Senior Harvard and Cato Economist: Government is Proposing to Institutionalize Bailouts for the Giant Banks

Thursday, September 24, 2009

Jeffrey Miron will testify today at 9 am east coast time before the House Committee on Financial Services.

Miron is the Senior Lecturer and Director of Undergraduate Studies in the Department of Economics at Harvard, and also a Senior Fellow at the Cato Institute (and a card-carrying Libertarian).

In his prepared testimony, Miron says that Congress is proposing - by way of Title XII of the proposed Resolution Authority for Large, Interconnected Financial Companies Act of 2009 - to make bailouts of large financial institutions permanent.

Specifically, Miron says that the bill would allow (and encourage) the FDIC to:

Make loans to the failed institution, to purchase its debt obligations and other assets, to assume or guarantee this institution's obligations, to acquire equity interests, to take liens and so on. This means the FDIC would be putting its own - that is to say, the taxpayer's - skin in the game, a radical departure from standard bankruptcy, and an approach that mimics closely the actions the U.S. Treasury took under TARP. Thus, this bill institutionalizes TARP for bank holding companies.

Miron says that this drastically increases moral hazard and the threat to our economy. Miron instead recommends that the too-big-to-fails be put into bankruptcy.

Paul Volcker is saying pretty much the same thing.

http://www.washingtonsblog.com/2009/09/senior-harvard-and-cato-economist.html