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Dodd's do-nothing financial 'reform'

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Wall Street is heaving a quiet sigh of relief: All Washington is going to give us for "financial reform" in the wake of the collapse of 2008 is a law based on Sen. Chris Dodd's bill.

That thin semblance of reform will let Congress and the Obama administration claim they brought Wall Street to heel. But by dodging *all* the hard issues, this "reform" makes it likely that the *next* crisis will put the last one to shame.

Start with ending "too big to fail": Despite Dodd's floor statements (and improvements made at the request of Sen. Richard Shelby, the top Republican on Dodd's committee), the bill actually *fur ther* enshrines the special and privileged status of our largest financial institutions. It squashes whatever hope there was of bringing back market discipline to our largest financial institutions -- and guarantees ever-increasing concentration in our financial markets.

Going forward, we are left with relying on only the discretionary wisdom of the same regulators who were asleep at the wheel last time. And though that crisis cost millions their jobs, the Dodd bill won't see even one incompetent bureaucrat lose his.

Yes, the Dodd bill eliminates the Office of Thrift Supervision -- but it guarantees that all OTS employees will have jobs at the new bank regulator. How exactly is moving around boxes on the organizational chart going to prevent the next financial crisis? (Ironically, OTS was itself created in the "crackdown" after another Washington-sparked meltdown, the savings-and-loan crisis of the late '80s.)

Indeed, the real theme of the Dodd bill is: Give the bureaucrats more power and discretion, without any accountability. Its main achievement is to set up a new agency that will largely determine who, what and how it will regulate.

But the bill itself doesn't touch even blatant problems.

For example, with almost universal recognition that banks lacked sufficient capital going into the financial crisis, it should be a "no-brainer" to fix our flawed regulation of bank capital -- in other words, to prevent banks from borrowing 40 times as much as their assets, as Lehman Bros. was doing shortly before its collapse.

Sorry, no: The Dodd bill simply proposes that its new "council of regulators" *may* recommend that the Federal Reserve impose more stringent standards. Yes, that's *may*. The bill doesn't even require regulators to change the current levels or framework for bank capital.

Even where Dodd claims to be the toughest, on issues of consumer protection, he simply punts to the regulators and the trial bar. That is, he orders bureaucrats to do better -- and makes it easier for lawyers to sue.

The bill doesn't even eliminate zero-down mortages -- or *any* of the irresponsible lending products that plainly contributed to the crisis. Indeed, Dodd twice fought off floor amendments to require modest down payments.

Perhaps most insulting is Dodd's pretense that ordering up a "study" should count as addressing an issue. By my count, the bill requires the Government Accountability Office or the financial regulators to conduct no less than 28 separate studies.

What's Dodd's solution to the failings of the credit-rating agencies? A study.

His answer to the crisis in the auction-rate-securities and municipal-debt markets? A study. What to do about proprietary trading? A study. How about the flawed home-appraisal process that contributed to inflated housing prices? You got it, another study.

The worst of all; How do we protect the taxpayer from further losses from Fannie and Freddie? One more study, of course -- although Dodd has assured us that *this* one will be a "tough study."

Our system of financial regulation is an embarrassing mess. But rather than restructure it, the Senate bill doubles down on the flaws and weakness of that mess.

It would be nice, just once, to see Congress make some hard choices and legislate -- especially when the longterm health of America's financial system is at issue.

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