



The banking crisis: cause and effect

The future of banking

Narrator

Having used taxpayer's money to bail out the banks, these same individuals have been hit by a requirement for larger deposits to get a mortgage on a house and tighter credit, as banks widen their profit margin on business in order to rebuild their balance sheets.

Ken Jones

"My ambition was to retire, but this has just put my retirement on the back burner.

There's no way I could even anticipate retiring for the next four or five years.

I can't see any hope in that whatsoever."

Narrator

When the banks stopped lending to one another, it turned a period of slowing growth caused by higher commodity prices, into a major recession.

The consumer was hit from all sides and left in the grip of a 'negative wealth effect' due to price collapses in housing and shares caused by the banking crisis.

The effects in the long term are harder to gauge.

Paul Mason

"This financial crisis came along and bang, shocked everybody. We haven't even begun to understand the psychological impact of that."

Lord Skidelsky

"When you have big catastrophes, these realizations become more vivid for people.

It's awful the thought that you can only proceed to wisdom via catastrophe, but that tends to be the way the human race progresses."

Larry Elliot

"I think if we allow ourselves to go back to business as usual, there's a real risk that this crisis will be followed in fairly short order by another one. I don't actually think that we can allow this crisis to pass without there being very, very serious re-regulation of these financial markets."

Narrator

The collapse of the banks represents an opportunity for us to re-think what they could and should be, and for how we want them to work.

Larry Elliot

I think my vision of a reformed banking system has a bit of "Back to the Future" about it, really. I'd quite like to see retail banking revert to a more traditional model. So high street banking would be quite simple.

It would be fairly traditional, fairly safe, very boring, very dull, not very profitable, and it would be heavily regulated by the government. And in return, the banks would have an absolute cast iron guarantee from the government; If they ran into trouble the government would be squarely behind them."

Paul Mason

"We are moving towards much more highly regulated private and plc banks and then I think a much bigger and more diverse socialised banking system.

The banking guys call it the 'barbell', so that it's heavy at both ends.

At this end there is a socialised and heavily regulated private banking system, so Mutuals, Post Office Bank, heavily regulated high street banks with no speculative activity attached.

And then at the other end you get the speculation.

And the only precondition is that this end is just cut off from the other end by some kind of regulatory firewall.

What's the problem with it all is that none of what I've just described can be high return. None of it can return banking or that sector of banking to the high returns and high complexity that existed before.

Narrator

The fragility of the world's banking system has been made painfully clear, but whether there's really the will to change it, is still far from certain.