It’s Time to End Too Big To Fail

Today Wall Street is dominated by giant “Too Big To Fail” banks. The five biggest banks hold almost $9 trillion in assets– more than half of all banking sector assets. That’s up from just a quarter in the 1990s. And other kinds of financial companies, like insurance companies, are also larger than ever before.

The Harm Created By Too Big To Fail

The size of these financial mega-companies gives them power they shouldn’t have and that other businesses don’t. As we saw in the 2008 financial crisis, the biggest banks can demand government support when they are in danger of failing. While unemployment soared generally and hundreds of smaller community banks failed, the largest banks received trillions in low-interest government loans and capital injections to keep them afloat. They have also used their size and power to block accountability if they break the law - the “Too Big To Jail” problem.

The excessive size of these institutions also distorts the economy and the financial system, since they dominate the market and drive out smaller competitors. And they have an unfair influence on politics and government, as we saw not just in the financial crisis but in incidents since then. Government has failed to prosecute financial sector executives for even criminal wrongdoing, and banks have manipulated the system to create loopholes and exemptions in regulations.

How Do We Fix This Problem?

We need to tell government regulators to break apart banks and financial institutions that are Too Big To Fail. Regulators already have the authority to do this, but they have not been willing to use it aggressively.

We also need to impose much higher risk controls and protections at the largest banks, even if such controls will cost them more. This would both create incentives for them to get smaller, and better protect the public from the risk of their failure.

We should also restore a 21st Century version of the old Glass-Steagall division between commercial and investment banking, which would force Wall Street trading and speculative activities to be conducted separately from ordinary commercial banking activities like deposit-taking and lending. Since most of the largest banks combine large amounts of both activities, restoring Glass-Steagall would force them to break apart, as well as making them less complex and risky.