

Ten years on from Lehman – there was an alternative to buying shares in the banks

I reproduce today a post I wrote almost ten years ago, as one who saw the banking crash coming. I urged lower interest rates on March 10 2008, March 28 2008 and finally proposed halving rates on July 18 2008 to relieve the fierce squeeze and the difficulties rates were imposing on borrowers. I argued against the severity of the money squeeze administered in 2008, and argued that shareholders and bondholders should take the hit of the losses incurred, with private sector refinancing of the strengthened banks. RBS, for example, had plenty of assets and trading businesses to sell to generate cash and slim its bloated balance sheet. This approach was finally adopted for future crises, with the living wills idea for banks, but was not adopted for the crisis we were living through. As a result it took longer to sort out the banks and additional resentment grew against them given their easy access to taxpayer investment in shares.

We need a better recovery plan

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It is usually dangerous when the Establishment unites behind a single policy and says there is no alternative. The last time that happened in the UK we were lumbered with the Exchange Rate Mechanism which gave us a rapid inflation followed by a recession.

Recently in the USA the Republican and Democrat leadership united with both Presidential candidates behind the Paulson plan. That plan turned out to be bad politics, failing its first vote in Congress, and bad economics, leading to subsequent modification by its own author.

Today I suggest a threefold approach to the crisis.

The first is to amend the government's way of handling its approach to the banking crisis.

I fully support the provision of liquidity and longer term loans to the banks. They must take full security for these advances to protect the taxpayer. The withdrawal of too much liquidity at times over the last fifteen months has intensified the crisis.

The government should not spend £37 billion it cannot afford on buying bank shares. It should refuse to finance the HBOS/Lloyds merger, leading to Lloyds going it alone in the private market for its capital needs. The Regulators should give HBOS and RBS time to increase their capital ratios, whilst the government makes it clear it stands behind both banks with loans and cash if needed. They could both improve their capital ratios by stopping dividend payments, cutting very high pay and bonuses, reducing staff through natural wastage and other cost reducing measures, and reducing their loan books. It should be their choice which combination of these measures they adopt.

The government and Bank are right to experiment with other ways of lending and using guarantees to get the banking markets moving again.

The second is to get control of the public finances. Cancelling the £37 billion will help. There are many other ways of starting to control public spending, whilst keeping every nurse, teacher, doctor and teacher and other important public service workers.

The third is to take action to stimulate the private sector, which is crashing downwards rapidly. That means cutting interest rates by 200 basis points or 2% immediately, with the prospect of more to come if needed. It means working with the energy, water and transport industries to see which larger investment projects can be brought forward to provide some work for the construction industry. It means redoubling efforts to help people back into work who lose their jobs as the redundancies build up this winter.

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[Visit to Burghfield on Friday](#)

Yesterday I spent the afternoon in Burghfield accompanied by the West Berkshire Councillors to talk to people about local and national issues. Mostly people wanted to talk about local matters, including the state of pavements, overhanging trees, the future for local shops and questions about local schools.

I promised to take up again the level of business rates and its impact on retail businesses, where rates have got up following the revaluations at a time when retail competition is intensifying from new stores and more particularly from the internet.

[In search of an agriculture policy](#)

This week the government produced an "Agriculture Bill". That is welcome, as farmers need to know what rules will apply and subsidies will be paid after March 29 next year if we just leave the EU then.

On reading the Bill, it emerges that it is not such much an agriculture bill as a Land management and environment bill. It seems to assume a 21 month delay in exiting the EU, which may or may not happen. Great emphasis is placed on the state paying taxpayers money for public goods which include public access, upholding heritage, protecting or improving the environment

and action which “mitigates climate change”. There is an added provision which is welcome which says “The Secretary of State may also give assistance for and in connection with the purpose of starting, or improving the agricultural productivity” of a farm.

