The "Too Big to Fail Banks" are Bigger and more Powerful. The Financial Crisis has not Ended … It's Only Gotten Worse

Despite "Mission Accomplished" Announcement, the Giant Banks Are Worse Than Ever

By Washington's Blog
Global Research, August 07, 2014
Washington's Blog

Region: USA
Theme: Global Economy

Last week, Paul Krugman said too big to fail is over:

> There was indeed a large-bank funding advantage during and for some time after the crisis, but it has now been diminished or gone away — maybe even slightly reversed. That is, financial markets are now acting as if they believe that future bailouts won't be as favorable to fat cats as the bailouts of 2008.
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> This news is part of broader evidence that Dodd-Frank has actually done considerable good, on fronts from consumer protection to bank capitalization ….

But as David Dayen notes, Krugman's stretching the facts:

> The report [that Krugman relies on for his claim that too big to fail] **doesn't** really say that future bailouts won't be as favorable to the fat cats, or even that market participants believe that: it does say that large financial institutions would likely continue to enjoy lower funding costs than their counterparts in times of high credit risk (see page 40). Furthermore, the report so completely second-guesses itself that it shouldn't be taken as evidence of anything, as the report itself states in numerous spots. Presumably a Nobel Prize winner has come across reports with muted conclusions before and would know not to get too far out in front of the facts by amplifying them.
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> The report did not say that the advantage has "essentially disappeared." GAO ran 42 models to try and assess the subsidy. In 2013, 18 of those models effectively tested positive for the subsidy, 8 tested negative, and 16 showed nothing. That's fairly inconclusive, and not at all as definitive as Krugman makes it.
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> Gretchen Morgenson reported on the same study in the news, and managed to get it right, contrawhat Krugman thought he could get away with on the op-ed page.

> (GAO's) methodology was convoluted and its conclusions hardly definitive. The report said that while the big banks had enjoyed a subsidy during the financial crisis, that benefit "may have declined or reversed in recent years." […]
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> The trouble with this mishmash is that big bankers and even policy makers will cite these figures as proof that the problem of too-big-to-fail institutions has been resolved. Mary J. Miller, the departing under secretary for domestic finance at the United States Treasury, wrote in a letter about the report: "We believe these results reflect increased market recognition of what should now be evident — Dodd-Frank ended 'too big to fail' as a matter of law."
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> Not exactly. As the report noted, the value of the implied guarantee varies, skyrocketing with economic stress (such as in 2008) and settling back down in periods of calm.
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> In other words, were we to return to panic mode, the value of the implied taxpayer backing would rocket. The threat of high-cost taxpayer bailouts remains very much with us.

There's more: Morgenson actually watched the hearing about the report, and found credible questioning of GAO's methodology, in particular the narrow way in which they defined the subsidy as entirely about lower debt costs, instead of the lower cost of equity and benefits to stockholders. I've also heard that bond prices, with their focus on immediate-term risk, are simply an inaccurate indicator of short-term borrowing costs, particularly those in the securities lending markets.

And a few days after Krugman wrote his piece, the Washington Post reported:

> **Eleven of the biggest U.S. banks have no viable plan for unwinding their businesses without rattling the economy**, federal regulators said Tuesday, ordering the firms to address their shortcomings by July 2015 or face tougher rules.
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> The Federal Reserve and the Federal Deposit Insurance Corp. called the banks' resolution plans, or "living wills," "unrealistic or inadequately supported." They said the plans "fail to make, or even to identify, the kinds of changes in firm structure and practices that would be necessary to enhance the prospects for" an orderly resolution.
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> "Each plan being discussed today is deficient and **fails to convincingly demonstrate how, in failure, any one of these firms could overcome obstacles to entering bankruptcy without precipitating a financial crisis**," Thomas M. Hoenig, vice chairman of the FDIC, said in a statement Tuesday.
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> Regulators, especially Hoenig at the FDIC, worry that banks are generally **larger, more complicated and more interconnected than they were before the meltdown**.

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> And the average notional value of derivatives for the three largest firms exceeded $60 trillion at the end of 2013, **up 30 percent from the start of the crisis**.
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> "There have been no fundamental changes in their reliance on wholesale funding markets, bank-like money-market funds, or repos [repurchase agreements], activities that have proven to be major sources of volatility."

David Stockman – Ronald Reagan's budget director – writes:

> The giant regulatory diversion known as Dodd-Frank has actually permitted the TBTF banks to get even bigger and more dangerous. Indeed, JPM and BAC were taken to their present unmanageable size by regulators—ostensibly fighting the last outbreak of TBTF—who imposed or acquiesced to the shotgun mergers of late 2008.
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> So now these same regulators, who have spent four years stumbling around in the Dodd-Frank puzzle palace confecting thousands of pages of indecipherable regulations, slam their wards for not having sufficiently robust "living wills". C'mon! This is just another Washington double-shuffle.
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> The very idea that $2 trillion global banking behemoths like JPMorgan or Bank of America could be entrusted to write-up standby plans for their own orderly and antiseptic bankruptcy is not only just plain stupid; it also drips with political cynicism and cowardice. If they are too big to fail, they are too big to exist. Period.

And Michael Winship notes:

> In The New York Times, columnist Gretchen Morgenson writes, "Six years after the financial crisis, it's clear that some institutions remain too complex and interconnected to be unwound quickly and efficiently if they get into trouble."It is also clear that this status confers financial benefits on those institutions. Stated simply, there is an enormous value in a bank's ability to tap the taxpayer for a bailout rather than being forced to go through bankruptcy."
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> Morgenson adds, "Were we to return to panic mode, the value of the implied taxpayer backing would rocket. The threat of high-taxpayer bailouts remains very much with us."
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> Financial professionals echo her concern. Camden Fine, president and CEO of the Independent Community Bankers of America, notes in American Banker (not without self-interest) that while the size of big bank subsidies may have "diminished since the crisis … the larger point is that the biggest and riskiest financial firms still have a competitive advantage in the marketplace. They can still access subsidized funding more cheaply than smaller financial firms because creditors believe the government would bail them out in the event of a crisis. No matter how you cut it, a subsidy is a subsidy. And this subsidy is one that puts the American taxpayer on the hook. …
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> "Meanwhile, the largest financial institutions are only getting bigger. According to our analysis of call report data from the Federal Deposit Insurance Corp., since the end of 2009, the assets of the six largest financial institutions have

grown each year. **Their total assets rose from $6.41 trillion in 2009 to $7.22 trillion in 2014 — a total increase of $800 billion. The top six banks are also responsible for more than half of the $2 trillion increase in total U.S. banking assets in the years since 2009**."

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As [Senators Brown and Vitter stated](), "**Today's report confirms that in times of crisis, the largest megabanks receive an advantage over Main Street financial institutions. Wall Street lobbyists may try to spin that the advantage has lessened. But if the Army Corps of Engineers came out with a study that said a levee system works pretty well when it's sunny — but couldn't be trusted in a hurricane — we would take that as evidence we need to act**."

We've noted for years that, the Dodd-Frank financial "reform" bill is a joke which:

- Was just a P.R. stunt which didn't really change anything
- Increases the risky derivatives holdings of the banks
- Makes the "too big to fail" banks even bigger
- "Will NOT stop the next financial crisis from coming"
- Is all holes and no cheese … a placebo for a sick economy

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