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Will Hutton's history [1]

Written by **Tim Worstall** [2] | Monday 26 November 2007

Will Hutton makes a good point here [3] :

> *The state and market are in a symbiotic relationship of mutual need. Regulation delivers public good. And private markets and corporations are the better because of it.*

Quite, absoutely no doubt about it, the only interesting question is exactly what form of regulation delivers the most public good. However, he does, in his examples, rather induce a fit of the giggles.

> *We now need a social-democratic Keynesian government.*

This will make things better he thinks. As one of his examples he offers:

> *...an activist US government took over Continental Illinois bank in the Eighties.*

I think that might be the first time I've heard Reagan's America described as being activist or social democratic, certainly the first time I've seen Paul Volker portrayed as a Keynesian. But then while all of that was going on I was merely an undergraduate at the university where Hutton is now a Governor, so what do I know? The thrust of the piece though seems to be that we should nationalise Northern Rock, just as Continental Illinois was taken over. He might even be right, but let's look at what actually happened way back when [4]...

The situation was in fact eeriely similar. A bank with few retail deposits decides to expand by tapping the wholesale markets to borrow short and lend long. When those markets worry about the quality of lending, those wholesale funds can no longer be rolled over and the bank faces a liquidity crunch. Sound familiar yet? What do the authorities do? Well, first, they guarantee all deposits: yes, all, disregarding the previous statutory limits on deposit insurance. They extend assistance through the Fed's discount window. They guarantee to provide any liquidity needs Continental might have. (This is sounding, well, more recent, isn't it?) Then they fiddle around for a couple of months seeing whether anyone would like to take over the bank. That doesn't work, so then, well, do they nationalise it? In a sense I suppose, for the next part was that the Fed bought a chunk of the bank's bad loans ($4.5 billion) and then invested $1 billion in capital by purchasing preferred stock.

This gave them 80 percent of the equity and the bank survived, being taken over a decade later by another bank. With, for some time, continued liquidity support.

No, I don't know whether this is the best solution for Northern Rock or not. I just rather like pointing out that

Will Hutton is telling us all that we must be more socially democratic, more Keynesian, must follow the Continental Illinois path: when what we've been following for the past few months is exactly that Continental Illinois path, the one pioneered by the decidedly monetarist and free market America of the 1980s.

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