When are the banks going to be reformed? by Michael Meacher
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Michael Meacher is the long-serving Labour Party Member at the Westminster Parliament for the Manchester constituency of Oldham West and Royton. William Franklin stood against Michael Meacher in the Blair-Brown New Labour Landslide of May 1997 as a representative for the UK Referendum Party...and was soundly whipped...Malcolm Meacher gaining more votes than all the other candidates put together.

It is astonishing that the banks, having cost the country £68bn in bailouts plus an additional £850bn in loan guarantees, asset protection schemes and enhanced liquidity, have not been reformed in any way in structure, pay, bonuses or lending.

True, the *Vickers Commission* is due to report later this year and make some division between the investment and retail arms of banks. Or it may fudge the issue, or the *Tory Party*, which has been shown to get half its funding from the finance sector, may succumb to the intense lobbying from the banks to do little or nothing.

So what should actually be done?

An ingenious new proposal has just been put forward by two NGOs, the *New Economics Foundation* and *Positive Money*, which deserves strong support. At root it involves two reforms. One is that the bank payments system is separated from risky lending activity, so that the failure of investments cannot damage the essential bank role of providing payments to depositors. This would have prevented the crash of 2007-8; only the investors would have suffered the consequences of their own recklessness and excesses, not the taxpayers.

The second is that the *Monetary Policy Committee (MPC)* should influence money supply, not by the indirect and uncertain method of setting interest rates, but directly through the creation of new money when necessary, though only within strict constraints to avoid inflationary and deflationary pressure. That would effectively reverse the privatisation of the money supply which has existed since the *1844 Banking Act*, but which the banks have colossally abused.

At present there are several enormous detriments to the existing banking system.

One is that the banks create money out of thin air by repeatedly on-lending to different customers the same money secured by a small capital base, with the risk attached that any breakdown will be covered by taxpayers either through deposit insurance or through massive bailouts.

Another is that under current rules the money supply can only be increased by additional bank lending which further exacerbates an already over-extended credit bubble.

A third is that there is nothing to stop the banks using their proceeds from lending to gamble on speculation in commercial property, overseas markets, tax avoidance/evasion scams, or any other money-spinning scheme rather than lending to UK business to create jobs.

Significantly, when the Government has engaged in £200bn quantitative easing over the last 3 years to extend the money supply, this money creation was intermediated through the banks which used it overwhelmingly to shore up their own rickety balance sheets rather than lend to business or householders.

Nationalising control over the money supply is a key reform long overdue.