

## [Regulation isn't the way to ensure a diverse marketplace](#) [1]

Written by [Tim Worstall](#) [2] | Friday 25 October 2013



As we all well know one analysis of the Great Crash is that it all happened because financial markets were too concentrated. There were banks that were "too big to fail" and which we couldn't just let go bust therefore we had to bail them out. I certainly ascribe to part of that analysis, or to it in part perhaps. And a useful solution would therefore be to break up large banks so that none are in fact too big to fail. Seems a logical answer.

However, what is actually happening is that we're getting ever greater regulation of those financial markets. And that's a problem, for being able to deal with regulation is a fixed cost: and increasing those reduces the number of smaller players. As Craig Pirrong [puts it](#) [3]:

The hedge fund article also points out something I've been hammering on for years now: perversely, since compliance costs have a huge fixed cost element, the regulatory onslaught creates scale economies that favor concentration and consolidation, and which can potentially reduce competition. You are seeing it in hedge funds. You are seeing it in banking. You are seeing it in FCMs. And I do mean perverse, because among the ostensible purposes of these regulations were mitigating the too big to fail problem, and promoting competition. The dramatic increase in regulatory overhead that favors the big over the small is completely at odds with these purposes.

I think we do all agree that sometimes there are things that must be done and also that some of these things that must be done can only be done by government. However, the list of things that can successfully be done by regulation is rather shorter than that list of things that must be done and which can only be done by government. For as here, sometimes the effect of the regulations is diametrically opposed to the solution of the problem we're trying to deal with. More paperwork will lead to an increased concentration in an industry.

[blog comments powered by Disqus](#) [5]

---

**Source URL:** <http://www.adamsmith.org/blog/regulation-industry/regulation-isnt-the-way-to-ensure-a-diverse-marketplace>

### Links:

[1] <http://www.adamsmith.org/blog/regulation-industry/regulation-isnt-the-way-to-ensure-a-diverse-marketplace>

[2] <http://www.adamsmith.org/taxonomy/term/5778>

[3] <http://streetwiseprofessor.com/?p=7736>

[4] [http://disqus.com/?ref\\_noscript](http://disqus.com/?ref_noscript)

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