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Firing Incompetent Employees 'Would Harm The Agency's Work,' SEC Chief Says

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November 15, 2011

Over a year ago I asked a fairly simple question, why can't we fire failed regulators?

After all, lots of seemingly smart people had oversight of our financial markets, and regardless of whatever spin you might hear, our financial markets are, and have been, highly regulated.

Sadly, "highly" is not the same as "well."

Perhaps no failure was as avoidable as that of the Bernie Madoff scheme. After all. outside parties basically put the case together and brought it to the Securities and Exchange Commission (SEC). Yet, the SEC did nothing until it was far too late.

Eventually the SEC's human resources department and an outside law firm advised the agency on how to handle these regulatory failures.

Their recommendation: fire the manager responsible.

SEC Chair Mary Schapiro's response? No, as such "would harm the agency's work."

I'd think having incompetent employees would harm the agency's work. But then we have yet to hear what happened to the many SEC employees that spent the crisis watching porn instead of doing their job.

This is just another example, in a long list, of why relying on the relatively weak incentives of government regulatory oversight is inferior to relying on the strong incentives contained in market participants having their own wealth on the line. But, then, for such incentives to be effective, we need to end bailouts and have real market discipline.

Sadly we are currently stuck in the worst of both worlds: incompetent and unaccountable regulators coupled with a neutering of market discipline by these very same regulators.