

Why No Silver Bullet For TBTF?

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- The Views Expressed Here Are the Presenter's and Not Necessarily Those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System

Flannery's Paper Recognizes the Challenge

- “The discussion so far suggests that we should not expect a single policy change to set things right.”
- “No one policy change will adequately address TBTF distortions, nor will any be immune from potential drawbacks.”
- “If the TBTF situation is subject to an easy, straightforward solution, I’ve yet to identify it.”

I'm Glad He Does!

- “We doubt that any single policy change will dramatically reduce expected [TBTF] protection.”
- “We do not seek to eliminate all TBTF bailouts.”

From: Gary Stern and Ron Feldman. 2004. Too Big To Fail: Hazards Of Bank Bailouts. Brookings Institution Press

Rationalizing the “Multi-Weapon” Strategy

1. Flannery Stresses Incomplete Information
 - Limits on Supervision (e.g., when to act?)
 - Limits on Regulation (e.g., how to price?)
2. Common Source of Instability and Economic Benefits for “Banks”
 - Are We Really Sure About These Benefits?
 - Hard to Argue With Spontaneous Market Phenomenon Across Countries and Time!

Rationalizing the “Multi-Weapon” Strategy

3. Time Consistency

- Irrelevance of History

4. Multiple Source of Spillovers

- Importance of Commercial Bankruptcy Code as Source of Spillovers?

Do These Challenges Also Explain Lack of Pre-Crisis Action?

- Mixed Assessment
 - Yes: “You Cannot End TBTF”
 - No:
 - “We Already Ended TBTF”
 - “Moral Hazard is not a Problem”
 - “The Chance of Failure is Low”