If Government Won't Break Up the Giant Banks, Let's Do It Ourselves

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As everyone knows, the economy cannot permanently recover and truly stabilize until the giant banks are broken up. The top independent experts agree that the "too big to fails" are a drain on the economy and put the entire system at risk.

The giant banks aren't lending much to the people who need it. Fortune pointed outin February that smaller banks are stepping in to fill the lending void left by the giant banks' current hesitancy to make loans. Indeed, the article points out that the only reason that smaller banks haven't been able to expand and thrive is that the too-big-to-fails have decreased competition.

Federal Reserve Governor Daniel K. Tarullo said in June:

The importance of traditional financial intermediation services, and hence of the smaller banks that typically specialize in providing those services, tends to increase during times of financial stress. Indeed, the crisis has highlighted the important continuing role of community banks…

For example, while the number of credit unions has declined by 42 percent since 1989, credit union deposits have more than quadrupled, and credit unions have increased their share of national deposits from 4.7 percent to 8.5 percent. In addition, some credit unions have shifted from the traditional membership based on a common interest to membership that encompasses anyone who lives or works within one or more local banking markets. In the last few years, some credit unions have also moved beyond their traditional focus on consumer services to provide services to small businesses, increasing the extent to which they compete with community banks.

But the government – instead of breaking up the giant banks who aren't lending to the people who need loans – is trying to prop them up using permanent bailouts. Seethis, this, this and this.

And – instead of separating different business activities (such as depository banking functions and speculative investments) – the government is actually allowing companies to get involved in a wider variety of business activities.

For example, economist Simon Johnson points out that Goldman Sachs recently converted to a "financial holding company", allowing Goldman to borrow money from the Fed at essentially no cost, and then invest it in any thing it wants. Johnson gives an example: Goldman bought a large share of the stock of a Chinese automaker. If the investment succeeds, Goldman will reap the profits. If it fails, the American taxpayers are on the hook.

And Goldman is apparently profiting from its combination of roles as both an investment brokerage house for other investors and as a large speculative investor itself. Specifically, Goldman apparently delays trades it makes for its clients long enough to use that inside knowledge of who is buying or selling what to make speculative investments for itself, oftentimes taking the exact opposite position for itself and its largest clients as the position it is recommending to its Mom and Pop investor clients.

Why are politicians letting this happen?

Could it be because the giant banks have bought and paid for Congress and the White House? See this, this and this.

We'll Have to Do It Ourselves

If the government isn't doing anything to fix this dangerous situation, we'll have to do it ourselves.

As a start, if Congress won't reimplement the Glass-Steagall Act (the Depression-era law which previously separated depository functions from speculative investing), let's manually separate these two types of businesses.

How?

Simple: let's pull our money out of the too big to fails and put it into small community banks and credit unions.

The giant banks may still make bucketloads of cash on their casino style speculative gambling (for now, at least), but after we've moved our deposits to more responsible, smaller banks which don't gamble as much, then we will have manually separated depository banking functions from the giant banks' speculative investing.

Get it?

The government isn't doing the job and fixing the problems which have led to the economic crisis … so we'll have to do it ourselves.

Note: Some people say that moving our money out of the too big to fails will just mean that the government will give them more bailouts. But this misses 3 points:

1. If the deposits are withdrawn, the giant banks will only be speculative gamblers, and at least our deposits will be safe and won't be mixed with their toxic assets

2. The giant banks and their enablers in Washington will look even worse if they are bailing out companies that are solely and obviously gambling casinos

3. The head of the International Monetary Fund, Dominique Strauss-Kahn, has warned:

The public will not bail out the financial services sector for a second time if another global crisis blows up in four or five years time, the managing-director of the International Monetary Fund warned this morning.

Dominique Strauss-Kahn told the CBI annual conference of business leaders ***that another huge call on public finances by the financial services sector would not be tolerated by the "man in the street" and could even threaten democracy.***

"Most advanced economies will not accept any more [bailouts]…The political reaction will be very strong, putting some democracies at risk,*" he told delegates.*

In other words, the government – fearing revolt – might be more hesitant to give another round of bailouts than people assume.

I'm not looking at this with rose-colored glasses, and I realize that the TBTFs will act like the kid who killed his parents and then cries for pity since he's an orphan.

But I think that if the government is not doing its job, we should do it ourselves, and that a focused gesture of taking things into our own hands can only help.

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