Negative: Big Bank Breakup

By “Coach Vance” Trefethen

**Resolved: The United States Federal Government should substantially reform its banking, finance, and/or monetary policy.**

The AFF case proposes to break up large banks so that none of them are “too big to fail” and require federal bailouts.

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Negative: Big Bank Breakup

NEGATIVE PHILOSOPHY

The Federal Government is too big, maybe we should break it up instead of banks

Ryan Rainey 2016 (journalist) 11 Oct 2016 “One Soundbite After Wells Fargo Scam: ‘Too Big to Manage’” <https://morningconsult.com/2016/10/11/one-soundbite-wells-fargo-scam-big-manage/>

Right-leaning economists disagree with the premise of Waters’ call to break up a bank because of management issues. Alex Pollock, a distinguished senior fellow at the libertarian R Street Institute, dismissed that idea as illogical. “If you want somebody who should be broken up because they make mistakes, try the Congress. Try the U.S. government,” Pollock said in an interview. “I think that argument is simply wrong … because these big banks are very well managed in many ways.”

INHERENCY

1. New regulations solve

Basel accords and Dodd-Frank implemented new safeguards and they are working

Prof. Satish Thosar and Bradley Schwandt 2019. (Thosar - Professor, University of Redlands School of Business. Schwandt - Solution Consultant Associate at NetSuite) Has ‘Too Big To Fail’ Been Solved? A Longitudinal Analysis of Major U.S. Banks 1 Feb 2019 JOURNAL OF RISK & FINANCIAL MANAGEMENT <https://www.mdpi.com/1911-8074/12/1/24>

International coordination in establishing comprehensive measures to strengthen regulation, supervision, and risk management for large globally active banks has been exemplified in the Basel accords. In 1988, Basel I established the minimum standard of 8 percent for the ratio of required bank capital to risk-weighted assets (RWA). The perceived inadequacy and gaming of the risk weights led to Basel II, which altered the standard weights and also introduced an alternative protocol whereby banks could use internal models to compute their RWA. Basel II was in the implementation phase in many jurisdictions when the financial crisis hit and widespread capital shortfalls became evident which precipitated Basel III in 2010 (finalized in 2017). Basel III tightened the definition of capital, increased the scope of exposures included in the computation, established a maximum leverage ratio, raised risk-weighted capital requirements substantially for the largest, most complex banks, and also introduced liquidity requirements. For instance, Basel III imposes a higher capital requirement on G-SIBs (see footnote 4) based on a score calculated from a set of indicators that include size, interconnectedness, substitutability, complexity, and cross-jurisdictional activity. The surcharge ranges from 1.0 percent to 3.5 percent of RWA, and is in addition to the 7 percent total common equity ratio requirement. The Dodd-Frank Act (Title VI, Section 606) also directed regulators to strengthen bank capital requirements. Figure 2 indicates the Tier 1 capital ratios for the U.S. banks (top, middle, low) in our longitudinal analysis. Clearly, there has been significant improvement. The average Tier 1 ratio for the top tier banks improved from a pre-crisis average of 7.9 percent to 12.4 percent in the most recent normalcy period. The mid and low tier banks show similar trends.

Basel III and Dodd-Frank are working to solve issues with large banks

Prof. Satish Thosar and Bradley Schwandt 2019. (Thosar - Professor, University of Redlands School of Business. Schwandt - Solution Consultant Associate at NetSuite) Has ‘Too Big To Fail’ Been Solved? A Longitudinal Analysis of Major U.S. Banks 1 Feb 2019 JOURNAL OF RISK & FINANCIAL MANAGEMENT <https://www.mdpi.com/1911-8074/12/1/24>

However, in the pre-crisis period, the cost of equity (WACC) for the top-tier banks was 10.40 (3.09) percent compared to 10.76 (3.26) for the low tier group. Viewed in isolation the 36 (17) basis point differential could be attributed to economies of scale or some other efﬁciency criterion but it could also reﬂect the funding subsidy. However, note that in the normalcy period, the situation has reversed—the cost of equity (WACC) for the top group is 7.59 (1.14) percent compared to 5.80 (1.01) for the low-tier banks. The differential now favors the smaller banks and may at least partially represent the withdrawal of the funding subsidy previously enjoyed by the larger banks. This suggests that the regulatory remedies (Basel III, Dodd-Frank) may be having the desired effect.

