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# Free Enterprise: An insidious give and take

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The good news first: Those headlines screaming that the Federal Deposit Insurance Corporation will run out of money soon are flawed.

The FDIC may be short on cash. According to its Web site (www.fdic.gov [1]), it indeed had "extraordinary losses stemming from write downs" totaling $3.6 billion, and during the second quarter, the fund balance declined "from $13 billion to $10.4 billion." That number was derived at by subtracting liabilities from $64.8 billion in cash and other assets. Obviously, this leaves the agency less room to maneuver on its own while confronting, as of last count, 416 banks on the "problem list."

However, Congress earlier this year gave the FDIC authority to borrow up to $500 billion from the Treasury, if needed. Furthermore, although there is some debate whether there exists a statutory guarantee by the United States government for all of its commitments, it would be politically unthinkable to not have taxpayers serve as a stop-gap for any losses larger than that amount; should that unlikely scenario ever materialize.

In the meantime, the FDIC will attempt to bolster its balance sheets by increasing the fees that banks pay to carry the coveted "Member FDIC" label as well as by courting additional buyers for troubled banks. Just this week, its board voted 4 to 1 on regulatory changes intended to create interest among private equity firms ("hedge funds") in bidding for the assets of distressed lenders.

The fee increases will likely be unwelcome to the 202 out of 324 financial institutions in the state of Georgia listed on the FDIC's Web site that reported a net loss in the second quarter. Even less welcome to smaller community banks, however, will be another troubling development connected to government guarantees.

As it turns out, the recent massive intervention by the federal government that was designed to ensure the survival of "too big to fail" financial institutions has had an insidious effect on competition. Many of the saved behemoths of banking have become still larger as a result of the bailout.

Their market share has increased either because of the demise of smaller rivals or the purchase of failing competitors (often backed by government guarantees and sometimes explicitly pushed for by regulators).

In some cases, the government even waived antitrust rules to enable certain acquisitions.

Consequently, common measures of industry concentration now point to more market power being wielded by the largest financial institutions. Ironically, that makes them even more indispensable on the "too big to fail" scale. But even without imminent failures, this is becoming a problem. Market leaders are enjoying a historically large advantage over regional and midsize banks when it comes to borrowing money on capital markets because of the, now, more-than-just-implicit guarantee that taxpayers will step in rather than letting them go under.

So, the two-faced Janus of government intervention is raising its ugly head. Deposit insurance provided by the government has been a success in making fearsome bank-runs a thing of the past and in enabling smaller players to enter the market. However, other government guarantees for ever bigger market leaders are now more often than not preventing smaller banks from competing on a level playing field.

What one hand of the government giveth, the other taketh away - and that really is bad news.

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