Published on *Adam Smith Institute* (http://www.adamsmith.org)

Diamond cuts to the chase [1]

Written by **Tim Ambler** [2] | Monday 16 September 2013

The FT reports [3] that Bob Diamond is giving his support to our long and oft expressed view that bank regulation should be global, not national or EU. See for example ?Saving the City?, March 2013. Big banks now operate in a global market and a single market requires a single set of regulations. Any more, or any fewer, in the major banking countries distorts competition. A major bank failing in one country may well bring down others and at the very least have knock-on effects. This is one of the most important lessons from 2008.

The EU is a particular worry as each member state seeks to impose handicaps on the others in order to enhance its own financial services industry. Furthermore, Brussels seeks to take over all financial regulation from member states. These politicians fail to see that such shenanigans can only damage not just London but the EU financial services industry as a whole.

Basel III has its faults, not least in loading up capital requirements at the wrong time. Higher capital requirements may have been a good idea pre-2008 but introducing them now inhibits the very lending to SMEs that is essential to growth. Likewise moves to downsize banks or introduce new Chinese walls may be a good idea in due course but not just now. Yes, of course we need to get away from banks, or any other financial institutions, being too big to fail but they are not about to do so. Financial crashes come around every 50 years or so, so on that metric the next one is not due for 45 years.

Faulty or otherwise, Basel is the only global financial regulatory structure we have and we need to work with it and improve it. The fact that we do not have an imminent crisis makes this the ideal time to introduce the radical revolution we need. The EU and national governments should turn over all financial market regulation to Basel. Who should monitor and supervise those global regulations is a more difficult problem but in the short term it will have to be by nation state, in the UK by the Bank of England.

But let us not get caught up in that. First things first means that banking regulation needs to go global now.

blog comments powered by Disqus [5]

Source URL: http://www.adamsmith.org/blog/money-banking/diamond-cuts-to-the-chase

Links:
[1] http://www.adamsmith.org/blog/money-banking/diamond-cuts-to-the-chase
[2] http://www.adamsmith.org/taxonomy/term/5859
[3] http://www.ft.com/cms/s/0/1d8921f4-1c8d-11e3-a8a3-00144feab7de.html?siteedition=uk
[4] http://disqus.com/?ref_noscript
[5] http://disqus.com