New regulations, higher capital requirements, stress tests, failure resolution liquidation authority, living wills – are Status Quo policy and better than regulating bank size

Ben Bernanke 2016 (former Chairman of the Federal Reserve) 13 May 2016 “Ending “too big to fail”: What’s the right approach?” <https://www.brookings.edu/blog/ben-bernanke/2016/05/13/ending-too-big-to-fail-whats-the-right-approach/>

First, to make the financial system as a whole more resilient to shocks, there has been increased regulatory attention to firms that may pose systemic risks. For example, on top of measures to strengthen capital for all banks, [regulators have imposed a capital surcharge (that is, a higher required level of capital) on systemically important banks](https://www.federalreserve.gov/newsevents/press/bcreg/20150720a.htm), which rises according to regulators’ assessment of the systemic risks associated with the firm. [Systemically important banks must also pass tough stress tests](https://www.federalreserve.gov/bankinforeg/dfa-stress-tests.htm) and meet higher standards for liquidity and risk management. More generally, systemically important firms (including nonbanks thus designated by the Financial Stability Oversight Council) are subject to heightened oversight and additional restrictions by the Fed, FDIC, and sometimes other regulators as well. The intent of these rules is to make firms that pose systemic risks less likely to fail, obviously, but as I’ll discuss, they have incentive effects as well. The second part of the program for ending TBTF is the [ongoing development of a new failure resolution regime, including the so-called orderly liquidation authority (OLA)](https://www.fdic.gov/regulations/laws/rules/2000-9400.html), created by the Dodd-Frank Act. The OLA directly attacks the TBTF problem by giving regulators (the Fed and the FDIC, in most cases) the legal tools necessary to resolve a systemically important financial firm on the brink of failure, in a manner that involves no taxpayer funding (shareholders and creditors bear all losses) and which mitigates the spillovers to the broader financial system and the economy. Resolving a complex firm, particularly in a situation in which the financial system as a whole is in turmoil, poses substantial challenges. But, as discussed [here](https://www.fdic.gov/news/news/speeches/archives/2015/spmay1215.html) and [here](http://bipartisanpolicy.org/wp-content/uploads/sites/default/files/TooBigToFail.pdf), for example, a great deal has been accomplished. The single most important development has probably been [the enunciation by the regulators of the so-called single-point-of-entry strategy](https://www.fdic.gov/news/news/press/2013/pr13112.html), which both simplifies and makes more predictable any intervention in a failing firm. Other key elements include the extensive planning taking place at the Fed and the FDIC; requirements that firms supplement their equity capital with long-term debt that can be converted to equity when needed (“bail-in-able debt”); protections for short-term creditors and other measures to forestall runs; and the requirement that [firms present plans for their own resolutions](https://www.federalreserve.gov/bankinforeg/resolution-plans.htm)—so-called “living wills”—that must be approved by the regulators. In order to receive approval of living wills, [firms have already begun to make structural changes to enhance their resolvability](http://bipartisanpolicy.org/blog/banks-and-regulators-converging-on-living-wills/)—simplification of legal structures, for example—and more such changes are likely.

**END QUOTE. Bernanke then goes on later in the same context to conclude:**

My takeaway is not that the problem is solved—that will take more time—but rather that the current approach amounts to a process that will help us find the solution. In particular, the government’s strategy for ending TBTF addresses the deficiencies, noted above, of imposing arbitrary limits on bank size.

2. A/T “Nothing’s been done”

A lot of progress has been made about “too big to fail” banks, and it’s wrong to say “nothing’s been done”

Ben Bernanke 2016 (former Chairman of the Federal Reserve) 13 May 2016 “Ending “too big to fail”: What’s the right approach?” <https://www.brookings.edu/blog/ben-bernanke/2016/05/13/ending-too-big-to-fail-whats-the-right-approach/>

In a recent speech at the Hutchins Center at the Brookings Institution, Neel Kashkari, the new president of the Federal Reserve Bank of Minneapolis, [argued that we need new strategies to tackle the problem of “too big to fail” (TBTF) financial institutions](https://www.brookings.edu/events/2016/02/16-kashkari-lessons-financial-crisis). On Monday, I’ll be on a panel at the Minneapolis Fed on the issue. This post previews my comments. In short, it seems to me that a lot of progress has been made (and more is in train) toward reducing the risks that large, complex financial institutions pose for the financial system and the economy. To say that “nothing has been done” is simply not correct. That said, because it’s really important to get this right, thoughtful debate on the issue is necessary and welcome.

