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Ryan Grim and Shahien Nasiripour
ryan@huffingtonpost.com | HuffPost Reporting

Senate Votes For Wall Street; Megabanks To Remain Behemoths

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A move to break up major Wall Street banks failed Thursday night by a vote of 61 to 33.

Three Republicans, Richard Shelby of Alabama, Tom Coburn of Oklahoma and John Ensign of Nevada, voted with 30 Democrats, including Senate Majority Leader Harry Reid of Nevada, in support of the provision. The author of the pending overall financial reform bill in the Senate, Banking Committee Chairman Christopher Dodd, voted against it. (See the full roll call.)

The amendment, sponsored by Sens. Sherrod Brown (D-Ohio) and Ted Kaufman (D-Del.), would have required megabanks to be broken down in size and capped so that their individual failure would not bring down the entire system.

Under Brown-Kaufman, no bank could hold more than 10 percent of the total amount of insured deposits, and a limit would have been placed on liabilities of a single bank to two percent of GDP.

In practice, the amendment required the six biggest banks -- Bank of America, JPMorgan Chase, Citigroup, Wells Fargo, Goldman Sachs and Morgan Stanley -- to significantly scale down their size. It was touted as a way to end Too Big To Fail.

Though top Obama administration officials have not publicly opposed the amendment, its leading economists have opposed ending Too Big To Fail simply by breaking up the nation's financial behemoths. Austan Goolsbee and Larry Summers have both fought back against this idea, as has Treasury Secretary Timothy Geithner.

"This is certainly a defeat for those who are concerned about the dangers of financial concentration in this country," Kaufman said in a statement after the vote. "Some causes are worth fighting for, and for me, the concern about the risks 'too big to fail' banks pose to the American economy and people is deep and profound given the economic tragedy millions of American have endured. I believe the debate itself -- though failing to gain a majority of votes -- has helped to change attitudes about the degree of financial concentration and power these megabanks now represent."

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The banks owned by the four largest financial firms in the U.S. collectively account for about 45 percent of all assets in the U.S. banking system, according to a HuffPost analysis of Federal Deposit Insurance Corporation data.

Those four megabanks collectively hold about $7.4 trillion in assets, according to the most recent regulatory filings with the Federal Reserve. That's equal to about 52 percent of the nation's estimated total output last year.

The top 12 banks in the U.S. control half the country's deposits. By comparison, it took 25 banks to accomplish this feat in 2003 and 42 banks in 1998, according to a Jan. 4 research note by Jason M. Goldberg of Barclays Capital.

There are 23 bank-holding companies in the U.S. with more than $100 billion in assets, according to Federal Reserve data.

Richard W. Fisher, president and chief executive of the Federal Reserve Bank of Dallas, is among a group of at least three current regional Fed presidents that have called for the nation's megabanks to be broken up, joining Kansas City Fed president Thomas M. Hoenig and St. Louis Fed president James Bullard.

Fisher has suggested a ceiling on bank assets placed at $100 billion.

"In the past two decades, the biggest banks have grown significantly bigger," Fisher said last month. "The average size of U.S. banks relative to gross domestic product has risen threefold. The share of industry assets for the 10 largest banks climbed from almost 25 percent in 1990 to almost 60 percent in 2009."

Of course, size is not the only danger -- Lehman Brothers, whose crash rocked the financial system, would have been under the size caps proposed by the amendment. To that end, the Brown-Kaufman amendment limited the amount of leverage an institution can take at about 16-to-1. Hoenig has suggested a 15-to-1 ratio. Leverage is the use of debt to increase assets without a corresponding increase in capital.

The amendment began as a wild longshot, backed by the junior senator from Ohio, Brown, and a longtime aide to Joe Biden, Kaufman, appointed to keep his seat warm for two years until the 2010 election. That the amendment gained as much support as it did is an indication of the depth of the populist anger.

Sen. Mark Warner (D-Va.) and Dodd of Connecticut spoke against the amendment.

Sen. Judd Gregg (R-N.H.) was indignant. "I don't understand this Brown-Kaufman amendment. Basically, what it says is if you're successful...you're going to break them up? I mean, where does this stop? Do we take McDonald's on?"

"It really doesn't make any sense to me," he said.

After the vote, Kaufman defended the provision.

"I believe this idea was sound policy -- and I further believe that a mainstream consensus will continue to grow that these megabanks are too large, too complex and too internally conflicted to regulate successfully," he said, echoing a position voiced by regional Fed presidents, former top Fed officials, and former top bankers on Wall Street.

The Senate will resume voting on amendments to the legislation next week.

The 27 Democrats who voted against the amendment:

- Akaka (D-HI)
- Baucus (D-MT)
- Bayh (D-IN)
- Bennet (D-CO)
- Carper (D-DE)
- Conrad (D-ND)
- Dodd (D-CT)
- Feinstein (D-CA)
- Gillibrand (D-NY)
- Hagan (D-NC)
- Inouye (D-HI)
- Johnson (D-SD)
- Kerry (D-MA)
- Klobuchar (D-MN)

- Kohl (D-WI)
- Landrieu (D-LA)
- Lautenberg (D-NJ)
- McCaskill (D-MO)
- Menendez (D-NJ)
- Nelson (D-FL)
- Nelson (D-NE)
- Reed (D-RI)
- Schumer (D-NY)
- Shaheen (D-NH)
- Tester (D-MT)
- Udall (D-CO)
- Warner (D-VA)

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