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One Soundbite After Wells Fargo Scam: 'Too Big to Manage'

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Rep. Maxine Waters of California — the ranking Democrat on the House Financial Services Committee — sent a small shockwave through Washington's financial regulation establishment last month when she said Wells Fargo & Co. should be broken up.

As a hearing with Wells Fargo Chief Executive Officer John Stumpf approached the four-hour mark, Waters said his testimony made clear that the bank was so large that he could not keep track of important banking activities that led to the cross-selling scandal.

"I have come to the conclusion that Wells Fargo should be broken up," Waters said. "It's too big to manage."

The Wells Fargo scandal has highlighted, perhaps more than ever before, how "Too Big to Manage" could be just as central a concern to regulators and lawmakers as the other "Too Big" phrases — Too Big to Fail and Too Big to Jail.

Banking analysts say the concept may sound punchy, but it doesn't effectively target the problems at large banks. The idea also would be difficult to legislate.

Still, it may carry some political weight. Unlike previous accounts of malpractice in the industry, the Wells Fargo scandal has exposed issues more familiar to consumers who then place political pressure on lawmakers, and by extension regulators.

Anat Admati, a professor at Stanford University and an expert on banking issues, told Morning Consult that previous high-profile cases like the conspiracy to manipulate of the Libor benchmark interest rate and the "London Whale" trading loss at JPMorgan Chase & Co. didn't resonate on a public level to the same extent as the Wells Fargo scandal.

Both the Libor case and the London Whale dealt with the same variety of "too big to manage" issues that have reemerged because of Wells Fargo, Admati said. But those cases are too esoteric to have received widespread attention, except for a couple of congressional hearings that got a lot less hype than Stumpf's appearances on Capitol Hill.

"The difference was that both of these cases were kind of about governance issues," Admati said, referring to Libor and the London Whale. "But [Wells Fargo] was about something that everybody could understand and everybody could literally relate to. The harm is more direct to people like all of us."

In general, Admati said, problems with the management of banks are symptomatic of their size. The real issue, however, is that there are not enough incentives to encourage internal oversight at large institutions.

Right-leaning economists disagree with the premise of Waters' call to break up a bank because of management issues. Alex Pollock, a distinguished senior fellow at the libertarian R Street Institute, dismissed that idea as illogical.

"If you want somebody who should be broken up because they make mistakes, try the Congress. Try the U.S. government," Pollock said in an interview. "I think that argument is simply wrong … because these big banks are very well managed in many ways."

He said scandals like the Wells Fargo one, in essence, are inevitable, and that a call to break up a bank is a knee-jerk reaction. "I expect all organizations, including governments, including central banks, including companies, to make mistakes from time to time," Pollock said. "And anybody who doesn't expect that is either posing and just engaging in rhetoric, or else is foolish."

Mark Calabria, a banking regulation expert at the libertarian Cato Institute, also doubted whether breaking up a bank would help mitigate fraud issues like the cross-selling practices at Wells Fargo. He pointed to the 1980s **savings and loan crisis** as an example of the fraudulent activity that can take place at small institutions.

"I have yet to see anybody offer any sort of evidence that fraud is more likely at larger institutions than at small institutions," Calabria said.

He said Waters' declaration might have been politically motivated since she represents a district in Los Angeles where many of the scam's victims live. Additionally, he said, Democrats are eager to lay out policy alternatives to the deregulatory agenda put forth by House Financial Services Committee Chairman Jeb Hensarling (R-Texas).

Despite the bipartisan outrage surrounding the scandal, experts generally agree that it's unlikely there will be bipartisan support for Waters' breakup call. Democrats who support her efforts could, in theory, pressure regulators like the Financial Stability Oversight Council to place new management rules on banks. Federal Reserve Chair Janet Yellen said last month that no bank should be considered so big that it can't follow appropriate management standards.

If the "too big to manage" campaign were to gain momentum, it would quickly disintegrate into a political back and forth in Congress, Calabria said. For example, a markup of a bill aimed at breaking up Wells Fargo could simply lead to Hensarling introducing a manager's amendment to break up Fannie Mae. The government-sponsored enterprise, which is twice the size of Wells Fargo in assets, has come under fire from conservatives for its size and ties to the U.S. Treasury.

"The only commonality I heard was outrage," Calabria said. "I didn't hear a lot of commonality policy-wise."