3. Problem is solved

There are no banks now that are “too big to fail”

Jeffry Bartash 2017 (journalist) 29 Nov 2017 “Powell says the U.S. no longer has too-big-to-fail banks <https://www.marketwatch.com/story/powell-says-the-us-no-longer-has-too-big-to-fail-banks-2017-11-28>

In a Senate confirmation hearing, Jerome Powell said regulators have “made a great deal of progress” through stress testing and other means to ensure the failure of a big bank would not harm the broader U.S. economy. “I would answer no,” Powell said when asked if any banks were still too big to fail. Powell was recently nominated by President Trump to replace Janet Yellen as the leader of the U.S. central bank. The failure of several major Wall Street banks, including Lehman Brothers, contributed to the 2008 financial crisis that deepened a U.S. recession and caused the worst downturn since World War Two. In the aftermath Washington passed legislation to tighten rules on the nation’s biggest banks and make sure a failure would not drag down the entire U.S. economy. In an exchange with Democratic Sen. Elizabeth Warren, a harsh critic of Wall Street, Powell said he believes current rules are sufficient to prevent a replay of the financial crisis.

HARMS / SIGNIFICANCE

1. No market power abuse

Plenty of Competition. Lots of competition in banking today, so breakup of big banks isn’t really needed

Ingrid Case 2016 (a Financial Planning contributing writer in Minneapolis, is a former senior editor for Bloomberg's Markets Magazine) 20 May 2016 “Big banks that are too big to fail: How consumers might fare if they broke up” <https://www.bankrate.com/finance/banking/how-consumers-might-fare-if-big-banks-broke-up.aspx> (brackets added)

A bank breakup would mean a net increase in the number of banks, because each big bank would become many small ones. That would probably increase competition for retail business — but the increase might not be terribly meaningful, [president and CEO of Fidelity Bank in Minnesota, Chuck] Mueller says. “With thousands of banks competing for your loan, there’s already plenty of competition,” he says. “There’s a flood of liquidity out there.” The big banks are far from the only source for commercial loans, too. “The very largest banks control about 80% of banking assets in the country, but community banks make more than 50% of all business loans of less than $1 million. They understand local markets and small businesses and are willing to stick with firms over business cycles of decades or generations,” says Terry J. Jorde, senior executive vice president and chief of staff at Independent Community Bankers of America. “They understand their marketplaces and are very effective at identifying the niches that are specific to their areas.”

2. No more risky behavior

Big banks no longer expect bailouts, they know better. Evidence shows major decline of “too big to fail.”

Antje Berndt, Darrell Duffie, and Yichao Zhu 2018 (Berndt is a Professor of Finance, RSFAS, Australian National University. Duffie is the Dean Witter Distinguished Professor of Finance at the Graduate School of Business, Stanford University and a research fellow of the National Bureau of Economic Research. Between October 2008 and April 2018, Duffie was on the board of directors of Moody’s Corporation, which generously provided data used in this research Zhu is a post-doctoral fellow, RSFAS, Australian National University) Dec 2018 “The Decline of Too Big to Fail” <https://www.darrellduffie.com/uploads/pubs/BerndtDuffieZhuTBTF.pdf>

For globally systemically important banks (G-SIBs) with US headquarters, we find large post-Lehman reductions in market-implied probabilities of government bailout, along with big increases in debt financing costs for these banks after controlling for insolvency risk. The data are consistent with significant effectiveness for the official sector’s post-Lehman G-SIB failure-resolution intentions, laws, and rules. G-SIB creditors now appear to expect to suffer much larger losses in the event that a G-SIB approaches insolvency. In this sense, we estimate a major decline of “too big to fail.”

