CNJonline.com Your Community, Your News

Regulations won't benefit U.S. recovery

Freedom New Mexico
2010-07-17 15:52:23

America's jobless recovery was dealt another body slam Thursday when the Senate passed the financial "reform" bill. Also passed by the U.S. House last month, the bill is supposed to prevent another financial meltdown such as the one that struck the country in the fall of 2008.

Sen. Christopher Dodd, D-Conn., chairman of the Senate Banking Committee and the main crafter of the bill, promised, "This is a major undertaking, one that is historic in its proportions, that is an attempt to set in place the structure that will allow us to minimize problems in the future."

The president is expected to sign the bill this week.

In fact the bill, which, at 2,300 pages, will only be understood as it worms its way into the economy, is bad news for business and consumers. As economist Thomas Sowell put it in a column, the Obama administration's continuous assaults on businesses — from the 2,400-page Obamacare health care bill, to record deficit spending, to bank bailouts, to this new financial regulation bill — have brought great uncertainty. No one knows what hammer-blow will come next.

On the positive side, the bill includes the Volcker Rule, named after former Federal Reserve Board Chairman Paul Volcker, which in Wikipedia's definition restricts "banks from making certain kinds of speculative investments if they are not on behalf of their customers." That could help prevent some of the excessive speculation that wreaked havoc during the last decade.

And it mandates disclosure of some lending by the Federal Reserve Board, such as emergency lending — but only after a year. Unfortunately, this is an anorexic version of the bill to audit the Federal Reserve Board introduced by Rep. Ron Paul, R-Texas.

In the "not as bad as it could have been" category, federal banking supervisors are directed to develop tighter capital requirements for banks.

Some of the worst elements in the new bill:

• Economic uncertainty will continue and unintended consequences will pile up as bank and securities regulators start to write and adopt 243 rules ordered by the legislation — more than three times as many as those required by the landmark, post-Enron Sarbanes-Oxley Act, according to MarketWatch. Some of the rules will take years to implement.

n It will allow not just federal snoops to look at your financial records, but even outside snoops, such as private investigators or hackers, could identify you from patterns of home ownership and credit-card spending.

n The heart of the mortgage meltdown crisis, the Fannie Mae and Freddie Mac quasi-private lending institutions taken over by the U.S. Treasury Department in September 2008, hardly even was dealt with in the bill, according to Mark Calabria, director of financial regulation studies at the Cato Institute. That "conservatorship" essentially was a bankruptcy. In the new bill, there is only a requirement by Treasury to conduct a study of ending the government's conservatorship. They will have to be handled separately.

The bill does not make the credit markets more certain for small businesses, Calabria said. He pointed out there are two traditional ways most small businesses start: By taking out a second mortgage on a home (using home equity) and using personal credit cards. The Credit Card Accountability, Responsibility and Disclosure Act enacted in spring 2009 helped dry up consumer credit and the new finance bill will tighten all home lending, Calabria said. Given that small businesses are the heart of new jobs creation, the outlook for reduced unemployment remains dim.

When Republicans were in charge, they made plenty of financial mistakes, such as then-record deficits, immense spending on wars that haven’t gone well, interest rates that were too low for too long, helping cause the housing boom-bust cycle and the fall 2008 TARP bailout. The Democrats now are making matters even worse.

We wonder when someone — anyone — with common economic sense will be put in charge and start restoring economic freedom.