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# News Analysis: Could U.S. financial reform hurt small businesses?

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As the Senate puts debate back on the table for the most sweeping financial overhaul since the 1930s, some experts say the legislation could hurt small businesses.

Others, however, say some of the measures under fire, such as the establishment of a consumer protection agency, are necessary.

Republicans blocked debate of the bill on the Senate floor earlier this week but relented on Wednesday, sparking speculation that Republicans see a political danger in blocking stricter rules on Wall Street.

The Congress -- and many Americans -- are pushing for financial overhaul to prevent the banking system from sparking another major economic downturn. Though exactly how to achieve that has been an issue between Democrats and Republicans, even though the two parties want reform.

Wall Street has been linked to the financial crisis that began two years ago, when the U.S. real estate bubble burst and mortgage-backed securities, which were marketed worldwide, went bust and sent the global economy reeling, sparking high unemployment and the worst financial downturn since the 1930s.

While Republicans could put up a fight, they probably won't show as much reluctance as over the passage of healthcare reform.

Still, the Senate could see heated debate on the legislation, as Republicans still disagree with a number of provisions of the bill, which was crafted by Chris Dodd, chairman of the Senate Banking Committee.

While a number of what some experts call "first tier" issues have been aired in public, critics said the speed with which Democrats in Congress aim to implement reform could leave many wrinkles in "second tier" issues -- proposals that do not make up the crux of the bill but that are nonetheless important, although it remains unclear when the legislation will come to a vote.

Mark A. Calabria, director of financial regulation studies at the **Cato Institute** think tank, said parts of the bill could negatively impact small businesses.

The bill will establish a new consumer financial protection agency that will be involved in the lending terms between businesses and lenders, and the rules will have to be enforced in the courts. That will increase litigation costs for lenders, which will be passed on to consumers, he said.

The bill makes it possible for the government to determine appropriate lending rates for each contract. And financial regulations will likely end up being enforced through the courts rather than through bank regulators, which will increase the litigation costs of the lenders. Those in turn will be passed on to consumers, he said.

The bill could also impact "angel investing" -- business funding from wealthy individuals or networks -- which is not regulated at all. The legislation would require startups seeking angel investing to file with the U.S. Securities and Exchange Commission (SEC), which would not only delay businesses from opening their doors on time but would increase costs, as companies would have to hire attorneys to do the filing, he said.

Dean Baker, co-director of the Center for Economic and Policy Research, said the legislation would not necessarily hurt angel investing. And if that does occur, examples would be few and far between, he said.

The recent scandal involving Goldman Sachs, a major investment bank, may have lent new impetus to the drive toward financial overhaul. The bank stands accused of defrauding investors by selling them mortgage-backed securities that it allegedly knew would turn out to be duds.

While charges against the institution have been filed, the bank denied any wrongdoing, although some analysts said the damage may already be done, at least in the eyes of the public.

Ben Carliner, a fellow at the Economic Strategy Institute think tank, said that while the Consumer Financial Protection Agency (CFPA) will cost money, another financial downturn would be much more expensive.

"While it is true that the new CFPA will require a large budget to hire qualified staff and fund ongoing market surveillance, keep in mind that the costs of the financial collapse are ultimately being borne by taxpayers," he said.

"Spending money now to prevent a much greater bill coming due in the future is simply common sense -- it is an insurance policy against 'irrational exuberance' and outright fraud," he said.

Still, Carliner agrees with some of the bill's critics.

"(Chris) Dodd's bill does have onerous restrictions on angel investing which should be removed before the bill is sent to the floor of the Senate," he said.

"Startup companies aren't just inventors of new technologies, they create lots of new jobs, which is exactly what the U.S. economy needs now," he said.

Making it harder for these firms to raise new capital will hurt U.S. companies' ability to innovate and compete. Apart from the requirement that startups seeking angel investments file with the SEC and then wait for a 120-day review period, the bill also has a provision that subjects new startups to state-level rules and regulations, instead of having one set of federal rules, he noted.

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