

## Funding the Future

# Banks are deeply misunderstood, including by bankers an...

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There is [a very telling article in the FT](#) this morning that was posted in reaction to Italy's new windfall tax on bank profits. This opened by saying:

*Windfall taxes are a blunt policy tool. They may fill government coffers in the short term. But they also hit investor confidence and future business prospects. That is doubly true when levies are big and haphazard.*

It closed in a similar tone, having been disparaging throughout, noting:

*Governments that mount tax raids on a whim can expect to forfeit receipts via higher risk premia on their financings. The shareholders who finance the quasi-public utility of commercial banking will wonder whether their pockets will be picked just once, or repeatedly.*

Its supposed sting was in the tail:

*European bank stocks are cheap for the reason that these institutions are the playthings of politicians.*

How wrong, I wondered, could the FT be on an issue as important as this? The answer would seem to be near enough one hundred per cent.

They have made four fundamental errors.

Firstly, they presume that banks are agents independent of government. That is very obviously untrue. Their whole existence is based upon government regulation.

Secondly, the FT appears to think that a bank's ability to manage money is, once more, independent of a government. It is not. The existence of the currency and the bank's ability to manage it is, once again, entirely dependent upon government because the government chooses to create that unit of account and then permit banks to deal in it. The banks are about as independent of government as my left arm is of the rest of my torso.

Thirdly, it would seem as if the FT thinks that a bank's reaction to a government's monetary policy is something for it to decide. Given that they are regulated entities whose existence is entirely dependent upon the government, that is an absurd proposition.

Finally, the FT appears to think that it is within the right of markets to penalise governments for having the temerity to impose their will upon banks, whose existence is entirely within their gift. Yet again, this idea is utterly illogical. Maybe the FT did not notice the era of quantitative easing. If they had been awake during it, they would have realised that governments are, in fact, not in any way, dependent upon the financial markets to fund their activities. Instead, those financial markets are utterly dependent upon the government to provide them with many of the instruments that they wish to trade, including government bonds.

Banks trade at an apparent discount to value precisely because they are not understood, including by bankers and most especially, it would seem, by the FT. No wonder we're in a mess.