

## We need a new approach to banking

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*I had an article in the Daily Mirror on Saturday on the tenth anniversary of Lehman and what it meant. You can read the online version here. This is a longer version:*

On September 15 2008 the US investment bank called Lehman Brothers collapsed and most people agree that the Global Financial Crisis began. Ten years later that crisis has not really ended. Worse, many economists — me included — think a new crisis may be just around the corner. So what happened, why, how come we're still in a crisis and what might happen next time?

Lehman crashed for a reason. It had run out of money, and for a bank that's fatal. But it wasn't alone. Within weeks the crisis had spread. One fateful weekend in October 2008 then Chancellor of the Exchequer Alistair Darling was told Royal Bank of Scotland was within hours of also running out of cash. And RBS going down was not an option. Lehman Brothers was not a High Street bank. RBS was. So too were Lloyds, HBOS and Bradford and Bingley. All were heading the same way as Northern Rock, which had collapsed a year earlier.

Darling appeared to have a choice to make. He could let the banks fail — as the US authorities let Lehman Brothers fail (although they saved a lot of other banks) — or he could bail them out, whatever the cost. But the truth was he had no choice. If RBS went down millions of people in the UK would see their bank accounts fail. They would literally have had no access to money. And that might also have been true of hundreds of thousands of businesses — some of which were very big.

What he also knew was that if a bank like RBS failed it was likely all the others would go down with it, they're all so enmeshed with each other as money flows between them continuously on behalf of us, their customers.

And the truth is that on average most British households have no more than three days food in stock. British people and British supermarkets without banks would have meant panic on the streets, food riots and no prospect of sorting the mess out for weeks — by which time who knows what might have happened? Certainly the army would have

been called out and it's hard to imagine we'd have had enough troops to keep peace. Parents who can't feed their children are angry. And will do anything they can to make sure that they can.

So Alistair Darling bailed out the banks, as any responsible Chancellor would have done. Most of us have been paying for that ever since.

How much have we paid? Any figure will be an estimate but there's an easy way to guess. In the years 1998 to March 2008 the Labour Government borrowed a total of £186bn to keep the government and economy going. They prevented a recession after the dot.com crash of 2000 by doing so. In the ten years from April 2008 to March 2018 the government borrowed £990 billion - or more than five times as much. That almost certainly would not have happened without the crash. It's a very crude measure but the difference — or about £800 billion is one way of estimating the cost of the crash. Roughly speaking that's £25,000 a household.

How have you paid? The answer is through austerity. That's the deliberate policy that was chosen by the Conservatives (and their LibDem partners until 2015) that was supposedly designed to balance the government's books. £990bn of borrowing later that has clearly not happened. In the meantime public spending has been slashed. We see the result in schools, hospitals, the police, prisons, the armed services and most especially in benefits, because those least well off in the UK were picked on most by the three Conservative-led governments we have had this decade. Only two groups were protected. One was pensioners. And I cannot argue with that. The other group was bankers. And that was just wrong.

How did bankers benefit? That happened through a policy called quantitative easing. That's jargon for the government buying back its own debt — and almost all the benefit of that has gone to bankers who have used that money to push up house prices, share prices, and maybe even commodity prices for things like gas and electricity in which they trade. The result has been most banks have recovered to be seriously profitable again — and for bankers, unlike almost everyone else the pay rises and bonuses have flowed. And that is despite the fact that — and let's be absolutely clear about this — the bankers caused the crash.

They did this by reckless lending, mainly for mortgages that often exceeded the value of the houses that they were supposedly funding people to buy. That lending overheated the economy and - when combined with bankers using tax havens to hide the scale of their lending so that very few people appreciated the scale of the risk we faced — the bubble the bankers created had to burst in 2008. And it did. And we paid for it whilst the Conservatives put the bankers, like Humpty Dumpty, back on their wall again so they could carry on as before.

Which is exactly what they have done. And the bankers seem to have learned nothing. So right now there's as much bank lending to the UK public compared to our income as

there was in 2008. Some is to fund another housing bubble. Some finances the new car boom — 9 out of 10 of which are bought with borrowed money. And some is just lending to people who cannot make ends meet because of ten years of no wage rises mean many households are seriously struggling.

The result is we're almost certainly heading for another crash. But this time the government can't slash interest rates — because official rates are still less than 1%. And some will say the government shouldn't borrow more this time because it already has (although I would disagree).

Whatever the technical arguments about what we'd do if there is another crash, what we do know are three things. The first is a crash is likely. Second, we seemed to have learned nothing from the last time. And so, the reality is that this one might be uglier.

Eight years of Tory rules have left a wrecked economy. For everyone but bankers that is. So the lesson has to be a simple one. Next time we bail out the bankers we must say never again: that's got to be consigned to history. No longer can we tolerate their recklessness of that of their friends in the Conservative Party. We need think out a new banking system. A new City of London. A new economy. A new approach to government finances. And we need to do it quickly. We might have to put it in place sometime very soon.