



The Daily Dish

# The Endgame for the Basel III Endgame

DOUGLAS HOLTZ-EAKIN | JANUARY 10, 2024

Eakinomics readers may have noticed their holiday football watching included this [ad](#) from the non-profit Center Forward decrying proposed Federal Reserve capital rules. Eakinomics certainly did. This is not the typical stuff of Sunday Night Football. But it is a good indicator of the intensity of conflict over the Fed's (and Federal Deposit Insurance Corporation) proposed rules.

The rules in question are known as the “Basel III endgame,” a moniker that derives from the town of Basel, Switzerland where international bank regulators have three times met and reached agreement on regulatory standards for banks. The rules are the proposed U.S. implementation of this agreement.

Except that they are far more aggressive and ill-designed than a mere implementation. As Eakinomics [previously opined](#):

[T]he Fed will likely raise the capital requirements on the largest banks even though there is no evidence of any need for the increase. And it will expand to the regional banks the same requirements because of the failure of Silicon Valley Bank, even though there is zero evidence that capital requirements or risk models led to its problems. And how does it conclude that this is a good idea? By ignoring costs.

Sure, there are benefits to regulations, but there are also costs and not all regulatory expansions will pass a benefit-cost test. The Fed seems to have forgotten about half of the issues in evaluating capital requirements.

Nevertheless, Eakinomics has been skeptical that the Fed would modify its proposals much despite the overwhelming economic case for doing so. First, those pointing out the flaws are unsympathetic public figures – large banks and the financial community. Second, the rules need to be finalized quickly in order to insulate them from potential congressional rollback under the Congressional Review Act in the next Congress.

Yesterday, however, *Bloomberg* published an intriguing [story](#) indicating substantial internal discomfort with the rule at the Fed itself, including a tepid endorsement from Chairman Powell: “The Fed’s unusually close 4-2 vote to advance the rule came as a surprise from an organization that prides itself on consensus. Two Republican-appointed Fed governors voted no, and Chair Jerome Powell — whose approval came with reservations — signaled that the final version would need ‘broad support’ from the board.”

Thus begins the endgame for the Basel III endgame rule. “To get the 1,087-page package across the finish line, Barr will make changes to address any substantive gaps in the proposal and try to reach consensus within the Fed, according to two people familiar with his thinking.” The most important substantive gap is any serious analysis addressing the costs and benefits of the rule. Given that the international agreement was reached in 2017, it is far from a hasty step to undertake a real analysis of the proposed implementation. It is long overdue.