Book Review: 'The Bankers New Clothes,' By Anat Admati And Martin Hellwig

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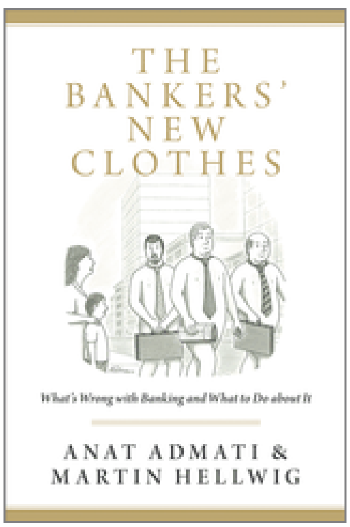
by: Hazel Henderson

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. **(More...)**

"The Bankers' New Clothes," by Anat Admati and Martin Hellwig, Princeton University Press, 2013, which looks at the global banking industry and its self-protective lobbying efforts at the BIS, the EU and the regulators and politicians in London, and Washington, is critical and refreshing. The authors, Anat Admati, a professor at Stanford University Graduate School of Business, also a member of the FDIC Systemic Resolution Advisory Committee, and Martin Hellwig, Director of the Max Plank Institute for Research on Collective Goods, chair of the Advisory Scientific Committee of the European Systemic Risk Board, are a formidable pair and systematically demolish all the bankers' arguments on risk, capital buffers, reserve requirements and the claims that no further reforms are required.



Admati and Hellwig's treatise is summarized in the book's subtitle, "What's Wrong With Banking and What to Do About It," and has received plaudits from Lord Adair Turner and many favorable and serious reviews in *The Economist* and other media.

Essentially, this book is a didactic exploration of the shortcomings and unnecessary risks in today's debt-overloaded banks and detailed arguments for why banks should hold at least 20-25% equity. They criticize Basel III as wholly inadequate as regards risk-assessment of Tier I capital and its overall reserve requirements, which the authors also think should be higher. To end the "too big to fail" implicit subsidies, which penalize all other financial firms, Admati and Hellwig insist that until these banks have raised more equity in public markets and reached the 25% equity targets that all dividend payouts to shareholder should be banned. Thus they are moving toward the "limited purpose banking" proposals of Lawrence Kotlikoff in his "*Jimmy Stewart is Dead."*

Clearly, radical reform is needed, as we at Ethical Markets propose in our Transforming Finance initiative, our public statements (co-signed by over 100 global experts) and in our TV series at www.ethicalmarkets.tv and for global education markets at www.films.com. We agree with co-author Hellwig in his focus beyond markets on the global commons and public goods. Finance has been a part of the global commons since Bretton Woods in 1945. Lord Adair Turner has now joined us, the Public Banking Institute, the Schumacher Center and Britain's Positive Money and New Economics Foundation, that the banks' privilege of creating a nation's money as interest-bearing loans should be withdrawn and this privilege must be returned to national treasuries as a pubic function, saving billions in unnecessary interest payments. This questioning of how the power to create a nation's money supply fell into private hands is also the focus of many economists at the American Monetary Institute and the bill in the U.S. congress, the American Monetary Reform Act, which lays out a minimally disruptive path to a 100% reserve banking system. Systems theorist Kaoru Yamaguchi of Doshisha University in Tokyo outlines how a rolling readjustment can be achieved.

A spate of recent books, *"The End of Money*" (2009) by Tom Greco; "*Future Money"* (2012) by James Robertson; "*Money and Sustainability* (2012) by Bernard Lietaer as well as films including "The Money Fix" and "Money & Life" attest that this cat is now out of the bag. Money creation is now seen as politics in disguise, a cause of the widening wealth-poverty gaps and a rallying cry of the global Occupy movement as in former currency trader Ross Jackson's *"Occupy World Street"* (2012) to which I wrote the foreword. Even the U.S. Congress is taking notice, with the bill introduced recently by Senators Sherrod Brown (D-OH) and David Vitter (R-LA), which would break up all "too-big-to-fail banks."

But, as with Admati and Hellwig's focus on banks, all this ignores the rest of the FIRE sector of our global economy. Insurance has proved equally dangerous with AIG's London group's reckless CDS underwriting. Real estate, both residential and commercial, is as risky as ever after the massive U.S. bailout of Fannie Mae and Freddie Mac. Investment banking alone, as in the case of Lehman can cause global financial contagion. Admati and Hellwig certainly point to these dangers, giving an example of correctly accounting for JP Morgan Chase's self-proclaimed "fortress balance sheet" (p. 84), showing the difference between GAAP and IFRS with equity of 8% under GAAP rules and only 4.5% under IFRS.

Matt Taibbi also reports in *Rolling Stone* and Yves Smith in her "*Naked Capitalism"* on the need to expand the Sherrod-Vitter bill to the entire FIRE industry - and the fact that insurance companies are big contributors to both Brown and Vitter's campaign funds.

Expect to hear a lot more from Admati and Hellwig about "T*he Bankers' New Clothes*"!