Why we really don't want State control of banks and their lending [1]

Written by **Tim Worstall** [2] | Sunday 8 July 2012

I think we'd all agree that Britain's banking sector is not exactly covering itself in glory at present? From going bust (variously, from excessive lending to mortgages, from overpaying for a rival bank, by being caught in a wholesale banking run, no, no one went bust because of doing silly things in their investment banks) through to what I'm sure will turn out to be everybody fiddling Libor, it's not been a great few years. Yet let us not forget that there is no problem, no situation, which government cannot make worse.

Take, as an example, what is happening in Argentina [3].

> Fernandez, a center-leftist, is embracing increasingly unorthodox economic policies as she seeks to sustain activity, which analysts say is vulnerable to insufficient credit.
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> "We're going to tell the 20 principal banks... they have the obligation to lend for production and for investment," Fernandez said in a televised speech.
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> "The central bank's going to establish the conditions," she said, adding that state-run banks should not have to shoulder the entire responsibility for business loans.
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> She said the loans would carry a maximum interest rate of the Badlar reference rate, which was 11.9pc per year for private banks in June, plus 400 basis points. The minimum loan period would be three years.

With inflation at 25% that's an immediate loss of some 30% for the lending banks. And just as a thought, who would want to be increasing the money supply, the availability of credit, when inflation is 25%? As Uncle Milt taught us, inflation is always and everywhere a monetary phenomenon after all.

Now we don't have anyone advocating this in the UK, not yet. But we do have plenty of people calling for a State owned investment bank. The only reason for such being to insist upon financing going to things which the market unadorned will not finance: that's the whole point of having the State part. And by definition if money is to be forced into politically approved lending then it will be at a lower price than the market will provide: the Argentinian point writ small.

For the problem to become as bad as it is in Argentina we would need our own policy to be determined by increasingly unorthodox leftists. Fortunately, such are limited to nef, Anne Pettifor, Richard Murphy, Neal Lawson, Compass, half the Trade Unions, Seumas Milne and a goodly portion of the Labour Party. I hope you find that as comforting as I do.

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[1] http://www.adamsmith.org/blog/money-banking/why-we-really-dont-want-state-control-of-banks-and-their-lending
[2] http://www.adamsmith.org/taxonomy/term/5778
[3] http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/9379125/Argentinas-Cristina-Fernandez-to-force-banks-into-loss-making-loans.html
[4] http://disqus.com/?ref_noscript
[5] http://disqus.com