



23rd July 2012

Broke bank mountain

“During the 17th century, Scottish investors had noticed with envy the gigantic profits being made in trade with Asia and Africa by the English charter companies, especially the East India Company. They decided that they wanted a piece of the action and in 1694 set up the Company of Scotland, which in 1695 was granted a monopoly of Scottish trade with Africa, Asia and the Americas. The Company then bet its shirt on a new colony in Darien – that’s Panama to us – and lost. The resulting crash is estimated to have wiped out a quarter of the liquid assets in the country, and was a powerful force in impelling Scotland towards the 1707 Act of Union with its larger and better capitalised neighbour to the south. The Act of Union offered compensation to shareholders who had been cleaned out by the collapse of the Company; a body called the Equivalent Society was set up to look after their interests. It was the Equivalent Society, renamed the Equivalent Company, which a couple of decades later decided to move into banking, and was incorporated as the Royal Bank of Scotland. In other words, RBS had its origins in a failed speculation, a bail-out, and a financial crash so big it helped destroy Scotland’s status as a separate nation.”

- From [‘It’s Finished’](#) by John Lanchester, in the London Review of Books.

For the last two weeks, Channel 4 has been running a documentary series, ‘Bank of Dave’, in which down-to-earth Burnley van magnate Dave Fishwick has attempted to establish his own bank. (You can watch his David vs Goliath struggling [here](#).) The premise sounds plausible: offer depositors 5% interest (as opposed to circa nothing); attempt to prime the pump of the local economy by lending to credible small businesses otherwise ignored by the High Street majors; give any profits after overheads to charity. But as the irrepressible Dave soon discovers, getting a new banking licence in the UK isn’t easy.

‘Bank of Dave’ has obviously been, albeit inadvertently, deliciously well-timed, arriving on our television screens accompanied by increasingly shrill coverage of interest rate rigging and then money-laundering by large commercial banks. And the man himself is comedy gold: an effervescent self-made northern millionaire with a penchant for bananas and a healthy disrespect for banks and the UK regulator.

In a brief exchange after Episode 1, Nick Reid on twitter suggested the show was “naïve populism” and voiced a concern about Dave’s desire to bypass regulation and lend on “intuition”. The second charge is easy to address: it’s Dave’s own money, and if he wants to risk it on “intuition” then he should be free to do so; the desire to bypass regulation is an understandable response from any red-blooded entrepreneur to the spirit of non-engagement apparently practised in the show by the FSA. As to the first, well, yes, the show and its protagonist are unashamedly populist, but the

criticism seems to conflate the medium with the message. This wasn't 'The Ascent of Man', after all. And the problem with banking is that it's a deathly dull topic that covered in almost any other way would have viewers switching off in droves. If Dave Fishwick's battle to establish his own High Street banking business has made even one individual think about why our financial system is currently what it is, **and how it might be better**, it has not been a waste of anyone's time.

What's frustrating about the banking debate is how narrowly focused most contributors are. Critics of the commercial banks loudly vent their outrage at the covert manipulation of interest rates, for example. But almost nobody thinks to question the overt manipulation of interest rates on the part of the Bank of England under its current governor, "Sir" Mervyn King (below).