Bank solvency has improved because creditors are no longer expecting bailouts (they’re cleaning up their act)

Antje Berndt, Darrell Duffie, and Yichao Zhu 2018 (Berndt is a Professor of Finance, RSFAS, Australian National University. Duffie is the Dean Witter Distinguished Professor of Finance at the Graduate School of Business, Stanford University and a research fellow of the National Bureau of Economic Research. Between October 2008 and April 2018, Duffie was on the board of directors of Moody’s Corporation, which generously provided data used in this research Zhu is a post-doctoral fellow, RSFAS, Australian National University) Dec 2018 “The Decline of Too Big to Fail” <https://www.darrellduffie.com/uploads/pubs/BerndtDuffieZhuTBTF.pdf>

Sarin and Summers (2016) suggest that the high credit spreads of large US banks that prevailed in 2015 reflect high levels of default risk at that time, and that these firms were then about as likely to default as they were before the crisis. Our analysis suggests, instead, that high big-bank credit spreads in 2015, relative to pre-crisis years, are due to reduced bailout expectations. Buttressing our interpretation of the data, Figure 5 shows significant improvements by 2015 in the asset-weighted average solvency ratios of the largest U.S. financial institutions, the same firms whose assets are depicted in Figure 4. We define the solvency ratio of a firm to be the firm’s accounting tangible common equity divided by the estimated standard deviation of the annual change of its asset value. The improved solvency of large banks is due to significantly higher regulatory bank capital requirements, especially for G-SIBs. Rosengren (2014), Carney (2014), and Tucker (2014) describe the very large increases in capital buffers of the largest banks that were induced by post-crisis reform of bank capital regulations. In summary, the credit spreads of big banks were much higher after the crisis than before despite major increases in their capital buffers, and were apparently due to increased expected losses to creditors in the event of insolvency, rather than by high probabilities of insolvency. Our primary hypothesis that the post-crisis increase in expected insolvency losses are the result of a decline of “too-big-to-fail,” that is, lower reliance by big-bank creditors on the prospect of a government bailout.

3. A/T “Big banks caused the 2008 crisis”

Big banks behavior during the crisis proves they are crucial to the smooth functioning of the economy

Peter Wallison 2012 (*Senior Fellow and Arthur F. Burns Fellow in Financial Policy Studies; former general counsel of the US Treasury Dept.*) 18 Sept 2012 “Breaking up the big banks: Is anybody thinking?” <http://www.aei.org/publication/breaking-up-the-big-banks-is-anybody-thinking/>

Moreover, it is reasonably clear—shown by their continuing profitability—that the largest banks are performing valuable financial and other services. The idea of breaking up successful businesses is always troubling unless—as in the case of, say, the old Standard Oil trust —they are substantially harming the economy, an argument that no one has made. Indeed, the argument that the largest banks caused the financial crisis when they stopped lending to one another after the Lehman bankruptcy demonstrates their centrality to the smooth functioning of the global economy.

SOLVENCY

1. Won’t solve bailouts

Instead of bailing out 1 huge Citibank, you’d bail out 10 small Citibanks, since they’d all fail at the same time

Chris Arnade 2016 (former Citibank Wall Street trader) 19 Feb 2016 THE ATLANTIC “What Breaking Up the Banks Wouldn't Fix “ <https://www.theatlantic.com/business/archive/2016/02/too-big-too-fail-kashkari/464184/>

Doing so would go some of the way toward improving bank governance: If the government turns Citibank into ten smaller Citibanks, they will probably be better managed, since too big to fail is also too big to manage. Additionally, some might start doing things differently from the rest, even innovating. But it wouldn’t address the other major ongoing failure of our financial system, namely that banks are taking on too much risk, and in the process endangering the entire economy and necessitating occasional bailouts. When the economy gets into trouble those 10 smaller Citibanks will probably all get into trouble exactly at the same time, requiring 10 smaller bailouts, or one large bailout of the “markets.”

Breaking up banks won’t stop bailouts

Chris Arnade 2016 (former Citibank Wall Street trader) 19 Feb 2016 THE ATLANTIC “What Breaking Up the Banks Wouldn't Fix “ <https://www.theatlantic.com/business/archive/2016/02/too-big-too-fail-kashkari/464184/>

Breaking up the banks won’t stop the bailouts, because banks are still incentivized to behave badly, and that’s true if it is one big bank, or 10 small banks. Bankers, when they fail, need to lose their money, their jobs, and sometimes, their freedom.

