

Why should banks become nationalized argumentative essays example

[Economics](#), [Money](#)



After the economic crisis broke out in 2008, what economic system is best for the country, especially for the bank, becomes a hot topic between people. According to what we learned from the Great Depression, the British economist John Keynes state that government intervention can help a depressed economy through monetary policy and fiscal policy (Krugman and Robin). Also, from what Keynes said and from the great depression, it also tells that too much freedom on the market will produce exactly the opposite results. Similar situations as to banks, during the recession, if the government can give the assistance at the moment, most of the banks will have a smaller financial burden, and it will not change the state of the country. To reduce the severe financial problems for most countries, some banks in Iceland and Greece became nationalized, but still there are some people holding the strong view to opposing the bank to become nationalized. Therefore, the idea of nationalization has become more apparent, but also it causes much of controversy in society.

It is easy to understand why some people have objections to the nationalization of banks. Hence, in most western countries nationalization is always a big issue for the market. These people believe that it will incite panic when the news about nationalization of the banks comes out, because if the government takes over one or more banks, then how many other banks could be in such a bad shape, as well? Also, would this really be the solution to the problems? If the government did nationalize a bank, and then sold it, would it just start this process over and over with other banks, putting even more of the government's money into repairing our banks?

I believe that the bank nationalization is a probable solution in these times of

recession. If a bank is falling more into debt, then the solution of the government taking over, taking the time and money to set its financial situation into balance would be an adequate one. Financial institutions are extremely crucial, the economy we have could not exist without the financial institutes we have to support it. In an article, Nouriel Roubini states that;

" Between guarantees, liquidity support, and capitalization, the government has provided between \$7 trillion to \$9 trillion of help to the financial system. De facto, the government is already controlling a good chunk of the banking system. The question is: Do you want to move to the de jure step.

(Richardson)"

If the government is already taking this much control and the banks are still in debt, then the government should nationalize the bank to help clean out its financial sustainability. Because saving the market and improve the economic, as the previous opinion has been mentioned, does not rely solely on the market itself. Government also plays an important role in the economy, especially in the bank that provides various financial services. If banks are nationalized, they could definitely support our economy in the long run if it succeeds. The main reward would be a clean and healthy financial institute after the government finished restructuring it. If we want the economy to improve, would not it be essential to mend the financial institution, which is a key part of the economy? On a research website, Professor of Applied Economics Matthew Richardson stated:

" It has been argued that trying to implement nationalization will be near impossible because we won't be able to price the hard-to-value " toxic" assets. It is actually the opposite. The current problem is that banks don't

want to sell the assets at a price the market is willing to pay for them. If we were banks, we wouldn't want to sell them either. As long as the government is providing free money, why not continue to hold out? (Varadarajan)".

If the government succeeds in reconstructing a bank, they could implement a new sense of discipline to help prevent this issue in the future. It means that when facing the recession, American government just can recapitalize. However, before the financial institutions have the power and money to invest again, only government can solve the problem. Only has government the share in the bank which means to nationalize the bank, the crisis of the loan market can be avoided.

It is understandable if the opponents still do not believe that nationalization is the right answer. There is no guarantee that nationalization will succeed. Many of them who are concerned may be shareholders or beneficiaries, but if a large bank is in a copious amount of debts, wouldn't it be a safer decision for the government to take over the bank before it got in an even worse situation, or let the banks try to fix the situation themselves? If the nationalization process succeeds, we could be looking at the big step in improving the foundation of our economy, and eventually, getting American out of this recession.

Need for the nationalisation of the bank

Bank nationalisation, thus, can be defined as the process in which the banks in US can be controlled by the government itself, for a short period of time.

But what is the need for the nationalisation of the banks. There are many times when the nation is not going through the best economic conditions, there are tough situations that have to be faced and the government need to

take initiatives to cope up with such a situation. In these conditions, when there is come the subject of overcoming the economic crises in the nation, the government takes certain steps. One such step, which is taken by the government to cope up with the economic problems which are persisting in the nation, is to take over the banks. And this is where, banking systems are useful. In this, process the banks can be used to leaves some share of money in the public market and the private management.

Reasons for the nationalisation of the banks

The nationalisation process of the commercial banks by the nation's government is due to several reasons. Some of the main reasons for the process of the nationalisation of the banks include the following:

1) Providing the adequate facilities to the people: In the times of economic crises, there is a vast need to ensure that the people do not face difficult situations. There is a vast need of money in the private and the public sectors. Some of the private sectors such as industries and agriculture needs to be funded in order to overcome these situations. Thus, the money of the bank can be used for the purpose of funding.

2) Encouragement of the new classes of entrepreneurs: Entrepreneurship is something that is considered to be of utmost importance in the present times. The success of the country can be determined by the number of people who are entrepreneurs. Thus, more are the entrepreneurs in the nation, safer would be the economy. This is because, during the tough times when the national government needs funding, these entrepreneurs can help the government to overcome the situations of crises. Thus in order to

encourage the entrepreneurship people needs to be funded so that they can set up their own source of earning, which may range from a small shop to a big organisation, depending on the funds.

