

# Bankers from the Too Big to Fail Banks Twist the Facts to Justify Continued Speculation

By [Washington's Blog](#)

Global Research, June 16, 2011

[Washington's Blog](#) 16 June 2011

Theme: [Global Economy](#)

Business Insider's Courtney Comstock has a [great summary](#) of former IMF chief economist Simon Johnson's evisceration of the giant banks' arguments regarding capital requirements:

[Johnson's] argument in a nutshell: bankers from the big 6 are outright lying so that they can continue to take on risk and keep their profitable trading operations running.

The issue: BASEL III regulations (originated in Switzerland, written by all of the world's Central Banks) require banks to have a capital requirement of 7% of equity, which is high enough as far as banks are concerned, but not high enough as far as U.S. regulators are concerned. U.S. regulators want to tack on an extra 3%. (Or [maybe just 2% to 2.5%](#), according to a rumor on CNBC last week.)

Bankers do not want capital requirements to be too high for many reasons, a couple of which are [laid out by a banker who emailed us here](#), and 4 others which Reuters detailed last week:

1. "Holding capital hostage" will hurt the struggling economy because it will mean fewer loans at a time when lending is already depressed.
2. Establishing huge capital buffers is an admission by regulators that last year's Dodd-Frank financial overhaul does not accomplish its goal of reducing risk.
3. If banks hold onto more capital and make fewer loans, borrowers will turn to the "shadow banking sector" - hedge funds, for example — which has little or no oversight.
4. Tough standards in the United States would create a competitive disadvantage vis à vis other countries.

All of these are wrong, [according to Simon Johnson](#), who blasted each of them using the following arguments:

1. Capital requirements are a restriction on the liability side of the balance sheet — they have nothing to do with the asset side (in what you invest or to whom you lend).
2. During the Dodd-Frank debates last year, [everyone] said it would be a bad idea for Congress to legislate capital requirements and should leave them to be set by regulators after Basel III... Now the banks want to say that this is not his job as authorized by Dodd-Frank. This argument will impress only lawmakers looking for any excuse to help the big banks.

3. The “shadow banking sector” — hedge funds, for example — grew rapidly in large part because it was a popular way for very big banks to evade existing capital requirements before 2008, even though those standards were very low... It would be a disaster if this were to happen again.
4. [Just because your friend says it's a good idea to jump off a bridge...] If China, India or any other country wants to produce electricity using a technology that severely damages local health, why would the United States want to do the same?

As I've [repeatedly noted](#), the government's policies discourage lending to Main Street and the little guy.

And Comstock goes on to note:

Making all of this more interesting is [an op-ed written by a regional bank CEO](#) a couple of days ago. Right now, regional banks are subject to the same regulations as the big 6, but they are totally different beasts.

Bob Wilmers, M&T Bank CEO, writes that the Big 6 should be subject to stricter regulations like higher capital requirements because they trade so much, and it's risky, but smaller banks, like his, should not be subject to such high capital requirements because they actually use the free capital on their balance sheets to lend to entrepreneurs, etc.

The original source of this article is [Washington's Blog](#)  
Copyright © [Washington's Blog](#), [Washington's Blog](#), 2011

---

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Washington's Blog](#)

**Disclaimer:** The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)

[www.globalresearch.ca](http://www.globalresearch.ca) contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)