Without Taxpayer Help, Too-Big-to-Fail Banks Would Only Break Even

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Wall Street banks once occupied a unique position of power, privilege, and prestige in this country. Looking back, the apogee was probably late in the Clinton administration, in the era of deregulation, when Treasury Secretary Robert Rubin – former co-chair of Goldman Sachs and future director of Citigroup – appeared on the cover of *Time* magazine with his protégé, Lawrence Summers, and Federal Reserve Chairman Alan Greenspan, over the headline "The Committee to Save the World."

After the cataclysm of 2008, much of the power and privilege remains, but the prestige is rapidly fading. Today brings what seems like a minor milestone in the banks' fall from grace: a Bloomberg editorial alleging that Wall Street's largest financial firms would only break even without taxpayer backstops, and calling for an end to the perverse incentives that the current arrangement creates.

Bloomberg knows that its business-focused readers may be unprepared for such news: "Granted, it's a hard concept to swallow." But as the editors explain, the widespread perception that JPMorgan Chase (JPM), Goldman Sachs (GS) et al. are too big to fail effectively gives them a discount when they borrow money, since creditors presume – with good reason, given recent history – that the government will step in and bail the banks out if they get into serious trouble. A recent study by two economists concluded that Wall Street's borrowing costs are thereby reduced by about 0.8 percentage points, a discount which "applies to all their liabilities, including bonds and customer deposits."

Calculate the total cost of that seemingly tiny reduction and you arrive at an $83 billion annual taxpayer subsidy to the 10 largest U.S. banks by assets – "tantamount to the government giving the banks about 3 cents of every tax dollar collected." As if that weren't shocking enough, Bloomberg goes on to explain that the top five banks – JPMorgan, Bank of America (BAC), Citigroup (C), Wells Fargo (WFC), and Goldman – aren't actually profitable, since the share of the total subsidy that they receive, $64 billion, is "roughly equal to their typical annual profits."