THINKPROGRESS

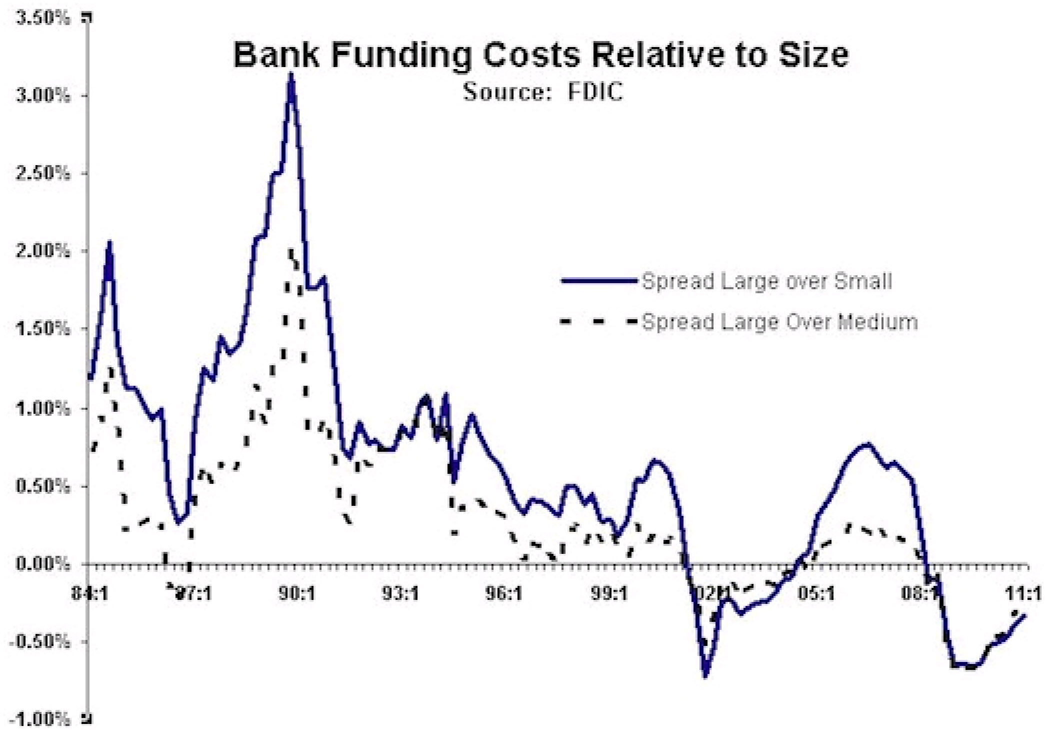
YGLESIAS

Chart Reading With Mark Calabria

Matthew Yglesias on Jul 13, 2011 at 4:00 pm

o's financial regulation guy, Mark Calabria, has an interesting post up suggesting we use the market test to see ether or not the Dodd-Frank bill has credibly persuaded bondholders that they won't be bailed out on the grounds of "too big to fail."

> So what do the debt markets say (if they could speak)? **The accompanying chart shows the difference between funding costs for the largest banks ($10 billion plus) and the smallest ($100 million and less), the dotted line shows the same relationship for the largest over mid-sized banks, to help determine how much of this advantage might be driven by economies of scale**.



This looks to me like a chart showing that the cost advantage of large banks has diminished since Dodd-Frank was signed into law and that it might diminish further if congressional Republicans and libertarian think tankers stopped promising to defund, repeal, or otherwise sabotage it. Instead, Calabria concludes that "[d]espite whatever Dodd-Frank intended, the debt markets are speaking pretty loudly: too-big-to-fail is still with us." That seems like an idiosyncratic reading to me. But it even gets worse. The thesis that looking at the debt market was a good idea *sounded* compelling to me, but if you look at the chart it shows clearly that during the peak bubble years large banks *didn't* have a funding advantage. The large bank funding advantage was a consequence of the crisis, not a cause of it. So why are we even looking at this?