

Editorial

Bingham and BCCI

Hard on the heels of the ERM crisis comes the long-awaited *Bingham Report* on the BCCI scandal – by far the biggest fraud in banking history. These two sorry episodes raise important questions both about the competence of the government (though Bingham does go out of his way to exonerate Treasury ministers and officials) and, more emphatically, about the role of the Bank of England.

The Bingham Report makes clear the lamentable vulnerability of the national and international regulatory systems (if “system” is not being over-generous), based heavily upon a culture of mutual trust, to a cunning, ruthless and multi-faceted international fraud. Although the Report stops short of pinning the ultimate blame upon the Bank of England itself, the latter’s performance, over many years, and despite the hard lessons learned from previous banking scandals, such as the Johnson Matthey affair in the mid-1980s, comes in for detailed scrutiny and cumulatively damning criticism.

Predictable, the Chancellor has rejected Opposition calls for the Governor’s resignation, but both the Government and the Bank have accepted the Report’s recommendations for important changes in banking law and in the machinery for policing the system.

But the essential problems go far too deep to be remedied by superstructural tinkering. In essence they are constitutional: they have to do with the tension and conflict that is inherent in the schizophrenic duality of the Bank’s role as custodian of monetary policy on the one hand and as superintendent of the banking system on the other. Throughout the recent sterling crisis, questions were raised in several quarters about whether the time had come for us to create a powerful and independent central bank, along the lines of the Bundesbank or the US Federal Reserve System. The quite different circumstances of banking fraud, prompt variations upon the same thought.

As matters stand at present, the regulatory functions of the Bank sit very uneasily alongside its monetary

functions. The former will always tend to be overshadowed by the latter. Bingham notes the possibility of dividing them, but comes down against the idea. We believe that he is wrong. Meanwhile, the much bigger arguments about the desirability or otherwise of moving towards an independent central bank revolve around difficult questions to do with international finance and domestic economic management. But such a move, if it ever happens, will surely result, incidentally, in the hiving off of the policing function to a separate regulatory board. In the present climate of political opinion – and perhaps until there is another scandal of BCCI proportions – this seems to be the only scenario in which this highly desirable separation will be effected.