity even though it has obviously failed to deliver growth and jobs. The bankers demand investment from the government and cuts in spending, all at the same time. The incoherence is palpable. And throughout it all things just get worse. As self interest is the dominant and prevailing sentiment (indeed, some would argue, the only acceptable logic in economic theory; although that's wrong) Germany with the capacity to pay for its mistakes (and it was its mistake to lend to the indebted nations and its mistake to not require the Euro area to clear its debts) is refusing to accept its duty to bear the cost of those mistakes. And its similar refusal to allow the creation of new money has much the same effect: its phobia about inflation is demanding in its place the sacrifice of nationhood and democracy to that paranoia. We've been here before. And what is sickening is that there are alternatives. The banks could be saved. They would, admittedly, have to be nationalised. Quite clearly there are almost no solvent banks across Europe. But the property and sovereign debts that are leaving their balance sheets tattered could be replaced. Property debt does not repay immediately; it could be replaced with government bonds designed to produce liquidity at the time the lost value would have done. There is no need to print money now in that case. The capital and asset values of banks can be restored over time in that case with limited inflation impact. And as for sovereign debt; of course it is an issue, but the reality is that the reason why it is such an issue is that the EU insists that governments can only borrow from markets. This is absurd, as the UK has shown. The reason why the UK is avoiding some of the problems of the Euro area is because of our QE programme. £325 billion now, and rising, this has in effect done two things. Firstly it has paid for almost all the deficit for the last two years.

Second, the debt is immediately written off in the case of the UK. Almost all the debt we've issued in the last couple of years is, in effect, now owned by the Bank of England, which is owned by the UK government and debt owed to yourself is debt you don't have to worry about! Of course, even more effectively, the Bank of England could lend directly to the Treasury, cutting out the commercial bank middle-man that is simply enriching a few at cost to the vast majority and making the consequences of this crisis so much worse in the process. And that is what should be happening in the EU as well. To argue that there is no money is absurd: money is costless to create and need carry no interest rate. If that is what we're short of at this moment it is a travesty that we'll put human rights at risk to preserve banker's margins. So, there are Eurozone solutions. Banks can be recapitalised with debt which has limited obligation to turn into cash now, giving rise to very limited cash injection in the economy. And if only the Eurozone (or let's call it Germany) would agree an effective QE programme, whether through banks or not, the sovereign debt crisis could also be managed - with the debt being issued to address it either being cancelled in due course or simply never being repaid - as is always an option in these cases. But there are conditions to this survival. It requires that banks pass into public ownership. Second it requires that the commercial banks monopoly on making money - the last of the mercantilist monopolies and in many ways the only one to survive into the modern capitalist era - be abolished. Will anyone have the courage to do these two things? And will they have the courage to put in place the capital controls and the regulation of offshore that are an essential part of making them work? In times gone by I would have said no. But these are not ordinary times. The choice now is somewhat clearer. The choice now is between the rights of banks and bankers on the one hand and the survival of democracy and the nation state on the other. To put it another way; this is about preserving all those hard won gains that generations literally fought for, and the rights of billions in the future to share in the rewards they won, or the right of an elite to control in their own interests. Which is it to be?