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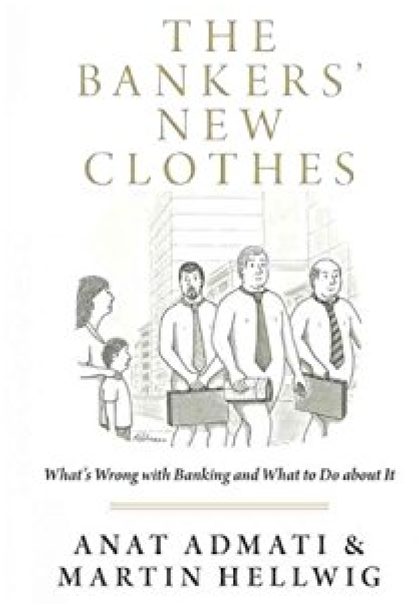
The Bankers' New Clothes



Synopsis

What is wrong with today’s banking system? The past few years have shown that risks in banking can impose significant costs on the economy. Many claim, however, that a safer banking system would require sacrificing lending and economic growth. The Bankers’ New Clothes examines this claim and the narratives used by bankers, politicians, and regulators to rationalize the lack of reform, exposing them as invalid. Admati and Hellwig argue that we can have a safer and healthier banking system without sacrificing any of the benefits of the system, and at essentially no cost to society. They show that banks are as fragile as they are not because they must be, but because they want to be - and they get away with it. Whereas this situation benefits bankers, it distorts the economy and exposes the public to unnecessary risks. Weak regulation and ineffective enforcement allowed the build-up of risks that ushered in the financial crisis of 2007-2009. Much can be done to create a better system and prevent crises. Yet the lessons from the crisis have not been learned. Admati and Hellwig seek to engage the broader public in the debate by cutting through the jargon of banking, clearing the fog of confusion, and presenting the issues in simple and accessible terms. The Bankers’ New Clothes calls for ambitious reform and outlines specific and highly beneficial steps that can be taken immediately.

Book Information

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Customer Reviews

Banking is a great gig. Thanks to government subsidies (in the form of deposit insurance and implicit guarantees of bailouts), banks are able to raise debt cheaply and to amass gigantic levels of leverage. Leverage jacks up ROEs (and pays for huge bonuses) when investments go well. When they go badly, the government steps in to clean up the mess. It's a perverse business model that guarantees big bucks for bankers while pushing the costs of instability and financial crises onto everyone else. The government allows it because Wall Street owns the U.S. Treasury, regulators, and Congress. Written by two academics, "The Bankers' New Clothes" explains this high-risk system in clear, simple terms, heavily backed up by footnotes. It proposes that banks be required to raise far more capital by issuing equity than they currently do. The book is a good myth-busting read, and I substracted one star only because it is a bit repetitive.

The basic idea of this book is sound.Increase required capital reserves to as high as 10%.However,even if combined with much more financial regulation and financial product transparency,the authors simply seem to be unaware of the immense concentrated political power of the banking industry.This political power was recently on display when $2 trillion strong Citi-group wrote the repeal of the Volcker rule that was passed by Congress as an amendment to the budget bill.It is quite clear that they have successfully bought off majorities in both the House and Senate.The situation is nearly identical to 1900;only the current situation is much worse because the banks today have greater power than J P Morgan ever had .The only real cure is to both reduce the size of the current behemoths, like Citi-group and Morgan Chase, and bring back a strengthened Glass Steagall Act.I deducted one star because of the authors' failure to integrate the wisdom of Adam Smith regarding how banks should be dealt with.Smith had the answers back in 1776.Simply prevent the banks from speculating with the public's deposits and do not allow any bank loans to be made to such banks or individuals that seek to make a profit without production through the use of bank financed leveraged buyouts and financial derivatives, which should be banned.

This book was an interesting read. I bought it to learn more about how banking works, and I found it did that. I bought the Kindle edition, and that is the only reason I did not give it 5 stars. Since about 44% of the material is footnotes, References, and Index - the potential of hitting a hyperlink in the text caused me to relocate my position in the book multiple times and frustrating to read that way. Research is a key part of this book, and I would have preferred to have the print if I was going to use all the references.The book is very well written, and clear. Not everyone is interested in knowing about this topic - I wish people were more aware of this book and more about the way the financial industry works in our world. The financial crisis bill is something that everyone will have to pay for - perhaps the knowledge here can help prevent it occurring again.

