THE GIANT BANKS ARE KILLING THE US ECONOMY

By Washington's Blog
Global Research, April 17, 2012
Washington's Blog 17 April 2012

Region: USA
Theme: Global Economy

Size of Banks Killing Economy … But Giant Banks Have Only Gotten Bigger Since Financial "Reform" Enacted

For years, many high-level economists and financial experts have said that – unless we break up the giant banks – our economy will never recover, real reform will be blocked, and democracy and the rule of law will be corrupted.

So how did the government respond to the financial crisis which started in 2007?

Let the giant banks get even bigger.

As Bloomberg notes, the five banks that held assets equal to 43% of the US economy in 2007 before the financial crisis and the bank bailout now control assets that equal 56% of the US economy:

> Two years after President Barack Obama vowed to eliminate the danger of financial institutions becoming "too big to fail," the nation's largest banks are bigger than they were before the credit crisis.
>
> Five banks – JPMorgan Chase & Co. (JPM), Bank of America Corp., Citigroup Inc., Wells Fargo & Co., and Goldman Sachs Group Inc. — held $8.5 trillion in assets at the end of 2011, equal to 56 percent of the U.S. economy, according to the Federal Reserve.
>
> Five years earlier, before the financial crisis, the largest banks' assets amounted to 43 percent of U.S. output. The Big Five today are about twice as large as they were a decade ago relative to the economy, sparking concern that trouble at a major bank would rock the financial system and force the government to step in as it did during the 2008 crunch.
>
> "Market participants believe that nothing has changed, that too-big-to-fail is fully intact," said Gary Stern, former president of the Federal Reserve Bank of Minneapolis.
>
> That specter is eroding faith in Obama's pledge that taxpayer-funded bailouts are a thing of the past. It is also exposing him to criticism from Federal Reserve officials, Republicans and Occupy Wall Street supporters, who see the concentration of bank power as a threat to economic stability.
>
> ***
>
> The industry's evolution defies the president's January 2010 call to "prevent the further consolidation of our financial system." Embracing new limits on banks' trading operations, Obama said then that taxpayers wouldn't be well "served by a financial system that comprises just a few massive firms."

> Simon Johnson, a former chief economist of the International Monetary Fund, blames a "lack of leadership at Treasury and the White House" for the failure to fulfill that promise. "It'd be safer to break them up," he said.
>
> ***
>
> Regulatory burden could promote further industry consolidation, according to Wilbur Ross, chairman of WL Ross & Co., a private-equity firm.
>
> "We think the little tiny banks, the 90-odd percent of banks that are under $1.5 billion in deposits, are pretty much an obsolete phenomenon," he told Bloomberg Television on March 14. "We think they'll all have to merge with each other, be acquired by bigger banks or something."
>
> ***
>
> In 2011, funding costs for banks with more than $10 billion in assets were about one-third less than for the smallest banks, according to the FDIC.

Some presidents of regional Federal Reserve banks have lambasted too big to fail. As Bloomberg notes:

> In recent weeks, at least four current Fed presidents — Esther George of Kansas City, Charles Plosser of Philadelphia, Jeffrey Lacker of Richmond and Richard Fisher of Dallas — have voiced similar worries about the risk of a renewed crisis.

But the most powerful Fed bank – the New York Fed – and Bernanke's Federal Open Market Committee, as well as Tim Geithner's Treasury Department, have done everything possible to ensure that the the giant banks become too bigger to fail.

Articles by: Washington's Blog

For media inquiries: publications@globalresearch.ca