

Financial meltdown threatened by bankruptcy of any Wall Street bank

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13 August 2014

The US Federal Deposit Insurance Corporation (FDIC), in conjunction with the Federal Reserve, announced last week that the major banks had failed to demonstrate that their bankruptcy would not precipitate an all-out financial crisis.

Under the 2010 Dodd-Frank financial regulatory overhaul, some 130 banks are required to submit so-called “living wills.” These are supposed to document how a bank, in case of bankruptcy, would prevent financial contagion to other banks and a broader financial crisis.

The largest and most complex of these banks--Bank of America, Bank of New York Mellon, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JPMorgan Chase, Morgan Stanley, State Street Corp. and UBS, have been required to file their wills before the others.

Thomas Hoenig, vice chairman of the FDIC, spoke plainly about the FDIC and Federal Reserve’s findings. He said, “Despite the thousands of pages of materials these firms submitted, the plans provide no credible or clear path through bankruptcy that doesn’t require unrealistic assumptions and direct or indirect public support.

“Unfortunately, based on the material so far submitted, in my view each plan being discussed today is deficient and fails to convincingly demonstrate how, in failure, any of these firms could overcome obstacles to entering bankruptcy without precipitating a financial crisis.”

The joint FDIC-Fed announcement demonstrated several things. First, the Dodd-Frank law that supposedly guaranteed an end to banks being “too big to fail” and ruling out a future public bailout of Wall Street is a fraud. Its provisions, many of which have yet to be implemented because of opposition from the

banks, do nothing serious to rein in the speculative and quasi-criminal activities of Wall Street that triggered the financial crash in 2008.

Second, Wall Street treats its ostensible regulators, such as the FDIC and the Fed, with contempt. Given years to prepare their “living wills,” the banks turned in documents that implied they had no intention of doing anything to protect the public against another financial disaster and assumed they would be bailed out again at taxpayer expense should their machinations backfire.

This contempt is fully justified. The response of the Fed to the banks’ rejected submissions was to give them another year to file yet another round of reports, without suffering any negative consequences.

In fact, the outcome of the 2008 crash and the government’s response has been a further concentration of economic power in the hands of the biggest banks. Hoenig pointed to the problem, stating that “these firms are generally larger, more complicated, and more interconnected than they were prior to the crisis of 2008.”

He continued: “The eight largest US banking firms have assets equivalent to 65 percent of GDP. The average notional value of derivatives for the three largest US banking firms at year-end 2013 exceed \$60 trillion, a 30 percent increase over their level at the start of the crisis. There have been no fundamental changes in their reliance on wholesale funding markets, bank-like money market funds, or repos, activities that have proven to be major sources of volatility. And, when failure is imminent, no firm has yet shown how it will access private sector ‘debtor in possession’ financing, a critical element in restructuring a firm.”

In Canada, Japan, the United Kingdom and the United States, the top three banks of each country increased their share of the country’s total banking

assets between 2006 and 2012.

According to the International Monetary Fund's 2014 Global Financial Stability report, the top three banks in the US increased their share from a little below 40 percent of the country's banking assets in 2006 to nearly 45 percent in 2014.

What exists today in the financial sector is worse than what existed before 2008. There are more derivatives, there is a higher degree of concentration of banking assets, and banks still rely on various unstable shadow-banking methods.

The Dodd-Frank bill was touted by President Obama as a "sweeping overhaul of the United States financial regulatory system, a transformation on a scale not seen since the reforms that followed the Great Depression."

In 2010, the *World Socialist Web Site* wrote, "Nearly two years after the major banks and financial firms drove the financial system and the economy as a whole into the ground through their reckless profiteering and speculation, the so-called 'reform' avoids any genuine reform of the financial system and places no serious restraints on the activities of the most powerful financial companies."

Far from staving off financial collapse, we wrote, the legislation "increases the power of the biggest banks and sets the stage for even more frenzied speculation and risk-taking." We further noted, "The bill authorizes the allocation of public funds to pay for the operation, without congressional approval, with the proviso that the major banks would subsequently be taxed to defer some of the cost."

The financial industry's unprecedented level of concentration and reliance on complex, unstable assets such as derivatives has been facilitated by the Federal Reserve's near-zero interest rate policy and its initiatives to further consolidate the banking system through acquisitions.

In a July letter to its investors, the hedge fund Elliott Management wrote: "Financial asset prices are artificial, the equilibrium is temporary, the lack of volatility is a trap, and when the whole thing bursts, there will truly be hell to pay."

Last week, the British *Telegraph* published an article entitled "Global economy one shock away from another crisis," which warned about the implosion of the Chinese housing market.



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