

Banking 2012: the crisis we have to address, and how

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We have another banking crisis.

The banking crisis of 2008 was, by consensus, caused by incompetence, although some of us argued that a corrupt demand for lax regulation had exacerbated the issue, backed by what we saw as at the very least deceitful use of offshore and other abuses of transparency.

But now we know that 2008 was not just caused by incompetence. There really was corruption - and not just of the hidden variety, but blatant, overt corruption to achieve corporate goals.

It's not the time to say we told you so. But it is the time to say that this has to be the end of the line. That line started in the early 1970s with relaxation of monetary controls, was enormously facilitated by the relaxation of capital controls in 1980 or thereabouts and in the UK was made possible by the Big Bang reforms of the City of London in 1986.

It is not chance that all happened under Tory governments.

Free market capitalism has led where many of us said it would. Let's even be honest, where Marx said it would (and I don;t consider myself a Marxist). It has reached the point where it is destroying itself, because that is very clearly what is happening now.

We now have naked, raw, aggressive capitalism as practiced by investment bankers consuming the value of their shareholders. That's as close as it gets to capitalist cannibalism. And in that case action is needed now to save capitalism itself. There is literally no excuse for inaction anymore, even on the right, not that means such action will be forthcoming from that direction.

For those - like me - who believe in the mixed economy which is the basis of my vision of [The Courageous State](#) then the need for action is even more pressing. As I argued in that book, banking needs to now be put back in its box.

Let's be clear: banking is vital, as are financial services. But the monstrous banking we have suffered that consumes the economy and even the banks on which it feeds has to be cut out of our economy like the cancer it is. It is literally killing us. And a government that does not realise that is failing us.

So, we need to ring fence investment banking. Not in 2018. By early 2013 at the latest. Murdoch had his business investigated this year. A month or so later he announces it will be split in two. If that's possible in the media it's possible in banking. And let's be unambiguous: the High Street banks that will emerge will be stronger for it: their capital is being consumed by investment banking right now. Arguments to the contrary are just corrupt lies.

And heads need to roll. Whole rafts of senior bankers need to leave the industry: their mentality is corrupt and has to be swept away. There will be decent people who can take their places: have no doubt about it. But it will take leadership from a new type of non-exec director dedicated to making banking work again that will let this happen. Again, I think such people exist; they're just the outsiders now. The farce that the Coop was told recently that its board was not suitable to run a bank because it was not made up of bankers has to go: it's precisely because people are not bankers that they may be suited to their new roles of making sure banks are clean, although competence will also be important too, of course.

But more than that, we need to change systems.

Banks need to wave goodbye to tax haven opacity.

Banks need to stop servicing the tax abuse industry in such places.

Banks need to be banks - and not pedlars of useless financial products.

Banks need to be rooted in communities: there is a good case for breaking up banks into regional operations again and to split organisations like RBS into separate brands once more.

Mutualisation needs state support to get it back on its feet.

A green investment bank is vital.

PFI debts should be traded in for state support. Their forfeiture should be the price for the implicit deposit guarantee banks enjoy.

Insurance and banking should be separated.

A new National Audit Office should audit the banks - the Big 4 have completely failed to hold banks to account and have grossly failed in their duties to report on whether their accounts are true and fair.

A UK bank with an operation in a tax haven that does not automatically exchange information with the UK should be told to do so or shut the operation. And that should apply to any bank trading in the UK: not just those incorporated here.

And we do, of course, need country-by-country reporting from banks.

Derivative and other trading must be better regulated. Liability risk must be properly accounted for.

Tax must be paid in the right place at the right time. And be accounted for.

Unions must be represented on boards.

As should depositors.

I could go on: the reform needed is root and branch. It is possible. It can be delivered.

But not by a government that thinks a review of LIBOR setting is enough. That's a ludicrous excuse for inaction. And in the meantime the City will be collapsing, bankers will get away with it and somewhere this summer a young person will go to prison for stealing water worth £3.25 as their anger at their deliberate unemployment spills over, however much I will regret it doing so.

We have choices. We can tackle banking. We have to do so if markets are to survive and the mixed economy is to survive with them. But we have to act. And a government that refuses to do so will deserve to be consigned to history.