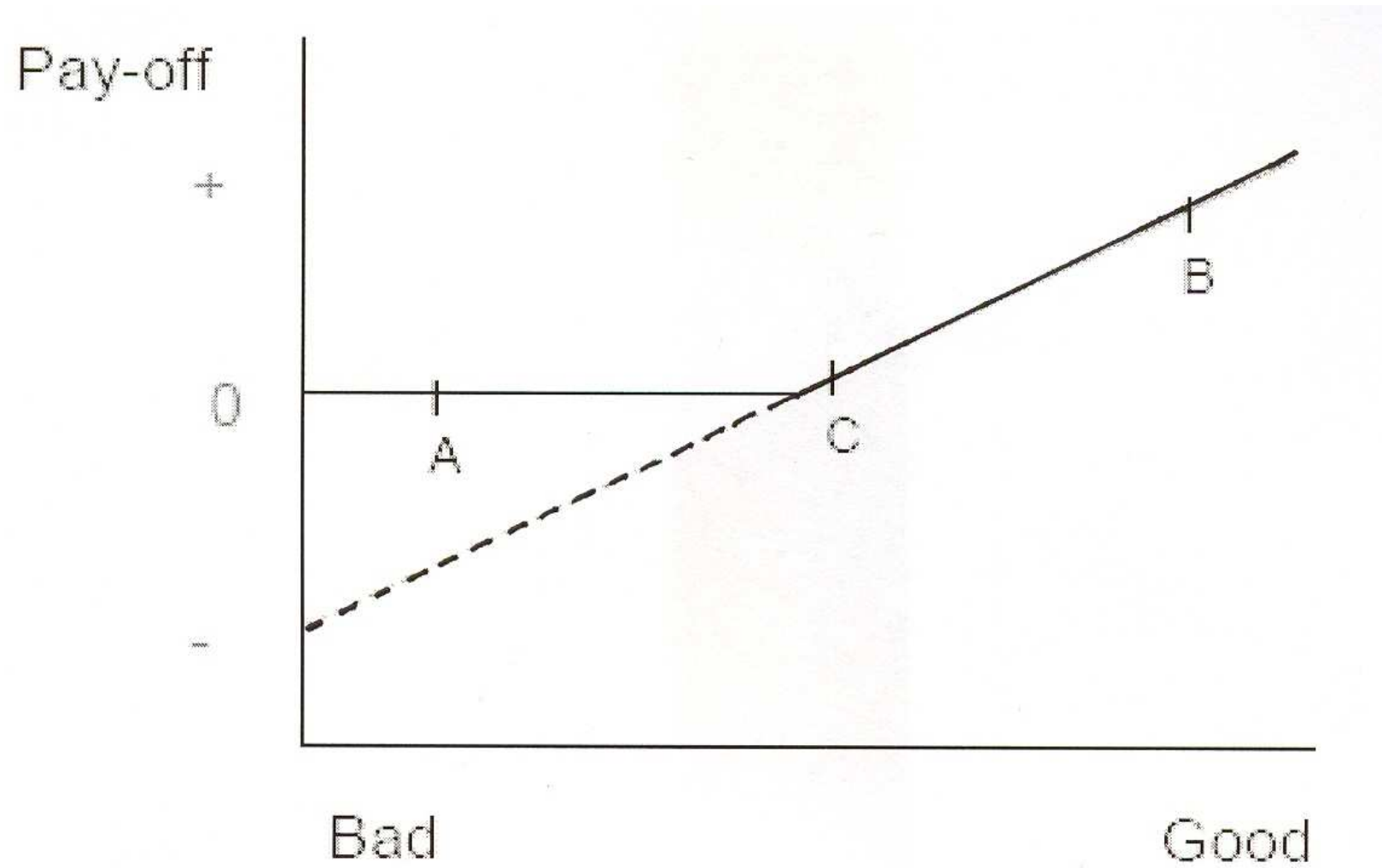


# **How to Mitigate the Procyclicality of the Banking System**

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## Counter-Measures

- (a) Direct Constraints
  - \* Size
  - \* Activity (Narrow banks; banks combine a casino with a utility).
- (b) Remuneration
- (c) Insurance
  - \* Self insurance: debt/CDS
  - \* Public sector insurance: how are prices set?
- (d) Counter-cyclical CARs
  - \* How done? Ladder of sanctions
- (e) Housing



## Future Outcomes?

- (1) The regulated (the banks) will generally win any contest with the regulators. Implications thereof.
- (2) Europeans will adopt leverage ratio, adjustable by discretion.
- (3) Otherwise insurance/counter-cyclical, or both, uncertain.
- (4) Discussion of what to do is being deflected into 'turf wars' of who does what.
- (5) International agreement further complicated by battles over responsibilities of home/host regulators.
- (6) Nevertheless tighter requirements
  - Higher costs
  - Larger spreads between deposit and loan rates
  - Cost of bank intermediation
  - Diversion of finance via other channels (Securitisation revives?)