The Daily Dish

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Senator Coburn has released what will be his final annual “Wastebook.” The Senator wrote, NIH “claims a vaccine for Ebola ‘probably’ would have been developed by now if not for the stagnant funding for the agency, which has a $30 billion annual budget. Yet NIH did come up with the money [$387,000] to pay to give Swedish massages for rabbits.” Senator Ron Johnson will likely pick up the mantle of compiling the Wastebook, but luckily for him it doesn’t seem like the government is short on good material.

S&P has picked out a cluster of Southern states for the best economic prospects in the coming year. According to the Washington Post “The report predicts that the economic output will grow by more than 3.5 percent next year in those four states: Arkansas, Louisiana, Oklahoma and Texas.” But S&P did temper hope for a strong year, “On balance we believe continued slow economic growth is most likely.”

Eakinomics: Shape Up or Break Up

Monday New York Fed President William Dudley laid down the law arguing that large financial institutions have continued ethical problem and remain under public suspicion years after the financial crisis. The bottom line was hard-hitting:

“In conclusion, if those of you here today as stewards of these large financial institutions do not do your part in pushing forcefully for change across the industry, then bad behavior will undoubtedly persist,” Dudley said. “If that were to occur, the inevitable conclusion will be reached that your firms are too big and complex to manage effectively. In that case, financial stability concerns would dictate that your firms need to be dramatically downsized and simplified so they can be managed effectively.”

Need to be dramatically downsized and simplified. Could the Fed really break up a large bank? That is, could it effectively take possession of shareholders’ property and sell it off? Isn’t private property sacrosanct in the United States?

Not after the Dodd-Frank Act. Section 121 of the Act, entitled “MITIGATION OF RISKS TO FINANCIAL STABILITY,” empowers the Fed to:

(1) limit the ability of the company to merge with, acquire, consolidate with, or otherwise become affiliated with another company;

(2) restrict the ability of the company to offer a financial product or products;

(3) require the company to terminate one or more activities;

(4) impose conditions on the manner in which the company conducts 1 or more activities; or

(5) if the Board of Governors determines that the actions described in paragraphs (1) through (4) are inadequate

to mitigate a threat to the financial stability of the United States in its recommendation, require the company to sell or otherwise transfer assets or off-balance-sheet items to unaffiliated entities.

In short, the Fed can really break up the banks. Indeed, because the powers are couched in terms of systemic risks to the financial system, they apply as well to the non-bank systemically important financial institutions (SIFIs) like AIG or Prudential.

Nobody should accept unethical behavior. Firms should build cultures that support the highest forms of ethical business practice. But it is unnerving to have a government regulator empowered to micromanage the firms' efforts in this objective, and free to confiscate without appeal its property if the Fed judges it to have failed.