

TUESDAY, OCTOBER 21, 2008 Robert Reich

If They're Too Big To Fail, They're Too Big Period

According to Treasury Secretary Hank Paulson, the biggest Wall Street banks now getting money from the government are just "too big to fail." Fed Chairman Ben Bernanke uses a different euphemism – he calls them “systemically critical.” The point is that if any of them goes down, it could take the whole financial system with it. So we taxpayers have to keep them up.

We're hearing the same argument elsewhere in Washington for saving General Motors. It's just “too big to fail.” So Congress is considering a bailout that would keep GM afloat and sweeten a merger between GM and Chrysler.

Pardon me for asking, but if a company is too big to fail, maybe – just maybe – it's too big, period.

We used to have public policies to prevent companies from getting too big. Does anyone remember antitrust laws? Somewhere along the line policymakers decided that antitrust would only be used where there was evidence a company had so much market power it could keep prices higher than otherwise.

We seem to have forgotten that the original purpose of antitrust law was also to prevent companies from becoming too powerful. Too powerful in that so many other companies depended on them, so many jobs turned on them, and so many consumers or investors or depositors needed them – that the economy as a whole would be endangered if they failed. Too powerful in that they could wield inordinate political influence – of a sort that might gain them extra favors from Washington.

Maybe the biggest irony today is that Washington policymakers who are funneling taxpayer dollars to these too-big-to-fail companies are simultaneously pushing them to consolidate into even bigger companies. They've prodded Bank of America to take over Merrill-Lynch and Countrywide. JP Morgan to acquire Washington Mutual and Bear Stearns. And now they're urging General Motors to absorb Chrysler.

So we're ending up with even bigger giants, with even more power over the economy and politics, subsidized by taxpayers, and guaranteed never to fail because they're just ... too big.

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