

3 October 2018

Dear Senator Sanders,

We write in support of your Too Big to Fail, Too Big to Exist Act. This week marks the tenth anniversary of Congress's authorization of the Troubled Asset Relief Program ("TARP"), through which the U.S. government bailed out the very Wall Street institutions that had tanked our economy even while leaving the Main Street homeowners whom they had exploited to fend for themselves. This anniversary seems to us a fitting occasion for your important new legislative initiative.

Since the crisis of autumn 2008, Americans have heard much about "the financial system." But really there are *two* financial systems in America. On the one hand there is the Main Street financial system, or what some of us with economic training call the "primary markets." On the other hand is the Wall Street financial system, or what some of us with economic training call the "secondary markets." These two financial systems serve very different sectors of American society and the American economy. And yet they are dominated by the same ultra-large financial institutions.

The first of these financial systems – the Main Street financial system – is what most people think of when they hear about banks, loans, small business and consumer credit and so forth. It is where banks make credit available to ordinary households and small businesses that want to invest in homes, education, and productive activity of the kind that brings jobs, growth, and good wages. *This* is the financial system that was *not* bailed out ten years ago, even though big banks effectively held it hostage when seeking their bailouts ten years ago. And those who rely on it most – families and small businesses – are still struggling in consequence.

The other financial system – the Wall Street financial system – is what most people are effectively thinking of when they hear about "the stock market," "the derivatives market," "the IPO and M&A markets" and so forth. It is where wealthy individuals and institutions participate in paper-wealth-inflating transactions or bet on financial instruments issued long ago and already owned by other people – instruments no longer associated with productive activity or Main Street livelihoods. This market is not about investing in new skills, necessities, or productive enterprises. It is simply about betting on speculative asset price changes among already-existing firms and financial instruments.

As your Too Big to Fail, Too Big to Exist Act reflects, this distinction between the Main Street and Wall Street financial systems – the primary investment and secondary speculation markets – matters: The big six banks that control most of the credit that flows in both systems make *much* more money by gambling in the Wall Street financial system than by investing in the Main Street financial system. That is, they make more money betting on stocks, bonds, and derivatives than betting on America or on working Americans. And so that is where they direct most of the credit that they control; they channel it to unproductive Wall Street, not productive Main Street.

The fact that we bail these large institutions out when they lose on their gambles of course worsens this dysfunctional arrangement. They, on Wall Street, keep the gains; we, on Main Street, eat the losses. But things are actually even worse than this...

Our present arrangements harm Main Street finance in at least two additional ways: First, Main Street Americans pay hugely high interest rates – often in the double digits – on our credit cards, student loans, small business loans, and so on, all while Wall Street gamblers pay almost no interest at all on their speculative borrowings and, again, benefit by our bailouts when they screw up. And second, Wall Street itself crashes every ten years or so, owing to all of the gambling that’s done there. And when *that* happens, Main Street interest rates go even higher – sometimes “infinitely high,” in the sense that small business and consumer credit dries up – since the big banks have gambled the money away.

We think it is crucial, then, that we both (1) break the strangle-hold Wall Street banks have over Main Street credit, and (2) end those banks’ misuse – their hyper-speculative use – of the credit that they control. To do that, we have to do two things: First, we must break them up, and with that break their near-monopoly on credit. And second, we must end their *misuse* and *misdirection* of credit.

Your Too Big to Fail, Too Big to Exist Act elegantly does both of these things. Restricting banks’ size to no more than 3% of U.S. GDP, as your bill does, will both restore competition – hence consumer accountability – to the credit markets and end big banks’ capacity to hold themselves – and with them, our economy – hostage when demanding bailouts. And ending these oversized Wall Street institutions’ privileged access to Federal credit facilities, as your bill also does, will eliminate one of the principal advantages they have as they drive smaller Main Street institutions toward further “consolidation” or extinction.

We hope you will not hesitate to call upon us to assist in any way as you move forward with passage and implementation of your forward-looking legislation. Together, we believe, we can revitalize Main Street and cut Wall Street back down to size.

With thanks,

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