Banking by John Hoefle

Volcker: 'Too big to fail' must stay

"Imposing losses on uninsured depositors would create genuine risk to the financial system," officials say.

Former Federal Reserve Chairman Paul Volcker, the newly appointed head of the Trilateral Commission, issued a stern warning to Congress May 8 about the consequences of eliminating the "too big to fail" doctrine, which protects all depositors, insured or not, at the biggest U.S. banks.

"Removal from the FDIC [Federal Deposit Insurance Corp.] of its ability to protect all depositors of large failed banks," Volcker said, "could well trigger a crisis in the banking system of a magnitude entirely capable of turning a serious recession into something much worse, precipitating escalating losses and larger budget deficits through the economy." Meddling with "too big to fail," Volcker warned, could lead to the withdrawal of "trillions of dollars a day" in international clearances from the U.S. banking system.

Volcker, it should be remembered, was the architect of the "too big to fail" policy, implementing it in 1982 to stem runs against Chase Manhattan, Citibank, and the Bank of America, and again in 1984 with the bailout of Continental Illinois Bank.

The same theme was echoed the next day before the House economic stabilization subcommittee by a panel of federal regulators, who warned that due to the "threat of systemic risk" to the banks, it would be irresponsible for Congress to abolish "too big to fail."

"Imposing losses on uninsured depositors would create genuine risk to the financial system" that could lead to "contagious runs," said Treasury Undersecretary Robert Glauber. "To our knowledge," Glauber said, "no government has forfeited its ability and responsibility to protect the stability of its financial system, even if that means protecting uninsured depositors. None. We should not be the first to try this dangerous experiment."

What Volcker, Glauber, and company are saying is that saving the banks is paramount, and that above all else the United States government must stand behind the banks, no matter what the cost to the taxpayer.

"Unhappy as the situation may be," Volcker told the subcommittee, "substantial public funds will be required to bolster the resources available to the FDIC."

Volcker and Glauber were referring to the Federal Deposit Insurance Corporation Act of 1991, a bill introduced by House Banking Committee chairman Henry B. Gonzalez (D-Tex.), which among other things mandates the elimination of "too big to fail" within five years. The bill has already passed the banking committee's financial institutions subcommittee.

Without the "too big to fail" policy and a massive taxpayer-funded bailout of the big banks, the U.S. banking system is indeed doomed. But even with Volcker's bailout, the banking system is doomed anyway.

Cast aside all the lies, accounting gimmicks, and overvalued assets, and the U.S. banking system is trillions of dollars in the red. Were the government to attempt to bail out all the usury-induced debt, it would literally have to steal food out of the mouths of babes, stop all social programs and infrastructure projects, and impose impossible levels of taxes—in short, bleed the country dry.

Gonzalez's bill would recapitalize the Bank Insurance Fund by increasing the FDIC's line of credit with the Treasury Department to $25 billion, from the current $5 billion. But to borrow that money, the FDIC would have to agree to a specific repayment schedule and demonstrate that the fees it charges the banks for deposit insurance are sufficient to enable the agency to make its payments.

The bill would also tighten up regulatory oversight; it would require yearly on-site examinations of every insured bank, prevent the FDIC from paying off deposits exceeding $100,000, require the banks to adopt Generally Accepted Accounting Standards, and force regulators to take prompt action to deal with banks which fall below critical capital levels.

The bill would also restrict the ability of the Federal Reserve to lend money to troubled banks, a move which Fed chairman Alan Greenspan claimed "could seriously handicap the Federal Reserve's ability to ensure the stability of the banking system and prematurely close off liquidity support" to still viable banks.

Gonzalez dismissed Greenspan's recommendation that that provision be deleted from the bill, saying the request "is neither good policy nor fiscally sound." He said that he intended to limit "the open-ended authority of the Federal Reserve to independently bail out institutions through the discount window."

Gonzalez and company are doing the country a favor by opposing this fascist looting policy. Contrary to what the Volckers of the world believe, banks exist to serve the people and the productive economy. Destroying the population to save the banks is as futile as it is evil.

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