

[Bank bailouts fix the wrong problems](#) [1]

Written by [Tim Ambler](#) [2] | Monday 21 January 2013

The Daily Telegraph reported (16th January) that UK taxpayers would likely be called to contribute up to another £30bn. to further bail out RBS and Lloyds TSB. Their source was the Bank of England's Financial Policy Committee's (FPC) evidence to the Treasury Select Committee. The problem is largely artificial: banking fogeys see the crash as having arisen from inadequate capital to withstand shocks. They are wrong: more capital may have averted the need for the bailouts but capital shortage did not cause the crash.

The new international regulations-to-be (Basel III) focus on complex increases in tiered capital requirements. The fogeys, in pressing for higher capital ratios, are pressing for shareholders, including us, to bail out the banks once again. This new money, if the EU allowed the Treasury to do that, would sit on bank's balance sheets waiting to withstand another 2008-like crash.

In the middle of a recession that is not going to happen. You may as well treat a patient dying of hypothermia with a liberal application of ice packs.

Requiring higher capital ratios will also cause banks to lend less and especially less to SMEs, the very businesses which could lead us out of recession if they had the cash to do so.

The FPC has a built in problem with trying to balance growth, which always involves risk, and stability, i.e. the absence of change. The problem is partly cyclical: just now we need growth but if and when growth again becomes unhealthy, we will need the ice packs.

Select Committees involve a lot of MPs showing and witnesses avoiding the questions. The best example of this time wasting during this particular session (yes, I watched two hours of it) was when Andrew Bailey was asked why UK borrowers paid higher interest rates, and UK lenders to banks lower, than their continental counterparts, i.e. why are UK bank margins wider at both ends? The British Bankers' Association must have been proud of Bailey's evasion but why did the Chairman, Andrew Tyrie, let him get away with it? The reality is that banking debates are full of technical confusions.

The high point of the session was the discussion between Brooks Newmark MP and Michael Cohrs, an independent, and independent minded, member of the FPC. It was this exchange that gave the Daily Telegraph its headline but it was a lot smarter than that. Rather than cut back on lending or increasing shareholder equity, banks could, and should, sell off their other assets.

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