Fed's Fisher: "Too-Big-To-Fail" Must Be Addressed

Thu. November 19, 2009; Posted: 04:50 PM

(RTTNews) - Dallas Federal Reserve President Richard Fisher said Thursday that full global financial stability would not be achieved until the issue of "too-big-to-fail" is addressed.

Speaking at the conclusion of the Cato Institute's 27 annual Monetary Policy Conference, Fisher said that misperceptions of risk caused last year's financial crisis to "metastasize" in large financial institutions and spread throughout the entire financial system.

"It was not enough that one or two large institutions erroneously thought that real estate prices would rise foreverâ??nearly all of the biggest banks did," he said in prepared remarks. "It was not enough that one or two large institutions thought they could contract with third parties they presumed would immunize them against failureâ??nearly all did."

He added, "And it was not enough that one or two regulators turned a blind eye to the systemic risk posed by this behaviorâ??nearly all did, including the Federal Reserve."

Fisher's remarks come on the heels of comments on regulatory reform by Timothy Geithner in front of Congress' Joint Economic Committee earlier in the day.

During his testimony, the Treasury Secretary said that no firm should be considered "too-big-to-fail," and that a system should be in place for unwinding large firms in an orderly fashion when they are in danger of collapse.

Citing a Wall Street Journal op-ed he co-wrote in September and a recent speech by Fed governor Daniel Tarullo, Fisher said that past regulatory practices encouraged "too-big-to-fail" perceptions, and he stressed that such regulatory practices need to be reformed.

"I view of paramount interest an overhaul of a system that has come to coddle such 'too-big-to-fail' perceptions and capital-market sources of systemic risk," he said.

Fisher went on to say that the existence of firms deemed "too-big-to-fail" could undermine the ways in which monetary policy can influence the economy and did so to disastrous effect during last year's financial crisis.

"As the financial crisis erupted, the largest banks, by capital and influence, saw their capital bases erode, and wary financial markets made them pay dearly for new capital to shore up their balance sheets," Fisher said.

He added, "In this environment, monetary policy's interest-rate channel operated perversely. The real borrowing costs that matter most for the economy's recoveryâ??those paid by businesses and householdsâ??rose rather than fell."

Fisher continued by saying that obstruction by "too-big-to-fail" firms worsened the recession, and allowing such firms to fail - when they are in danger of doing so - will contribute to positive economic progress.

He said, "I accept that, painful as it might be, destruction of errant or inefficient economic agents must occur for progress to take place in a capitalist societyâ??that without failure there can be no good."

Most Popular News

AheadoftheBulls.com: Stocks on the Rise: BLAP, HESG, ACTC

Dell Provides Revenue Guidance

OTC Stock Review: OTC Stock Review Stocks in Motion for Thursday, November 19, 2009 are Poniard Phar...

PPD: Receives Complaint from Federal Trade Commission

Barclays, Wells Fargo to run DCP Midstream Partners' stock offering

More News >>

UPCOMING EVENTS