2. Won’t solve fraud

Small banks commit fraud just like big banks

Ryan Rainey 2016 (journalist) 11 Oct 2016 “One Soundbite After Wells Fargo Scam: ‘Too Big to Manage’” <https://morningconsult.com/2016/10/11/one-soundbite-wells-fargo-scam-big-manage/>

Mark Calabria, a banking regulation expert at the libertarian Cato Institute, also doubted whether breaking up a bank would help mitigate fraud issues like the cross-selling practices at Wells Fargo. He pointed to the 1980s [savings and loan crisis](https://www.fdic.gov/bank/historical/sandl/) as an example of the fraudulent activity that can take place at small institutions. “I have yet to see anybody offer any sort of evidence that fraud is more likely at larger institutions than at small institutions,” Calabria said.

3. No correct size cutoff limit

No one knows the correct size limit for big banks and it would be reckless to make up an arbitrary number

James Gattuso 2013 (attorney; Senior Research Fellow in Regulatory Policy, Institute for Economic Freedom and Opportunity, Expert in Financial Regulation at Heritage Foundation; former Deputy Chief at the Federal Communications Commission's Office of Plans and Policy ) 10 Apr 2013 Breaking Up Big Banks: Right Question, Wrong Answer <https://www.heritage.org/government-regulation/report/breaking-big-banks-right-question-wrong-answer>

There is no consensus among academic studies of the maximum efficient size of banks in a non-distorted marketplace, although some recent studies find that economies of scale have not been exhausted even for the biggest institutions, which manage over $1 trillion in assets. In any case, given the dynamism of the market, calculating the “correct” size would be an impossible task. Given this uncertainty, it would be reckless to impose an arbitrary size limit—whether it is $50 billion in assets, $500 billion, or $2 trillion.

Not knowing the right size means we can’t solve for “too big to fail” – how will we know when we’ve broken them small enough to solve?

Peter Wallison 2012 (*Senior Fellow and Arthur F. Burns Fellow in Financial Policy Studies; former general counsel of the US Treasury Dept.*) 18 Sept 2012 “Breaking up the big banks: Is anybody thinking?” <http://www.aei.org/publication/breaking-up-the-big-banks-is-anybody-thinking/>

In 1984, the Continental Illinois Bank—then a $40 billion institution—was considered TBTF, and its creditors were bailed out by the Fed. Today, a $40 billion bank would not be considered a threat to the stability of the $13 trillion US economy. Thus, the Dodd-Frank Act notwithstanding, any arbitrary number set as the allowable size for a non-TBTF bank could never be accurate. Under these circumstances, it is difficult to understand what commentators might be thinking when they recommend that large banks be broken so that they are not TBTF. They cannot have any idea what size a non-TBTF bank should be, and even if they did, their estimate would not be the correct several years later, nor necessarily reflect the judgment of the bank’s regulator when the bank is about to fail. The surprising thing is that lawmakers and commentators of all levels of expertise routinely announce their support for breaking up the large banks when they cannot really have any idea what the resulting size should be.

4. Numerous problem institutions overlooked

Small (but highly leveraged) bank could cause same damage, and so could non-bank firms. AFF Plan would feel good but accomplish little

James Gattuso 2013 (attorney; Senior Research Fellow in Regulatory Policy, Institute for Economic Freedom and Opportunity, Expert in Financial Regulation at Heritage Foundation; former Deputy Chief at the Federal Communications Commission's Office of Plans and Policy ) 10 Apr 2013 Breaking Up Big Banks: Right Question, Wrong Answer <https://www.heritage.org/government-regulation/report/breaking-big-banks-right-question-wrong-answer>

Perhaps more importantly, limits on bank size would not resolve the concerns that produce the too-big-to-fail doctrine. Despite its catchy phrasing, too-big-to-fail is not purely about size. A small but highly leveraged and interconnected firm can actually present a more serious systemic risk than that of a big bank.Nor is the concern limited to banks. Non-bank financial firms can be just as systematically important as a bank. In fact, recent history suggests that non-bank institutions present the greater system-wide risk. Former Obama official Steven Rattner has pointed out that “none of the institutions that toppled like dominoes in 2008—the investment banks Bear Stearns and Lehman Brothers, the mortgage-finance giants Fannie Mae and Freddie Mac, the insurance company American International Group—were commercial banks.” In fact, FSOC spent much of the past two years trying to define what makes a non-bank financial firm systematically important. Simplistic proposals to cap the size of banks would be irrelevant to these concerns and therefore would do little to reduce the odds of future bailouts. It would be a feel-good measure providing few if any benefits while damaging the financial system and the U.S. economy.

