Too Big to Fail: Suggestions to Limit the Future Fallout

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Abstract

In 2008, the U.S. financial system suffered the most severe financial crisis since the Great Depression. AIG, Fannie, Freddie, Indy Mac, Country Wide, Bear Sterns, Merrill Lynch, Lehman Brothers, and others became casualties of the mortgage related meltdown that required significant intervention by the Federal Reserve. In the following years, Congress grappled with the appropriate response. The legislation that passed in 2010 has produced an even larger concentration of bank assets in the U.S. This paper discusses the principles that caused the problems and why these solutions will not work in long run.

Key Words: Bank Regulation, Commercial Banks, Deposit Insurance, Deregulating, Deregulation, FDIC, Federal Reserve Board, Federal Reserve System, Glass Steagall, Policy, Policy Making, Regulation, Regulatory, Standard

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