An Agriculture Bill, and the agriculture policy, should primarily be about food production. That after all is the main purpose of farms and market gardens. There is a huge opportunity awaiting us as we leave the EU. Our market share for home produced temperate foodstuffs has slumped from over 90% to under 70% during our time under the CAP. A well designed domestic policy could reverse that. There is no good reason why Holland outcompetes us in a wide range of temperate vegetables and flowers, nor why we should be so dependent on Danish bacon, French dairy products and Irish beef. These are all things we can do more of ourselves. It would be a good environment policy to cut the food miles and satisfy more demand with local produce. It would also ensure good landscape gardening by farmers. Many of us find well tilled wheatfields or lush grazing meadows with herds of cows a great landscape where the farmer provides a good view free to the onlooker whilst also producing the food we need to eat.

I have made representations that more needs to be built into the policy to promote UK home grown food. Mr Gove needs to liaise with Dr Fox at Trade to ensure we have early sight of a good new tariff schedule for an independent UK. Products from farms and fishing vessels are the main items that attract high EU tariffs against the rest of the world. The UK needs to optimise its tariff schedule to provide lower tariffs on some world foods to help the consumer, whilst imposing sensible tariffs against continental competition for the temperate foods we could produce in bigger quantities for ourselves.

The second thing Mr Gove needs to do is to set out in more detail what grants and subsidies will be available for UK farmers wishing to improve and expand in UK food production to assist them with a substantial uplift in capacity that we need as we leave the EU. I was delighted to see recently Chapel Down Vineyard announce its search for an additional 400 acres for new vines, such is the demand for its product. Wine growing adds a lot of value to the basic grapes, and offers scope for much greater import substitution. It will also save a good few drink miles on the transport system, as lugging cases of wine in glass bottles around is costly and generates a lot of exhaust gases. There are many other specialist agricultural areas where we can expand production and add value.

Blood Cancer Awareness Month

Today I met with my constituent, Paul Carless, Ambassador for Bloodwise, the UK’s leading blood cancer research charity, to discuss their work.

Blood Cancer is the 5th most common cancer and the 3rd biggest cancer killer.

More people die of blood cancer each year than breast cancer and prostate cancer yet there is comparatively little public awareness of it.

During September, Blood Cancer Awareness Month, they seek to raise further awareness of the key issues affecting the 240,000 people in the UK living with a blood cancer. They also provide information and support services for those affected by blood cancer. You can find out more on their website <https://bloodwise.org.uk/>

[The collapse of Venezuela](#)

Socialism is paved with some good intentions but can so often end in disaster. I share the wish of socialists to eradicate poverty and hunger, and to create the circumstances where people can live better lives. I agree the state needs to redistribute some income, but it also needs to encourage people to work and to support their own families. The problem is if you try to do this the socialist way, like Venezuela, you end up with far more people in poverty, with people hungry, too many empty shelves in shops and with a need to repress normal democratic politics to prevent a change of government.

Jeremy Corbyn famously told us that Chavez was inspirational. He said that Venezuela's policy of "fighting back against austerity and neo liberal economics" as we have in Europe showed there was a "better way of doing things. It is called socialism". So they tried it on a grand scale in Venezuela. They nationalised the oil industry and much else, introduced strict price controls, intervened across the board in business, and sought to make payments to the poor to boost their incomes. They spent well beyond the country's means and watched as the country's output sank. They triggered a collapse of output, and a hyperinflation. 2.3m Venezuelans have fled the country seeking a better life elsewhere. Those who remain face daily shortages, rampant price rises, and an increasingly tough government trying to control a people who are far from happy with what has happened.

There are many shortages. These result from too many controls on private business and too much interference from the state. Venezuela has the largest oil reserves of any country in the world. It should be a fabulously rich country, with access to so much oil wealth and revenue relative to its population. Instead the nationalised industry could not keep output up. Today the government is having to look at letting the private sector back in to try to recover damaged wells and increase output from run down fields.

If you introduce price controls you end up with less output. If you print too much money to give to the poor you end up robbing them through a massive inflation. If you borrow abroad against your country's assets in foreign currencies, you struggle to honour your debts when your own currency collapses. This is the price of socialism. What does Jeremy Corbyn think now about the inspiration of Venezuela, the better way he was looking for? The

USSR "better way" required border guards to shoot people who tried to leave. Venezuela now depends on the goodwill of its neighbours to take in the hundreds of thousands crossing the border to find some food.