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The Clearing House Working Paper Series on the Value of Large Banks *Working Paper No. 1: Identifying the Right Question*

The central inquiry regarding the appropriate size of banks is whether U.S. public policy unfairly “subsidizes” large banks through express, implied, or perceived forms of government support. Claims of a “subsidy” have been invoked to support aggressive proposals to “break up” large banks, either directly or indirectly through activity restrictions or punitive capital requirements. Unfortunately, many of these arguments fail to consider the broader range of issues necessary for an informed debate.

To inform the broader policy discussion, The Clearing House has established a *Working Paper Series on the Value of Large Banks*, the purpose of which is to evaluate and address the key issues and questions that must be considered in assessing whether large banks truly enjoy some unfair “too big to fail” advantage. The [first paper](#) in the series identifies the right question for policymakers to be asking:

Do large banks today enjoy unfair economic benefits as a result of express, implied, or perceived government policies?

This important question provides an appropriate analytical framework to consider the form and function of large banks in our economic system, taking into account both the risks they pose and the value they provide. Too narrow an analysis, as posed by many critics, is both misleading and incomplete for several reasons:

- A meaningful analysis must be thorough and must not be based on inappropriate assumptions or a misleadingly narrow view of large banks and their function in the overall economic system. Conclusions yielded from such an incomplete analysis will inevitably lead to flawed policy prescriptions that could significantly dampen economic growth. The debate must not focus merely on size, but on all relevant factors pertaining to systemic risk, such as complexity, interconnectedness, leverage, and risk management, as well as the significant and ongoing role of large banks in the U.S. economy.
- The real question policymakers should be asking is: *Do large banks today enjoy unfair economic benefits as a result of express, implied, or perceived government policies?* “Subsidy” is a term that confuses the real question, which is one of unfair economic or competitive advantage.
- Finally, looking only at the perceived benefits enjoyed by large banks tells only part of the story. Any assessment must take into account the important functions and responsibilities undertaken by large banks, as well as the additional regulatory and other costs directly arising from government policies. These costs may offset any potential benefit conferred on large banks as a result of government support.

In forthcoming papers, The Clearing House will further explore this important inquiry into our nation’s largest financial institutions and dispel the inaccurate rhetoric surrounding the topic.

[The Clearing House](#), established in 1853 to bring order to clearing and settlement between banks, is the nation’s oldest banking association and payments company. Past issues of *The Clearing House Banking Brief* are available [here](#).