

[Let the market decide what happens to Libor](#) [1]

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In a speech today, the head of the new Financial Conduct Authority (FCA), Martin Wheatley, will say that the structure and governance of Libor – the interest rate at which Britain's banks agree to lend to each other – is 'no longer fit for purpose and reform is needed'.

Nonsense. Libor works perfectly well. Like any other system, of course, it can be undermined by fraud – people deliberately trying to manipulate it in order to benefit themselves or their organisation. And as in any other system, the way to deal with that is to prosecute the wrongdoers for fraud. A few people facing fines or imprisonment for such misdeeds then encourages the others to guard their own probity.

And in the case of Libor, such prosecutions should not stop at the foot-soldiers who deliberately misrepresented their own banks' credit status to get better terms. They should include any executives who connived in the fraud – and indeed any officials in government and regulatory agencies who deliberately encouraged such misrepresentations. And indeed any politicians who might have given orders to do so.

Getting Libor right is important, because it is a key market indicator of how sound people believe our banks are. It might well suit politicians, officials and bank executives to suggest that things are rosier than they are, but that remains a deception and must be prosecuted as such.

Tearing up Libor would have further consequences, because so much financial business, so many financial products in wide circulation, are priced in line with it. And what would 'reform' involve. I can see it now: some panel of bureaucrats from a new and untested regulatory authority, collecting vast amounts of information from the banks (at huge expense), and pretending to sift through it all, from day to day, in order to establish some 'objective' borrowing rate. But I don't think that bureaucrats would be any better at that than they would be at deciding the price of strawberry ice-cream.

Politicians and officials, through more of a decade of over-borrowing, keeping interest rates too low, printing money and doing anything else they could think of to create an apparent boom, in fact created a fantasy land in which everyone – home-owners, borrowers, consumers and indeed bankers – did some pretty stupid things. Not surprisingly, people tried to blag their way out of trouble.

When that blagging turns into deliberate misrepresentation, which could create real financial losses for millions of ordinary holders of loans and pensions, that is fraud and should be treated as such. You need to go back to the root causes of the problem, and to make sure that politicians and officials no longer have the power to debauch our currency and abuse the public finances, and also to prosecute anyone who, even in such a fantasy world, engaged in straight fraud. What you certainly do not want is to replace markets with bureaucrats.

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