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US Experts Debate Pros, Cons of Consumer Protection Agency

By Leah Girard

WASHINGTON (MNI) - Debate has resurged over creation of a federal consumer financial protection following release of Sen. Christopher Dodd's financial regulatory reform proposal Monday which would place the agency under the Federal Reserve with some autonomy.

President Barack Obama's administration for nearly a year had been pushing for an independent agency to safeguard consumer rights, but the differences among experts on what the new agency should look like, where it should be located within the government, and what its duties should be highlight the difficulties of reaching consensus on the issue.

Consumer credit expert Todd Zywicki said the creation of an any consumer finance protection agency should be under the purview of an existing government agency, not independent.

"Whatever ends up structurally going on here, I think it's important (to) ... at least keep safety and soundness together with consumer protection," Zywicki said Tuesday, at a Cato Institute forum.

But Ed Mierzwinski, a representative from the Federation of State Public Interest Research Groups, is firmly on the other side of the debate: "Our strong recommendation is in fact that we do separate consumer protection from safety and soundness regulation."

Mierzwinski said a subsidiary agency would keep the Fed from preventing further economic downturns. Cohabitation of safety and soundness regulation with consumer protection is "the system we have now ... the system that failed to protect us."

"Let's try a new system as president Obama has proposed to establish an independent consumer protection agency that has jurisdiction over all financial products," Mierzwinski said.

With an independent agency, regulation will be more effective and more likely to have a positive impact on the United States economy as a whole, he said.

"We are not simply supporting a strong consumer agency, we are also supporting corporate governance reforms," he said.

On some points they do align, Zywicki also called for strong reforms in the government. "There is absolutely room for improvement in the way our consumer protection laws work," he said.

This consistency of beliefs is not held across the board though. Some experts, such as Thomas Durkin, a former Federal Reserve economist, find "obvious difficulties with the content of a consumer financial protection agency," and still do not see the need for a new agency at all.

"I want to know precisely why we need another agency before we go out and establish one with all the costs and so forth involved with that," Durkin said.

His main concern with the creation of any consumer protection agency, independent or not, lies in its political basis.

"Since there is no clearly identified need, given all the other regulations agencies we have," Durkin said. "It's going to be a political agency with a political mission," a mission that will flip-flop depending on which political party is currently in power.

The only way consumer financial regulation is likely to address the problems that led to the economic crisis of 2008 is through "eliminating the availability of credit itself," he said, an step he does not recommend.

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