Financial Reform Bill in a Nutshell

The Senate Thursday night passed its long-awaited financial reform bill, another critical plank in President Obama's New Deal-esque agenda to bring the private sector under more comprehensive and stifling control by the federal government and Federal Reserve. Touted as the biggest piece of financial reform since the Great Depression, the bill, crafted primarily by retiring Connecticut Senator Chris Dodd (D), faces only reconciliation with a similar bill passed by the House last December before being sent to the President for his signature.

In anticipation of Senate passage, the financial markets plunged steeply Thursday, the Dow registering its worst loss in a year, as banks and other financial services corporations brace for a massive new load of regulations and controls — all in the name, of course, of correcting the alleged evils of the untrammeled free market, which the political class alleges to have been responsible for the ongoing global economic crisis.

President Obama, indulging a little triumphalism shortly before the bill's passage, portrayed the big-government monstrosity as long-overdue protection for the consumer. "The American people will never again be asked to foot the bill for Wall Street's mistakes. There will be no more taxpayer-funded bailouts — period," he said. In reality, of course, all of the new costs — including higher fees and significantly greater inefficiencies — imposed on the economy by this latest Washington power grab will all be paid for by taxpayers and consumers. But since they will be imposed gradually, with the net effect — a general impoverishment of the entire country — only becoming apparent years from now, such measures are viewed morally preferable to the more blatant impositions of massive, one-time government bailouts. As with all else emanating from the Beltway Banditry, a gradual fastening of the shackles is deemed morally acceptable because it is more politically savvy than headline-grabbing sudden acts of usurpation like last year's bailouts.

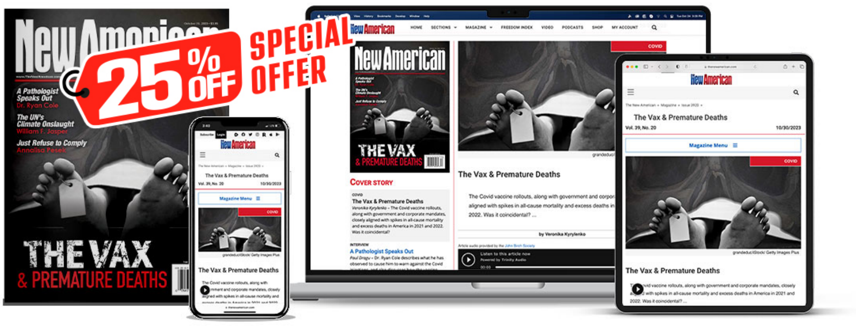
The bill passed by a margin of 59-39, with most dissenters on both sides of the aisle concerned not with its unconstitutionality or with its potentially calamitous long-term effects on the economy but with its failure to do enough. Yet the behemoth bill will do to the financial sector what Obamacare will do to healthcare. As Michael MCauliff of the New York *Daily News* summarized it, the new bill "would create an aggressive consumer financial watchdog, give the feds power to intervene in dangerously risky markets and firms, and regulate the complex financial instruments that imploded in the 2008 meltdown."

The "consumer financial watchdog" will be run by none other than the Federal Reserve, which has been agitating for more power ever since the crisis broke. The Fed, America's central bank, will now become her chief financial regulator as well, writing new rules for all entities issuing financial products and services, including not only banks and mortgage firms but anyone issuing credit, including the likes of consumer installment payment plans. The Fed's new regulators will crack down on credit card issuers and other financial service providers with a welter of new requirements regarding transparency, fee structuring, and fair contractual terms. Intoned President Obama, "From now on, every consumer will be empowered with the clear and concise information that you need to make financial decisions that are best for you." Caveat emptor — personal accountability for financial decision-making — is to be cast aside as Big Brother assumes the responsibility for private-sector financial decisions henceforth.

The bill also cracks down on credit default swaps and derivatives, and will require Wall Street banks to divest themselves of holdings in same, much to the chagrin of New York's financial sector.

On one front, however, the bill is curiously silent. There are no provisions for curtailing (or abolishing) the activities of Fannie Mae and Freddie Mac, the two quasi-public mortgage behemoths whose underwriting of mortgages to subprime borrowers contributed hugely to the real estate bubble and its implosion. Nor is there a whisper about the misbegotten Community Reinvestment Act, whose alleged anti-discrimination requirements also helped to fuel the subprime mania. Finally, of course, the bill makes no effort to rein in the Federal Reserve, choosing instead, as already noted, to greatly expand its powers. The message from this bill is unmistakable: the blame for the economic crisis is to be placed squarely on the private sector, with the government — all rhetoric aside — refusing to acknowledge an iota of accountability for a calamity that is, in fact, entirely a creation of the state. Such evasions are all too typical of our venal public servants who, to a much greater degree than is typical of private-sector crooks, never admit to any blame for the long term consequences of failed policymaking.

If this bill is any indicator, America's long love affair with free-market capitalism may be drawing to a close. Unless Americans soon reawaken to the benefits of freedom — and that includes economic freedom — the Washington nomenclatura, with the help of yet another locust-like horde of regulators, will strip away the remaining foliage of financial freedom.



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