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Another silly idea crashes and burns [1]

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It wasn't long after the financial crisis that we had every lefty worth their name crawling out of the woodwork insisting that this just proved how wrongly banking was structured. We must move back to local banks. Banks which had local politicians on the boards so as to make sure that the wider interests of the community were considered. Other stakeholders, like the unions must be included. And we most certainly had to divorce any investment banking from retail banking

There were a number of problems with this set of ideas: for example, none of the banks that went down in the UK did so because of investment banking. It was the wholesale bank run (Northern Rock), corporate hubris (RBS) or plain and simple bad lending (HBOS, various building societies).

But let's leave that aside. Let's assume that we did indeed have a local banking system. One that didn't have anything at all to do with investment banking. No CDOs, no CDS, no "trading", just plain vanilla lending in their specific regions. And we'll bring on board the local worthies, the local politicians, the union chiefs. Heck, we'll even make them non-profit shall we? Perhaps they should be owned by charitable institutions?

What do we end up with? Actually, we end up with the Spanish banking system [3]:

> Bankia stands as a reminder that Spain's property bubble?and the banking crisis that is its aftermath?had its roots in the intertwining of government and finance. Until the crash, Spain's cajas were community institutions closely tied to regional governments, and bank boards and regulators were peopled by party insiders willing to overlook lenders' real-estate excesses. Spain will see more disasters like Bankia's until these links are fully wrung out.

Note that here in the UK a few banks went bust (and rightly so), a couple were rescued as too big to fail and the rest became illiquid but not insolvent. They needed temporary funding aid but that could be and was repaid. That's what happened with the capitalist shareholding investment and retail bank mixing national system in the UK.

In the Spanish localised, politically directed and not for shareholder profit system absolutely all of that banking system went resoundingly bankrupt. No, not just illiquid: bust. In such large numbers that it's bankrupting Spain itself. So that's another one of those trendy lefty ideas that crashes and burns then, eh?

Oh, by the way, the only three banks in Spain that are still standing are the shareholder owned, for profit, mixing investment and retail banking, national and international ones.

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