5. More study needed

5 key questions have to be answered by advocates before we break up the big banks

Peter Wallison 2012 (*Senior Fellow and Arthur F. Burns Fellow in Financial Policy Studies; former general counsel of the US Treasury Dept.*) 18 Sept 2012 “Breaking up the big banks: Is anybody thinking?” <http://www.aei.org/publication/breaking-up-the-big-banks-is-anybody-thinking/>

If someone is willing to suggest breaking up the biggest banks without having any idea what size they should be, how much thought could have been given to the disruptions in the economy that would follow from such an act? As far as I can determine, no one who has advocated a large bank breakup has attempted to assess the consequences in any realistic way. This is not the place to list all those consequences, but here are a few of the most obvious questions that breakup supporters should be able to answer: Trillions of dollars flow daily through the New York clearinghouse payment system, which is operated by the largest banks. Could the clearinghouse international payment system continue to operate effectively if the largest banks were broken up into many smaller institutions? US corporations operating around the world use US banks to transfer funds, make payroll, furnish short-term liquidity and cash management services, provide data and data transfers, make available letters of credit to facilitate trading in goods and services, and offer standby lines of credit for those periods when their clients cannot access the securities markets. How would globally active US firms be affected if US banks were no longer large enough to operate globally? The risk-management activities for hundreds of thousands of firms around the world are managed by the world’s largest banks through interest rate swaps, currency swaps, commodity swaps, and credit default swaps. Hundreds of trillions of dollars in derivatives are involved. What would happen to the world’s risk-management system if US banks were no longer able to participate in these activities? There are very few exchanges for fixed-income securities—bonds and notes issued by governments and private firms to finance their activities. These instruments can be considered liquid only because the largest banking organizations make markets in them by offering to buy and sell from a portfolio they hold. This assures traders and investors there will be a buyer when they want to sell, and a seller when they want to buy, and substantially reduces the liquidity risk associated with owning most fixed-income securities. How would this market function without US banks, and what would happen to the costs of issuing new debt securities if US bank capital and market-making capacity were removed from the market? An indication of the answer to this question is the large number of protests from foreign governments (among other issuers) about the possibility that the Volcker rule might restrict US bank market-making. Breaking up the banks so that they are too small to make markets would go well beyond the Volcker rule—even adversely affecting the trading of US government securities, which were exempted from the Volcker rule. The four largest US banks employ more than 1 million people, and the top ten employ almost 1.5 million. If all these banks were downsized substantially, they would have to stop performing a lot of their current functions. What would be the effect on the US economy and the many communities in which these banks operate if they had to close branches and shut down operations? We could ask many more questions about the breakup of the largest banks. After the “what size” question, those who advocate breaking up the largest banks should also be able to answer at least the most basic questions about consequences.

DISADVANTAGES

1. Higher costs for bank services

Link: Bank breakup means smaller banks must charge higher interest rates and process fewer loans

Ingrid Case 2016 (a Financial Planning contributing writer in Minneapolis, is a former senior editor for Bloomberg's Markets Magazine) 20 May 2016 “Big banks that are too big to fail: How consumers might fare if they broke up” <https://www.bankrate.com/finance/banking/how-consumers-might-fare-if-big-banks-broke-up.aspx> (brackets added)

But though credit may be just as available as ever, a bank breakup might mean higher interest rates and fees. “You can’t run 3 smaller banks for the same amount you need to run one big bank,” says Christine Pratt, a senior analyst at Aite Group, a research and advisory firm in Boston. “The banks can’t be any more cost-effective than they are now.” Smaller banks, lacking the efficiency of scalable operations, would have to raise rates and fees just to stay afloat. In addition to making money through lending, fees, investment and wealth management services, large banks also serve the debt markets as loan aggregators. “Banks ultimately sell loans to aggregators such as [Wells Fargo](https://www.bankrate.com/banks/wells-fargo-financial-national-bank/1225761/), U.S. Bank, or JP Morgan Chase, which in turn put them into securities and sell them to investors,” [president and CEO of Fidelity Bank in Minnesota, Chuck] Mueller says. “If banks aren’t big enough to aggregate loans, I think that could affect the flow of mortgage money.” The market slows down now when there’s a flood of business, Mueller adds, so it’s easy to imagine how fewer aggregators could mean slower lending.

