Article: Financial thought crimes [1]

Written by **Deri Hughes** [2] | Monday 3 December 2012

The reforms to financial regulation that followed the 2008 crisis have been dead wrong, argues Deri Hughes. Interventionism and subsidies for established banks have choked competition and added even more layers of protection for established banks than existed before. The answer is to take the state out of the money and banking business.

The most tangible policy response to the ?main? financial crisis of 2007-9 has been the series of (on-going) reforms of the system of financial regulation in those countries that were most affected by the crisis in question. The need for such reform, and the nature of the reform that is thought to be required, have both been adopted as received wisdom by the majority of policy-makers. However, given the risks normally posed by received interventionist wisdom, it is worth giving some thought as to whether or not the current approach is, in fact, the most appropriate one. Accordingly, the purpose of this article is to consider the nature of the current reforms, and then to set out some alternative, and rather different, policy prescriptions.

Litigious Albion

In the United Kingdom, the attention that the financial crisis has received has been intense. Accordingly, the political and official appetite for reform has not waned. For example, as of November 2012, the Financial Services Bill is before Parliament, a Parliamentary inquiry into ?banking standards? is under way, and the draft Banking Reform Bill has been published. In addition, a Financial Stability Board (FSB) working group, led by the Chairman of the Financial Services Authority (FSA), the main British financial regulator, has announced its intention to focus on the activities of the so-called ?shadow banking system?.

The regulatory reforms that have been, and are being, implemented can be divided into two broad categories.

Firstly, those relating to conduct.

Secondly, those relating to stability.

In essence, conduct regulation relates to the way in which financial services providers interact with clients, counterparties and the public at large. Its range is very broad, covering virtually every aspect of financial businesses? commercial activities, and applying to businesses ranging from a self employed financial advisor to a universal banking behemoth.

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