

[Osborne bungles banks ? again](#) [1]

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It will be a while before the inside story of the Co-op's pull-out from the Lloyds HBOS deal emerges, if it ever does, but some aspects are immediately apparent. The HM Treasury has failed, at least for now, to achieve their twin goals of downsizing Lloyds HBOS, as required by Brussels, and bringing competition to the retail banking sector. The deal could have transformed the Co-op from a small player to a serious retail bank.

Any deal would be a commercial issue, but surely HM Treasury played some part. Apparently excessive regulation is a major reason for the pull-out, a direct government responsibility. Whatever happened to de-regulation? Yes the Financial Services Authority was eliminated but it was replaced by two further monsters, the Financial Conduct Authority and the Prudential Regulatory Authority.

As the IEA has pointed out, we do not need capital ratio regulations, or not now anyway and as this institute has pointed out, financial services markets are now global and therefore need global, not local, regulation. The UK simply hobbles itself by adding its own unilateral regulations and regulators.

Capital Ratio regulation is a good example of the right medicine at the wrong time. It was needed in the boom times up to 2008 but is counterproductive in recession: more capital means less lending. It is like going to the doctor, asking for a cure for a throat infection and being given a prescription for piles because the doctor has suddenly realised that he should have provided that when you last visited.

Osborne also bungled by handing out cheap money for the banks to lend out only to find they put it in their own pockets. The fact is that he does not understand banks, bankers or banking.

The Co-op has effectively told government that the climate is unattractive for this deal. And since it has been in the works since last year, they must have been saying so for some time. The collapse tells us that HM Treasury failed to deliver.

Lloyds HBOS won't mind too much. Yes they are under pressure to dispose of the packaged up TSB but they'd rather sell to a newcomer or a tiddler than create a serious competitor as the Co-op could have become. It is nonsense to say that HM Treasury cannot manage the market since they contributed to the current mess and own, in effect, two of the big four. HM Treasury could have leaned on Lloyds HBOS to sweeten the deal to make it attractive to the Co-op but they evidently did not. Another bungle.

Maybe some white knight will ride in and save the situation. Let us hope so but I would not bet on it.

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