Link: Weak lending growth links to economic slowdown

NEW YORK TIMES 2018 (journalist Peter Eavis) 12 Oct 2018 “Is a Slowdown in Bank Lending a Bad Sign for the Economy?” <https://www.nytimes.com/2018/10/12/business/dealbook/bank-lending-slowdown-economy.html>

Still, the weak lending growth could be a sign that the economy is losing momentum. Take mortgages: Rising interest rates are pushing up the cost of mortgages at the same time housing prices in many parts of the country remain elevated. As a result, demand for mortgages has lessened. Wells Fargo’s mortgage applications in the third quarter were lower than in the preceding four quarters.

Link & Impact: Large banks cut costs. Without them consumers and the US economy would be harmed

James Gattuso 2013 (attorney; Senior Research Fellow in Regulatory Policy, Institute for Economic Freedom and Opportunity, Expert in Financial Regulation at Heritage Foundation; former Deputy Chief at the Federal Communications Commission's Office of Plans and Policy ) 10 Apr 2013 Breaking Up Big Banks: Right Question, Wrong Answer <https://www.heritage.org/government-regulation/report/breaking-big-banks-right-question-wrong-answer>

Large banking firms such as Citigroup, JP Morgan Chase, Bank of America, and Wells Fargo serve a critical role in the financial ecosystem. Operating on a global scale, they are especially important to U.S. firms operating worldwide. Large firms can also cut costs for customers domestically by spreading the costs of infrastructure, technology, and other capital expenses over a larger base. If they are broken up, the ability of these banks to provide global services would erode, while costs would rise. The ultimate losers would be American consumers and the U.S. economy.

Impact: Economic slowdown leads to unemployment

Prof. [Narayana Kocherlakota](https://www.bloomberg.com/opinion/authors/APvwpZqjDaA/narayana-kocherlakota) 2019 (professor of economics at the University of Rochester and was president of the Federal Reserve Bank of Minneapolis) “The Fed Needs to Fight the Next Recession Now” <https://www.bloomberg.com/opinion/articles/2019-04-15/u-s-economy-fed-needs-to-start-fighting-the-next-recession-now>

The U.S. economy looks strong right now, with unemployment at a multidecade low and inflation running very close to the Federal Reserve’s 2 percent target. That said, there’s always a multitude of risks -- a housing slump, a sharp decline in foreign demand for U.S. goods, an extended government shutdown -- that could put the expansion to an end. The Fed should be taking steps now to prepare. The Fed will have arguably less firepower than in any previous recession. Consider its ability to stimulate growth by lowering interest rates. In the early 2000s, when the tech bubble burst, it had to lower rates more than 5 percentage points to keep the unemployment rate from rising much above 6 percent. In the last recession, amid the severe shock delivered by the financial crisis, even that wasn’t enough: Unemployment rose into the double digits despite interest-rate cuts of more than 5 percentage points.

2. Shift banking to Europe

Link: Smaller banks can’t handle international business. Center of finance would shift from US to Europe

Ingrid Case 2016 (a Financial Planning contributing writer in Minneapolis, is a former senior editor for Bloomberg's Markets Magazine) 20 May 2016 “Big banks that are too big to fail: How consumers might fare if they broke up” <https://www.bankrate.com/finance/banking/how-consumers-might-fare-if-big-banks-broke-up.aspx> (brackets added)

The biggest banks have a global presence, Mueller says, and that’s something smaller banks would find hard to replicate. “We rely on the expertise of U.S. banks to help customers who have international businesses. Do you really want large U.S. companies going to large foreign banks? Or do you want to have some control over the banking services they’re receiving? Break up the banks and you push the center of finance out of the U.S. and over to Europe. That’s not good overall for the American economy, especially in a world that’s becoming more globalized every day,” he says.

Impact: Lost jobs. Shifting banking leadership overseas would lose jobs and profits to other countries

Ben Bernanke 2016 (former Chairman of the Federal Reserve) 13 May 2016 “Ending “too big to fail”: What’s the right approach?” <https://www.brookings.edu/blog/ben-bernanke/2016/05/13/ending-too-big-to-fail-whats-the-right-approach/>

Even putting aside the short-term costs and disruptions that would likely be associated with breaking up the largest banks, in the long run a US financial industry without large firms would likely be less efficient, providing fewer services at higher cost. From a national perspective, this strategy could also involve ceding leadership in the industry, and the associated jobs and profits, to other countries.

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