Bankbusters

THE world is awash in reports on reforming finance. Yet the latest effort from Britain isn't being greeted by stifled yawns—far from it. Commissioned by Which?, a consumer lobbying group, and authored by a handful of worthies, most of its suggestions are not new. Two things matter though. First, it endorses the idea that banks may have to be broken up. And second, one of those worthies is Vince Cable, a Liberal Democrat politician.

Since the group was brought together in December Mr Cable has unexpectedly graduated to become business secretary in Britain's new coalition government. In a television documentary due to be screened on June 14th he reportedly presses home his point.

A government commission that is to review how to reform the banks should, he says, explicitly examine a separation of retail and investment banking. Mr Cable is a longstanding fan of radical surgery and several officials at the Bank of England, including its governor, Mervyn King, are sympathetic too.

Britain's banks are very big relative to its economy and its taxpayers were clobbered worse than most. Yet the country is also testament to the sheer heterogeneity of bank failures. Royal Bank of Scotland was partly brought down by investment-banking losses. But a host of small, narrow banks blew up too, including Northern Rock, while a big retail bank, HBOS, failed in spectacular fashion.

The evidence from other countries is confusing too. Canada's widely lauded system is an oligopoly of big universal banks. Spain's savings banks, which form the kind of patchwork of medium sized firms focused on traditional loans that some dream of, are busy imploding at the same time, endangering the economy.

The report is on stronger grounds when it makes its main diagnosis: banks get a giant public subsidy in the form of a taxpayer guarantee of their borrowings, and that some of that subsidy flows to activities, such as investment banking, that may not be "socially useful".

The big banks will seek to persuade the government that there are other ways to remove the subsidy, including "living wills", resolution authorities for failed banks, the ring-fencing of deposits and more competition. They reckon that key officials in the Treasury agree and take comfort from the fact that the government commission will be headed by George Osborne, the Conservative chancellor (finance minister), not Mr Cable.

Reality check

What may swing the case, however, is commercial reality. Of Britain's five big banks, the two most successful, HSBC and Standard Chartered, have large investment-banking operations and could plausibly relocate their entire businesses to Asia, where the bulk of their profits come from.

A third, Barclays, which did not take government capital either, might, if forced to dismember itself, move its investment-banking headquarters to New York. The City of London is dominated by the investment-banking arms of universal banks, most of them foreign-owned.

The report co-authored by Mr Cable says Britain should work "with its international partners" when examining whether to break up banks. This is an onerous hurdle to overcome. Outside Britain and America there is no appetite for break-ups. In America the administration and the Federal Reserve have now opted for a reform package that leaves the industry's structure broadly intact.

At a meeting on June 9th-11th of the Institute of International Finance, a lobbying group, attended by bankers, regulators and government officials from most rich and emerging-market countries, your correspondent heard not a single mention of breaking up banks. Mr Cable has a lot of persuading to do.

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