

TBTF Symposium

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What do people want out of banks?

- Connect savers and investors
- Governance by monitoring loans
- Other

Provide liquidity services

- Most people don't want to be equity investors – they prefer to provide banks with debt funding

Should the private sector provide liquidity services?

- Pros: good innovations like ATM's, competition, low costs, stability for most people because of deposit insurance
 - Do we want the Postal Service to provide banking services?
- Cons: instability for the economy as a whole
- If the government instead produces the safe assets, eventually raises a question about whether those will be safe. A fiscal issue.

Costs of regulatory changes

- Increase capital requirements to save banks from themselves (from their own incentives).
 - But banks face competition from non-banks.
 - Could regulate all financial providers like banks.
 - But all of this entails costs.
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- What's wrong with, say, 30 percent capital?
 - Or 20 percent capital for different regulation? (Hensarling proposal)
- A good idea to calculate these costs

Benefits of Regulatory Changes

- A lot has been done – many Fed speakers give the list: capital, liquidity (muni!?!), transparency, etc.
- But at some point, there will still be another big financial crisis.
- If banks have 12.27 percent capital, still need to consider what happens when the losses are 13 percent.

When things go wrong – 13 percent losses

- TLAC
 - Who will buy that debt? What if a favored party buys TLAC? Will they get preferential treatment?
 - When will the convertibility be triggered? If policymakers hesitate to impose losses in the future, then becomes just another implicit guarantee.
- If private DIP financing is available, then bankruptcy with a judge
- Title II
 - Will losses be imposed at bank 1 if this leads to runs on banks 2, 3, and 4?

Costs and benefits

- “Lots has been done” might push out the frequency of financial crises to every 30 years or every 50 years instead of every 10 or 20 years
- Maybe as a society we are willing to live with that – to pay the costs associated with a taxpayer bailout (including the political and societal costs)
- But let’s make that explicit – do the calculation of the costs and benefits.
- And if we decide to stick with “lots has been done,” let’s acknowledge what might happen in the next crisis.