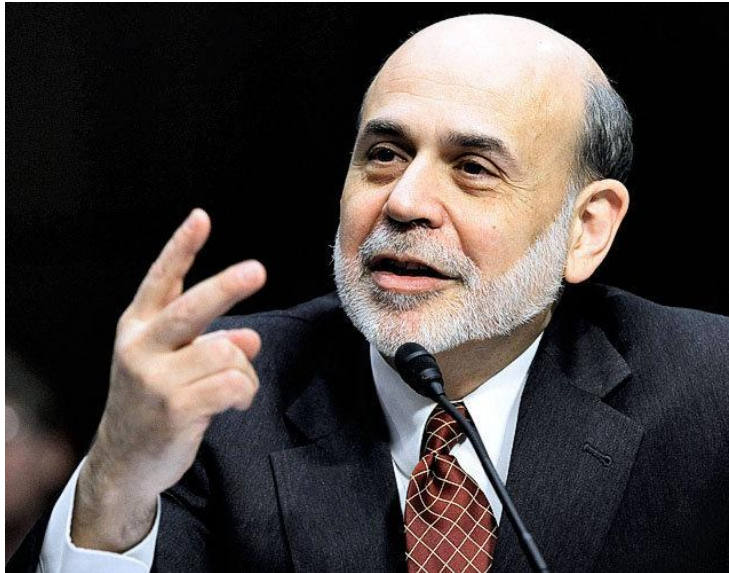
Oh Christ, I've left the oven on



It is generally accepted that the central bank should be allowed to set interest rates. Since UK base rate is now being held at 0.50%, explicitly to help the banking sector at the expense of all non-bank members of the population who are unable to earn an economic return on their savings, one might ask why we take this official rate manipulation for granted. (One would also ask why the economically critical business of saving is being so offhandedly crushed in the name of banking expedience.) Why, for example, do we need a central bank at all? A typical if feeble answer is that we need a lender of last resort. To which the answer is: why? Why do we need a government-appointed entity to support banks that get in over their heads (see RBS, above)? A typical answer is that if our banks start failing, our society starts going down the toilet. (It already has, but never mind.) So now we have the worst of all possible worlds. Our banks are already failing, in the sense of no longer functioning according to the principles of offering an economic rate to depositors and offering economic funding to borrowers. (See references to Bank of Dave, above). The last government was too chicken to nationalise the most egregious culprits, so we have ended up with a handful of quasi-nationalised but putatively still private banking group zombies that appear to be being run for the sole purpose of being granted dollops of money that they are free to hoard whenever the Bank of England deems it appropriate to depreciate our currency some more. So if our banks were small enough and free to fail, a) we would have no need of the Bank of England and b) we would have no need for banking guarantees. Banking deposit agreements would simply come with a giant 'Caveat Emptor' on them, and depositors might be able to start earning a positive real interest rate on their savings again. Abolishing the Bank of England and its core functions (or in the US, the Federal Reserve, as Congressman Ron Paul has repeatedly urged) would have the happy and non-trivial side effect of reintroducing

something akin to sound money into our economy, rather than a) live with permanent inflation and b) have our entire economy held hostage by an unquestioning submission to private banks that have shown they do not necessarily have anyone's interest at heart other than those of their own senior employees. One would call the bankers scum-sucking bottom-dwellers, were it not that that would be an insult to scum-sucking bottom-dwellers.

Fed Chairman Bernanke graciously takes on board criticism from Ron Paul



One hopes that Dave Fishwick's somewhat quixotic campaign to establish a "new type of bank" (i.e. one that lends) will trigger a wider debate. But what is urgently required is an appreciation of how our monetary system works by members of our parliament. One suspects that such understanding is not widely distributed within Westminster. When MPs start to appreciate how and why our entire economy is being held in thrall by a narrow and dysfunctional banking elite perpetuated by a dysfunctional and inherently inflationist state central banking money monopolist, they may start to appreciate why a growing number of investors are seeking protection from the activities of their very own banking and financial regulators.

If you would prefer that the Bank of England did not attempt to destroy our currency and economy through permanent QE, feel free to write to your MP along these lines. Feel free to send him or her a copy of Murray Rothbard's 'America's Great Depression', which shows in straightforward terms how politicians' attempts to "solve" recessions by continually taking the soft political option (or by pursuing highly selective "stimulus" inevitably paid for by some or other disenfranchised part of the electorate) end up exacerbating and lengthening them. Feel free to include a link to Jörg Guido Hülsmann's excellent history of money creation and associated currency debauchery on the part of the state, [The Ethics of Money Production](#). And raise a glass to Dave Fishwick. Dave, do you have any idea what you've done ?

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