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VIEWPOINT

# Panel: Too Big to Fail Firms Harming U.S. Economy

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WASHINGTON — The problem of "too big to fail" is continuing to bedevil the U.S. economy despite claims by some regulators that the Dodd-Frank Act effectively ended it.

At a hearing Wednesday by the Senate Banking financial institutions subcommittee, several prominent economists said the existence of large financial institutions that receive benefits from the government is harming economic growth.

"We get a distorted economy," said Joseph Stiglitz, an economist and professor at Columbia Business School. "The parts of the financial sector that are engaged in small and medium enterprise lending are relatively starved for funds relative to the big banks engaged in more speculative activities."

As a result, larger institutions are able to get access to capital at lower costs, and receive other advantages, especially compared to smaller community banks.

"What we need to do is get the government less involved in the financial sector," said Paul Pfleiderer, a finance professor at Stanford University's Graduate School of Business. "We have to require that the private sector put up more equity and bear the risk that taxpayers are now bearing that distorts the system and leads to financial crises."

With an implicit government guarantee, economists said financial institutions are more likely to partake in activities with greater risk with the taxpayer inevitably left to pick up the losses.

"When you have socializing losses, when you are privatizing gains, you have a distorted market economy," said Stiglitz. "That's why economists on both the left and the right agree this is a very serious distortion in our economy."

Although Dodd-Frank purported to address the issue, the market still perceives several of the largest banks as "too big to fail." The large banks also hold considerable political sway in any future attempts to disrupt or divide their business, witnesses said.

"The larger institutions can hire better accountants and better lawyers and better lobbyists to see that the way in which risk is assessed in the capital requirement system favors them," said Edward Kane, finance professor at Boston College. "The industry is always here before Congress and the agencies telling them how devastating it would be if certain assets were treated in a more transparent way."

Even so, banks have argued that new rules under Dodd-Frank and Basel III have become too cumbersome that it could put risk to the economy, as well. Gene Ludwig, chief executive of Promontory Financial Group, warned there were dangers to the economy in going overboard against large banks.

"The danger we face is losing that balance and becoming excessive in how we implement Dodd-Frank and whether that action would retard growth," Ludwig said. ▪