Fed’s Fisher: Too Big To Fail Problem Must Be Addressed

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Dallas Fed President Richard Fisher, speaking at an event held by the Cato Institute, has said that the financial crisis can in large part be attributed to large financial institutions and the large bets they made on house prices. The one-sided nature of the bets, and the large size of the firms involved, forced the government to step in and save those firms in order to stave off a collapse of the financial system.

As a result Fisher believes the too big to fail issue must be addressed, so allowing the Fed’s traditional way of managing the economy to function properly. He proposes the authorities should develop the least disruptive way to have the large institutions divest those parts of their businesses, such as propriety trading, that place the deposit and lending function at risk and otherwise present conflicts of interest.

In addition, the regulatory structure should be altered to prevent financial firms getting so big that their failure could threaten the stability of the financial system as a whole, including rolling back the government safety net to ensure that those engaging in risky behaviour do not do so believing govenment assistance will be forthcoming when things go wrong.