

[More regulation?](#) [1]

Written by [Tim Worstall](#) [2] | Saturday 20 September 2008



Or different regulation? Or fewer regulations altogether?

Just what is the correct response to the current financial market travails? After we've cleaned up the current spills, of course, we'd rather like to know what the system of financial market regulation should be in the future.

There are of course those who argue that there should be no such regulation at all: they might be right but they're not going to get a hearing at the moment (no matter how close some of them might be to this blog). I would certainly argue for a mix between fewer and different regulations than the ones we've had that got us to this point. I'm not sure that this view will get much of a hearing either.

The view I would like to address though is the one that we need to have more regulations. What is the first one that has actually been put in place on both sides of the Atlantic? The ban on short selling of financial stocks. What's the justification for that? Truth to be told, not a lot actually. The FSA [has agreed](#) [3] that there was no coordination of rumours and short selling during the HBOS rights issue earlier this year. This last week the percentage of HBOS stock that was lent out to short sellers [had fallen](#) [4] from some 17% during that rights issue to under 3%. Even [Dean Baker](#) [5] (who would rarely agree with us but is an economist) wonders why on earth anyone is trying to ban short sales. There are many others out there, those who actually understand markets, who are similarly scratching (or banging upon their desks) their heads. Why on earth was this done?

As the FT's [Alphaville](#) [6] puts it:

Does the FSA know what it's doing? The consensus among the financial community - excepting, perhaps, asinine bank boards and their ineffectual directors - seems to be that no, the FSA does not know what it's doing.

I'm still willing to listen to arguments that we should have more, different, less or no regulation of the financial markets. But, Dear Lord, could we please try to make sure that whoever takes that decision actually does know what they're doing?

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http://www.prospect.org/csnc/blogs/beat_the_press_archive?month=09&year=2008&base_name=short_selling_ban_why_is

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