Too Big to Fail
The Hazards of Bank Bailouts

WITH A NEW PREFACE

Gary H. Stern
Ron J. Feldman

B 366342

BROOKINGS INSTITUTION PRESS
Washington, D.C.
Contents

Foreword by Paul A. Volcker vii
Preface to the Paperback Edition xi
Preface to the First Edition xix

1 Introduction: Our Message and Methods 1

ONE
WARNINGS 9

2 What Is the Problem? 11
3 Why Protection Is Costly 23
4 How Pervasive Is TBTF? 29
5 Why Protect TBTF Creditors? 43
6 The Growth of TBTF Protection 60
7 Testing Our Thesis: The Cases of Not Too Big to Fail 80
TWO OPTIONS

8 Can the Problem Be Addressed? 89
9 Creating the Necessary Foundation 98
10 Reducing Policymakers' Uncertainty 111
11 Limiting Creditor Losses 124
12 Restricting Payment System Spillovers 132
13 Alternatives for Managing Too Big to Fail 141
14 Summary: Talking Points on Too Big to Fail 146

APPENDIXES

A FDICIA: An Incomplete Fix 149
B Penalizing Policymakers 159
C Supervision and Regulation 168
D Increasing Market Discipline 179

References 197
Index 223