Excellent book written for a general audience explaining why big, highly leveraged banks are bad for the economy. Then they assert that requiring banks to raise more capital by issuing stock and less through borrowing will be extremely beneficial for the financial system.This seems too simple to be true and the most helpful negative review has called it "overly simple". I strongly disagree. I think it is just simple enough. Simple is good. Complicated rules, such as the Volcker Rule, will be gamed, evaded and lobbied to irrelevance. The presentation in the book is somewhat oversimplified but there are lots of footnotes that go into greater depth and elaborate the point plus references that support them.Why hasn’t such simple logic been followed already? The authors describe how bankers benefit from the current system of extremely high leverage and from the implicit promise of taxpayer bailouts. They also argue that their proposal -- which they have been making academically and to regulators and politicians for a few years -- has been opposed by entrenched banking interest. Also, the general public doesn’t understand these issues or of banking in general. They argue that this in part because bankers promote confusion. This book is written to combat that. "We want to encourage people to form and to trust their opinions, to ask questions, to express doubts, and to challenge the flawed arguments that pervade the policy debate. If we are to have a healthier financial system, more people must understand the issues and influence policy."I think they do a great job of explaining the problem in very clear and understandable terms to people with no prior knowledge without oversimplifying. For readers who want to delve more deeply, they have excellent footnotes and references. I am involved in the field and find the references and excellent compendium of sources, some of which I already knew but some which I am very glad they have pointed me to.Their central premise is that a simple measure -- requiring banks to raise more funds as equity capital -- issuing stock instead of borrowing -- would greatly improve the stability of the banking system. They also address the "bugbear" that doing so would reduce economic growth. Essentially, we can have our cake and eat it too.In their words "if banks have much more equity, the financial system will be safer, healthier, and less distorted. From the society’s perspective, the benefits are large and the costs are hsrd to find: there are virtually no tradeoffs."The message is quite strong and they seem quite alarmed about the current state of affairs "Today’s banking system, even with the proposed reforms, is as dangerous and fragile as the system that brought us the recent financial crisis." But their writing is quite dry and matter-of-fact. I think they do a wonderful job of explaining the essence of banking and the problems leverage creates to people without a lot of financial knowledge.I found their message to be quite persuasive and compelling.Addendum: Many of claims in negative reviews are refuted by the authors in this (fairly short)

Clothes, Clothes, Clothes. Music, Music, Music. Boys, Boys, Boys.: A Memoir The Bankers' New Clothes My Clothes, Your Clothes (Cloverleaf Books Ã¢â Â¢ Ã¢â ¬â • Alike and Different) The Sewing Bible for Clothes Alterations: A Step-by-step practical guide on how to alter clothes Lords of Finance: The Bankers Who Broke the World The Spider Network: The Wild Story of a Math Genius, a Gang of Backstabbing Bankers, and One of the Greatest Scams in Financial History The Alchemists: Three Central Bankers and a World on Fire 10 Golden Money Tips: In a World of Greedy Bankers And Volatile Markets - What The Richest 1% Do With Their Money That The Remaining 99% DonÃ¢â ¬â„¢t! Schroders: Merchants & Bankers Heaven's Bankers: Inside the Hidden World of Islamic Finance Other people's money: and how the bankers use it The Complete Fairy Tales of Hans Christian Andersen: 127 Stories in one volume: From the most beloved writer of children's stories and fairy tales, including ... Nightingale, The Emperor's New Clothes... The Dinosaur's New Clothes The Emperor's New Clothes Exoticisation Undressed: Ethnographic Nostalgia and Authenticity in EmberÃƒÂ¡ Clothes (New Ethnograpies Mup) New Complete Guide to Sewing: Step-by-Step Techniques for Making Clothes and Home Accessories The Empress' New Clothes (Trek Mi Q'an Book 1) Ninety Percent of Everything: Inside Shipping, the Invisible Industry That Puts Clothes on Your Back, Gas in Your Car, and Food on Your Plate How to Get Dressed: A Costume Designer's Secrets for Making Your Clothes Look, Fit, and Feel Amazing Legendary Authors and the Clothes They Wore