

We're gonna need a bigger boat! The Government's planned injection of €5.5bn into the three largest banks had always looked woefully inadequate relative to the anticipated losses that the banks will suffer on property loans. The Government has committed to pumping an additional €1bn into both AIB and Bank of Ireland in the (likely) event that they are unable to raise new capital from the private sector.

At least AIB and BOI are worth saving. They are clearly too big to fail. The same cannot be said of Anglo Irish Bank. Belatedly nationalised, the next step should be to put Anglo into liquidation.

But what does it mean to put a bank into liquidation? In a new paper, Patrick Honohan, an economics professor at Trinity, outlines the textbook prescription for dealing with a failed bank.

The first step is for the authorities to seize control of the bank and fire the management that has been responsible for the failure. Shareholders are wiped out and losses are also imposed on holders of subordinated debt not covered by government guarantees. An assessor will determine how much shareholders in Anglo will get. Let's stop kidding: they will get nothing. Depressingly, taxpayers too will almost certainly end up losing money because of the reckless behaviour of Anglo.

Finally, best practice is for the bad loans of the failed bank to be separated from the good loans and placed in a special asset management company. The loans are restructured, and as much money as possible is recovered to minimise the cost to the taxpayer. International evidence shows that running a failed bank as a going concern tends to increase the ultimate cost to the taxpayer. Surely, the best thing the Government can do is to follow the textbook.