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DUNCAN CURRIE

ARCHIVE | LATEST

MARCH 5, 2010 4:00 A.M.

Fed-Bashing and Consumer Protection

Why the financial-reform debate has become so heated.

Senate Banking Committee members Chris Dodd (D., Conn.) and Bob Corker (R., Tenn.) are reportedly on the verge of introducing a landmark financial-reform bill. Dodd, the committee chairman, began collaborating with Corker in mid-February, after the breakdown of talks with GOP ranking member [Richard Shelby](#) of Alabama. Thus far, a bipartisan agreement has been stalled by a few hot-button issues, chief among them the creation of a new Consumer Financial Protection Agency (CFPA).

Back in December, the House of Representatives approved legislation that would establish an independent CFPA with the authority to regulate all manner of financial products, including [credit](#) cards and mortgages. Not a single Republican voted for the bill. When negotiating with Corker, Dodd scrapped the independent-agency idea and suggested [housing](#) the CFPA at Treasury, which would give it regulatory sway over non-bank financial institutions. Corker rejected that proposal but supported putting the new consumer watchdog inside the Federal Reserve.

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Shelby remains the key Republican player on this issue. While he is distrustful of the central bank and would prefer to place the CFPA within

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the [Federal Deposit Insurance Corporation](#) — headed by Sheila Bair, who is widely respected on both sides of the aisle — he is more concerned about the new agency's regulatory powers than its location.

Indeed, we should not overstate the differences between Corker and Shelby, says Cato Institute economist Mark Calabria, who worked for Shelby as a Banking Committee staffer from 2003 to 2009. Both oppose launching an independent agency or forming a CFPA at Treasury, and both are wary of letting consumer protection trump prudential regulation. While Corker holds a more benign view of the Fed than Shelby does, the Alabama Republican seems amenable to establishing a CFPA within the central bank, provided its regulatory clout is appropriately limited.

Yet many Democrats, in both the House and Senate, are still championing a fully independent consumer entity. So is President Obama. Earlier this week, an administration official told the *Wall Street Journal* that Obama “remains strongly committed to an independent agency whose singular focus is advocacy for consumers.” Republicans, meanwhile, have spurned the independent-agency plan but are also reluctant to embrace the Fed option.

“I fail to see how putting consumer protection in the Fed is the right course of action,” says a GOP senator on the banking panel. “That’s going to be a hard sell.” While Democratic and Republican committee members have found common ground on some issues — such as resolution authority and systemic risk — “this consumer-protection issue still has a long way to go,” because there are “two different philosophies at work.” The Republican senator, who requested anonymity, emphasizes that Shelby’s blessing will be crucial: “Unless the ranking member signs off on the bill, it’s going to have a hard time getting anywhere.”

Consumer protection is hardly the only divisive issue. Conservative activists have sent a letter to Dodd and Shelby warning that corporate “proxy access” provisions “would benefit special interests with political agendas at the expense of ordinary shareholders.” Democrats and Republicans have also been wrangling over how to regulate derivatives and whether to adopt the so-called Volcker Rule on proprietary trading.

But the CFPA debate has been the most radioactive. “It’s crazy to have it in the Fed,” House Financial Services Committee chief Barney Frank (D., Mass.) told the *Boston Globe* this week. According to the *Globe*, “Frank said that he has the support of the Democratic House leadership to stop the idea.” An article in the online version of *The Nation* declares, “If Dodd proceeds with a gutted version of the CFPA, every aspect of the Wall Street overhaul will have been entirely undermined.”

Dodd’s willingness to accept a watered-down bill with no independent consumer agency may reflect a desire to burnish his Senate legacy before retiring. The Connecticut Democrat is not seeking reelection, and he “wants this bill more than anyone,” says Calabria. Unfortunately for Dodd, given the enthusiasm for an independent CFPA among Democrats (including Obama) and the depth of anti-Fed sentiment among members of both parties, his legislation will face a difficult road to the president’s



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— *Duncan Currie is deputy managing editor of NATIONAL REVIEW*

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