3) Giving a professional bent for the management of the banks: Another major reason for the banking process is to provide a professional bent to the banks and their management systems. This is required so that to ensure an adequate amount of the inflow of the cash in the banks and to avoid more than required amount in the banks.

Benefits of Nationalisation of the banks

Nationalisation of the banks and the banking system is hugely beneficial.

There are several issues which can be sorted with the process of nationalisation of the banks. Some of the major issued that can be addressed by the process of nationalisation of the banks are as follows:

1) Efficiency issue: The first benefits for the process of nationalisation are the issues related to efficiency. This will not only be benefits to the government but also be substantial for the banks. This would benefit the bank by the following ways:

a) With the increase in deposition of the money by the bank in the public sector, the trust of the common people on the bank would increase.

(Egbuacho Eusebius Dhemeje Nnedu, 1997) Thus, more and more number of people would be depositing the amount in the bank, thereby, facilitating the bank itself. Moreover, when the government will takes over the banks, they can employ experienced officials for the process of bank management. This will add benefits to the bank as these experienced people may create better

policies that may be beneficial for the bank. Also, the government has the suitable hands in the policies. Thus, the government can also make considerable changes in the policies of the banking system which may be beneficial for the banks. Also, the nationalisation of the banks will lead to the priority in the sanction of the loans in the public sector in comparison to the private sector. Thus, they can be beneficial for the bank and can serve important purposes. Hence, they help in promoting the efficiency.

2) Monetisation issues: (Hussain Farhat, 1993) A major issue that can be addressed by the commercialisation of the banks is that these banks deposit the cash from the end of the public. This power should be addresses by the bank. Thus, the monetisation issue can be easily handled as the banks as they have the deposits of the common people. Thus, it is actually the public sector that can have the control over the money.

3) Integration issue: (Kulkarni L. G., 1979) A issue that would come upfront in the nationalisation of the banks is the integration issue, this issue arises due to the contradiction of the policies between the banks. The commercial banks are aimed towards earning more and more profits. On the other hand, the main target of the central bank is aimed towards the benefits to the people and the control of the monetary system in the economy, without profit. Thus, there will always be a contradiction between the central banks and the other private banks.

In this kind of situation, it may be difficult for the central bank to handle the integration issue. This is because the commercial bank will have the policies that are different from the policies of the central bank. Thus, commercial banks may have a clash and arguments, and there can be discrimination

against them. Thus, in order to establish socialism, there is a need to implement socialism by the government.

4) Socialisation issue: (E. Chirwa, 2003) In order to handle the issues related to the socialised patterns and to implement such a pattern in the nation and the society we need to consider all the aspects of the economy. In order to run the public sector in an adequate manner the first thing that is required is funds.

Thus, process of socialism cannot be possible in case there is no socialisation. This is because, the private banks which are intended towards earning of profits will not make the funding. But if the banks are under the hands of the governments, the amount can be used for funding easily by the government.

Some other benefits of the process of nationalisation of the banks includes, the prevention of the concentration of wealth in one single unit, adequate social control, increase in the mobilisation of the deposits, balanced regional development of the nation, greater control on the banks by the central bank and stability of the nation.

Arguments against Nationalisation of banks:

Each and every process that is implemented either at a personal level, municipality level, state level and at the national level (Kate Stewart, 1988) has some good things and some bad things. Similarly, nationalisation of the banks also has some negative things, as well. Some of the arguments against the nationalisation of the banks are:

1) The first argument against the nationalisation of the bank is that this

process serves the political purpose more in comparison to the productive purpose. This is because many times, nationalisation, has been used to fulfil the political needs rather than the productive purposes.

2) Beginning of the capitalism: Nationalisation of the banks may lead to the growth of capitalism

3) Scope of inefficiency: Some of the opinions of the nationalised banks may lead to degeneration of the industries. This is because, this may increase the dependency of the sectors on the politicians. The politicians may not support the development for which the nationalisation process is aimed to.

4) The level of customer interests for the banks that become nationalised decreases. This is because the banks after the process of nationalisation do not earn profits. Thus, the interest to add the customers also decreases. The banks thus do not raise the efforts to get more customers.

5) Another negative aspect is that, the nationalised bank continues to run on the same mechanism. Since, there is no concerns related to the profits, thus there are no change in the mechanisms of the functioning of the banks and they continue to function on the same original platforms, without making any feasible reforms.

Conclusion

Banks are the creators of the economy of the country. It is the bank through which all the transactional takes place. So it is the banks they can provide assistance to the government and the nation in case of crises such as disaster or recession. So it the nationalisation of the banks, that can help to improve the economy of the nation in such a situation. Thus, the process of

nationalisation is of great importance for the nation and it helps the nation, in the situations of crises. But, on the other hand, it is also having some negative things. Thus, the process of nationalisation is highly beneficial if it is carried out in a political free environment.

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