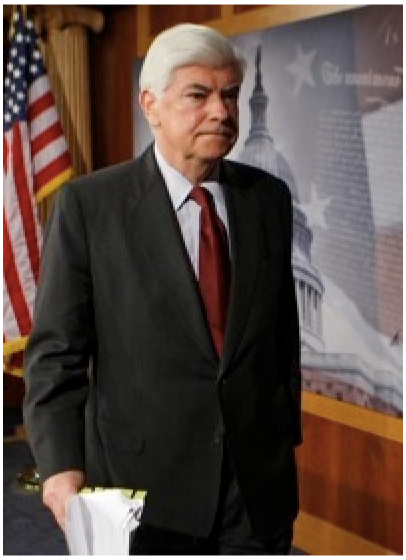
Dodd’s Finance Reform Bill Would Strengthen Fed



There are from time to time political events that attract attention and controversy, only to fade into well-deserved obscurity. Who today can recall the storm and stress over the ’90s-era debates over the presidential line item veto or the proposed Conference of the States, for example? The very latest in a very long line of forgettable Capitol Hill follies, the Dodd Finance Reform Bill, was unveiled this past weekend, a bill that deserves similarly to wind up in the dustbin of failed Grand Ideas.

The bill, almost singlehandedly crafted by Connecticut Senator Chris Dodd, proposes to compound almost all of the decades-old errors that set the stage for the ongoing economic crisis. In substance it represents a complete volte-face for Senator Dodd, who a year ago could find nothing good to say about the Federal Reserve or the Byzantine federal regulatory structure that provided cover for the financial shenanigans of AIG, Goldman-Sachs, Fannie Mae, and their ilk. It is therefore more than a little surprising that the Dodd legislation adds considerably to the Fed’s dreary kit of tolls for monetary manipulation and contemplates a whole range of new regulatory activities for the Federal Government.

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The Federal Reserve itself is the centerpiece of the Dodd legislation. The central bank, only months ago threatened of being stripped of many of its powers, would be given sweeping new authorities instead. The Fed would become the chief regulator of the hundreds of bank holding companies with $50 billion or more in assets. It would also acquire the authority to regulate and, whenever deemed necessary, break up large corporations like AIG, whose failure could affect the entire economy. It would provide for the comprehensive regulation of the issuance of credit, giving the Federal Reserve regulatory authority over credit card and mortgage companies, and even over the hundreds of firms that issue gift cards or offer layaway plans.

In other words, the Federal Reserve would abandon any lingering pretext of being a disinterested, impartial entity and openly transform into yet another Big Government regulatory bureaucracy — albeit one that already wields the awesome and illegitimate power to manipulate the money supply.

Also contemplated in the bill is a nine-member Financial Stability Council, to be chaired by the Secretary of the Treasury, which would have, among its many powers, the authority to place large corporations under the regulatory authority of the Federal Reserve. The Council would also act to prevent financial firms from becoming “too big to fail” and would be empowered to approve the breakup of large companies regarded as a threat to the financial system.

The bill is said to have initially enjoyed a measure of bipartisan support, until Senator Dodd chose to abruptly end negotiations with Republicans on the Senate Finance Committee and introduce the bill with the intent of ramming it through committee within a few days.

Unfortunately, Republican opposition to the measure is mostly cosmetic rather than motivated by any semblance of principle. Republicans are said to be angered, for example, by the fact that the proposed new credit regulation authority within the Fed be placed in a quasi-autonomous agency. According to the *Wall Street Journal*, “Republicans … have argued the Fed itself should retain responsibility for consumer protections,” while Democrats favor the creation of an entirely new and independent agency.

In other words, nobody on Capitol Hill — with the notable exception of Congressman Ron Paul — is even questioning the prudence of imposing the new regulations in the first place. The brief opprobrium directed at the Federal Reserve appears to have largely passed, and lawmakers in both parties are now committed to strengthening the institution rather than curtailing or abolishing it. As the *Wall Street Journal* pointed out, “the biggest winner in Dodd’s bill appears to be the central bank. It would police previously unregulated sectors of the economy and would have a new division to write consumer protection policy.”

Senator Dodd’s 1,336-page monstrosity is being touted as the most ambitious overhaul of the financial regulations since the New Deal. It represents the first time ever that large swathes of previously unregulated financial activity will be subject to the suffocating scrutiny of the state. It will impose heavy punitive costs on the entire financial sector, and put a definitive end to financial privacy, a right to which Americans are apparently no longer entitled. And, as with all previous regulatory regimes, it will produce unintended consequences that will lead to further economic distortion and instability for generations yet unborn.

All of this stems from a distrust of freedom in America that has reached epidemic proportions. From a country that once prized individual freedom and responsibility, we are rapidly allowing ourselves to be transformed into just another docile populace dependent on government to safeguard us from making our own decisions. For bills such as this one would not even be discussed if lawmakers believed they risked the wrath of an electorate jealous of their own financial liberties. It is to be devoutly hoped that Americans will wake up someday soon, oust Big Government buffoons like Senator Dodd (the good Senator himself will not be running for reelection this year, perhaps to spare himself the potential indignity), and reclaim the liberties we have unwisely permitted our leaders to strip from us.

Photo of Sen. Chris Dodd: AP Images