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The perils of a state run banking system [1]

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An near endless number of loons are insisting that we must have greater State direction of bank lending in this country. We've even loons light in the current Government insisting that this should be so: to say nothing of the true loons further left whose mantra seems to be "Forward to Five Year Planning!".

One little story from a place where they really do have state directed banking [3]:

> Banks prefer to lend to state-owned enterprises, sometimes because they are urged to do so but also because it is safer: if it runs into problems, the debt will be restructured and they will not be penalised.

Not that that is going to surprise anyone: one group of bureaucrats is always going to be ready to lend to another group of bureaucrats. But then what happens?

> "Fundraising" from private lenders is illegal in China, but also commonplace.....Official interest rates for savers are so low ? negative in real terms ? that lending illicitly is much more attractive than putting your money in the bank.

OK, markets will out, there's a demand for investment opportunities, a demand for financing, outside what those state owned banks are willing to do.

So, what happens next?

> Now 31, Wu's fortunes have changed dramatically. She is on death row, facing execution for fraud and raising money outside the banking system.

They shoot you.

It's certainly a fairly severe reaction to market competition, isn't it? But in the end that is what has to happen. Not the shooting, but the punishment. For if a functioning free market outperforms the inevitably incompetent state bureaucrat run banks the the state will inevitably take action against that market that is showing them up to be the incompetents they are.

It's an extention of PJ O'Rourke's point, that we should never allow the people with all the money to also be the people with all the guns. And given that government has all the guns we really shouldn't be allowing them to control the money as well.

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