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If the banks were too big to fail, why isn't the British steel industry?

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Nationalisation not an option. Matthew Horwood / PA Archive

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The financial crisis of 2008 taught us that markets fail. But the current plight of the steel plant in Port Talbot, Wales, shows how not all markets fail equally.

Eight years ago the UK treasury pumped £850 billion into a failing banking industry. Teetering on the brink of collapse, the Treasury stepped in through a succession of loans, share purchases and liability guarantees, using 89% of its assets to prop up the industry. The historic step led to the government owning a majority stake in Royal Bank of Scotland, one of the world's biggest banks, and more than 40% of the combined Lloyds TSB and HBOS banks.

The then prime minister, Gordon Brown, defended the decision as "unprecedented but essential" – it was the responsibility of government to "be the rock of stability" and to act to prevent a systemic failure of the banking system. Faced with widespread economic meltdown, this was widely seen to be the only step. The alternative was to let the banks fail.

The part-nationalisation of the banks set a precedent but it also left a legacy. At the time, the bailouts were lauded as a return to Keynesian economics and the end to “market fundamentalism”. Yet, following a change in government in 2010, the transferal of private debt onto the public manifested in a wide range of austerity and deficit-reducing measures. The outcome ensured that the greatest costs of the crisis are being paid by the most vulnerable who contributed least to it.

Steel worth saving. mikecphoto / Shutterstock.com

#SaveOurSteel

Now, as the full costs of austerity continue to bite, the steel industry is at a similarly perilous crossroads to the banks in 2008. Centred on Port Talbort, there are widespread calls for a similar government effort to prop up a failing industry. Speaking to the BBC, Plaid Cymru leader Leanne Wood, said:

> *This industry is as important to Wales, I would argue, as the banking sector is to the whole of the UK … If the banks could be bailed out, then the steel industry should be bailed out too.*

Similar comments have been made by Conservative and Labour figures, not to mention the head of the influential trade union Unite, Len McCluskey.

But the comparisons with the 2008 banking crisis should not just focus on the question of nationalisation. Both are examples of market failures that threaten widespread social and economic harms inflicted on society. The banking industry supposedly stood as the standard bearer for market efficiency and competition, yet by 2008 the extent to which the industry had overreached through highly leveraged balance sheets and fragile funding structures was laid bare.

If the 2008 financial crisis was a crisis of the banks' own making, in Port Talbot the blame is more diffuse. A victim of globalisation and the opening up of world markets, a slowdown in Chinese manufacturing and the "dumping" of cheap steel from China have all increased pressure on the UK steel industry to the point where the market no longer views it to be a viable business interest. So then why prop up a failing banking industry that got itself into muddy waters but not a steel industry who is a victim of modern day economic vulnerability and global pressures?

One possible answer could be that the public simply does not have the appetite for taking on another financial burden in the way it did with the banks. Shares for the three banks the government took an interest in have since been sold off at a loss and there is a general perception as a society that "we" continue to pay for the recklessness of the banks. However, given the estimated 40,000 jobs connected to Port Talbot and the steel industry, any doubts over public support aren't so clear and should not be equated with the "rewarding" of failed banks.

A whole community will be hit by the closure. Jane Barlow / PA Wire

The way the banks were bailed out did not just present a reward for failure but ensured that this Keynesian solution could not be repeated. Burning the bridges for all those who wish to follow, nationalisation has become a toxic option in a landscape of austerity. As a political solution it has all been struck off.

The business secretary, Sajid Javid, rejected the idea of nationalisation due to its £1.5 billion price tag and the prime minister, David Cameron, has said it is not the answer. Yet, even as a yearly estimate, the amount it would cost is dwarfed by the figure required for the banks.

Ultimately, both the case of the banks and Britain's steel industry demonstrate the fact that markets fail. And both have huge human, economic and political costs attached to their failure.

Tied up with the interests of private capital, the costs of letting the banking industry fail, it seems, were too vast to endure and necessitated state protection. Yet the fate for Port Talbot is already couched in terms of market inevitability and even efficiency. If China produces steel for less, then the market should dictate. But if the economic costs of market failure in the banking industry were recognised, so too should the human costs tied up in UK steel. Having led the way for a Europe-wide programme of banking bailouts, the UK should now learn from its neighbours, including Germany, Italy and France who have done much better at protecting their steel industries.

UK economy **UK manufacturing** **British Steel**