

[Incoherent bank regulations](#) [1]

Written by [Tim Ambler](#) [2] | Thursday 28 March 2013

The Bank of England's Financial Policy Committee has announced an increase in capital ratio requirements for banks and the FSA announces a reduction. The former is, of course, for existing banks and the latter for new banks. Higher capital ratios are intended to stop banks going bust so, on the surface, it is odd that those that are unlikely to be at risk now their days of profligacy are over, at least for the time being, are having further bolts applied to the empty stable door whereas those banks most at risk, namely the small new ones, are being encouraged to expose themselves further.

Maybe handicapping the big banks in this way is good, in the long run, for competition. Perhaps we should not care if small banks go under and worry only about the systemic banks. That shows a misunderstanding of the economic cycle. Cyprus was the last domino in the 2008 crash, not the beginning of a new one. Whatever happens in Cyprus will not put large British banks at risk.

Some economists, and the Bank of England, fail to grasp an elementary piece of accountancy. Capital adequacy ratios decline if cash is replaced by loans to small businesses. New small banks are going to have an insignificant effect, in the short term, on lending to small business and we need those loans to rebuild the UK economy. It is the clampdown on lending by the big banks which is mostly to blame for the UK's sluggish economic recovery.

The Chancellor nearly got it right when he arranged for big banks to borrow at subsidised rates. He hoped they would pass it on with more lending at lower rates. Instead they put the money in their pockets, widening their margins and bolstering their capital ratios. Instead of sending them to gaol for defrauding the rest of us, the Bank of England is now patting them on the back.

[blog comments powered by Disqus](#) [4]

Source URL: <http://www.adamsmith.org/blog/money-banking/incoherent-bank-regulations>

Links:

[1] <http://www.adamsmith.org/blog/money-banking/incoherent-bank-regulations>

[2] <http://www.adamsmith.org/taxonomy/term/5859>

[3] http://disqus.com/?ref_noscript

[4] <http://disqus.com>