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Rubin: Breaking up Big Banks Won't Eliminate Systemic Risk

By Dan Weil Friday, 08 Feb 2013

Breaking apart the nation's biggest banks, as some analysts have called for, won't eliminate risks to the financial system, it will just spread them elsewhere, says former Treasury Secretary Robert Rubin.

Sanford Weill, former CEO of Citigroup, where Rubin also worked, told CNBC last summer that commercial and investment banks should be split apart. The idea would be to assure the safety of consumer and business deposits.

But Rubin says it wouldn't work.

"If you followed Sandy's path, and you broke up the banks in some fashion or other, the risk isn't going to go away," he tells CNBC. "The systemic risk, the 'too big to fail risk,' will move from one place to another place."

The question that no one has been able to answer yet, Rubin says, is ""if I take the risk away from [the banks,] . . . where is that risk going to go, and how do I deal with that?"

The Dodd-Frank financial reform law of 2010 was supposed to end the too big to fail problem. But many regulators and congressmen say it hasn't done the trick and want new rules.

That quest "is absolutely driven by a sense that Dodd-Frank did not end too big to fail," Mark Calabria, director of financial-regulation studies at the Cato Institute, tells Bloomberg.