{ LIBOR SCANDAL }

JEREMY WARNER

The Libor scandal will prevent a return to the gun-slinging ways of the past

It is now just over five years since the start of the banking crisis. From the moment BNP Paribas told investors in two of its funds that they couldn't take their money out (on 9 August 2007) owing to a "complete lack of liquidity", it was obvious that something very bad was coming down the line from credit markets. Even so, few would have imagined that, five years on, we'd still be struggling with many of the problems that erupted at that time.

Any number of apparently defining moments have been and gone since then, so it is possibly premature to assign special significance to the Libor scandal. Nonetheless, there was something particularly shocking about this outbreak of fraudulent deception at the heart of some of the world's biggest banks. This was the moment when public anger turned into abject fury, making profound regulatory and structural change, at least partially resisted up until now, all but inevitable.

Last year, Bob Diamond, former chief executive of Barclays, told MPs on the Treasury Select Committee that in the interests of growth and prosperity, it was time to put the banking crisis behind us, stop apologising for the failures of the past and move on.

Even to the ever upbeat Mr Diamond, it will now be brutally obvious that there will be no such return to the gun-slinging ways of the past. The worm has turned, and it is a greyer, less dynamic world into which we are moving – one of scarce credit, extreme risk aversion and substantive state intervention. Equity, rather than debt, will progressively become the capital of choice, while safety first has already replaced risk as the key driver in investment decision-making. Regulatory diktat threatens to take the place of free market choice.

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Against such seismic changes, what happens to the future of the London Interbank Offered Rate (Libor) may seem a somewhat trivial issue. Interbank lending is already much smaller than it was. One of the consequences of the credit crunch is that banks have moved wholesale to self and central bank funding. Even so, it is obviously essential that public trust in the integrity of these rates is restored.

Blaming British incompetence, Americans see the scandal as an opportunity to hijack the system, along with much of the rest of London's historic advantage as a financial centre, and ship it off to the United States. Ben Bernanke, chairman of the US Federal Reserve, has even suggested that Libor be scrapped and US treasuries be used instead as the rate-setting benchmark – a bizarre idea since Libor is meant to reflect the rate at which banks lend to one another, not the price the US government pays for its debt.

In any case, there is a meeting of central bankers in Basel this month (9 September) to explore more transparent and trustworthy ways of fixing the rate. The old world is passing. It's not yet clear the new one will be much of an improvement.

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