Break Up the Giant Banks to Curb Their Control over the Political Process

Krugman

By Washington's Blog
Global Research, April 21, 2010
Washington's Blog 20 April 2010

Region: USA
Theme: Global Economy

While Paul Krugman seemed to go against the rising tide of experts calling for the giant banks to be broken up, he clarified his position last week:

My view is that I'd love to see those financial giants broken up, if only for political reasons: it's bad to have banks so big they can often write laws.

Bingo!

The giant banks have enough money to – literally – purchase the politicians.

And they can capture the regulators. As Dean Baker wrote on April 7th:

In the United States it will always be easy for regulators to look the other way, even when the ultimate consequences prove to be disastrous. By contrast, cracking down on politically connected banks is difficult for regulators. The banks' executives will call their friends in the administration and Congress to complain about the crazy regulator who is trying to keep them from running their business.

And, you can be sure that the banks will have a story. They pay smart people lots of money to develop those stories. The banks' mouthpieces will make a conscientious regulator look like a crazed vigilante who just doesn't understand modern finance. Just ask Brooksley Born, the head of the Commodities Futures Trading Commission who was stopped in her effort to regulate credit default swaps back in 1998.

And as Miles Mogulescu writes:

[Simon] Johnson has the long-term politics right–unless we break up the 6-8 largest banks which dominate the financial system, we will both be strengthening a self-perpetuating oligarchy which dominates the political system to protect its own wealth and power to the detriment of the national interest and democratic governance, and which uses it's government guaranteed "too big to fail status" to take excessive risk which will lead to the next bubble, the next meltdown, and the next Hobson's choice by an even more debt-ridden government between bailing them out again with trillions in taxpayer dollars or allowing them to fail and sinking the economy into depression.

***

TBTF is antithetical to democracy. Because of their TBTF competitive economic advantage, the largest banks have become even larger since the beginning of the Great Recession in fall 2008 and the 6 largest banks now control assets totaling over 60% of the country's Gross Domestic Product. With this outsized control of the economy comes outsized control of the government. A bank with assets exceeding 2 trillion dollars can spend whatever it takes to influence elections and convince Congress to pass legislation that favors its interests rather than those of the vast majority of middle class voters, especially after the Supreme Court's pernicious decision in the Citizens United case allowing unlimited election contributions by corporations. "Oligarchy" is a term Americans used to apply to countries like Russia and smaller third world countries, not to ourselves. But with TBTF, as Johnson and Kwak explain,

> "The Wall Street banks are the new American oligarchy– a group that gains political power because of its economic power, and then uses that political power for its own benefit. Runaway profits and bonuses in the financial sector were transmuted into political power through campaign contributions and the attraction of the revolving door. But those profits and bonuses also bolstered the credibility and influence of Wall Street; in an era of free market capitalism triumphant, an industry that was making so much money had to be good, and people who were making so much money had to know what they were talking about. Money and ideology were mutually reinforcing.
>
> This is not the first time that a powerful economic elite has risen to political prominence. In the late nineteenth century, the giant industrial trusts — many of them financed by banker and industrialist J. P. Morgan — dominated the U.S. economy with the support of their allies in Washington, until President Theodore Roosevelt first used the antitrust laws to break them up."

So, argues Johnson, to preserve democracy, and to prevent the next bubble, meltdown and bailout,

> "Make our largest banks small enough to fail. There is simply no other way to really end the problem of 'too big to fail.'"

I disagree with Krugman on the technical arguments for breaking up the giant banks. For example, the economy will never stabilize and derivatives will never be transparent until the too big to fails are broken up.

But I applaud and welcome Krugman's clarification that he would like the giant banks to be broken up so that they cannot continue to dominate the political process.

Articles by: Washington's Blog