Ezra Klein

Economic and Domestic Policy, and Lots of It

XML

Republicans and Democrats agree on financial reform -- but is that a good thing?

The important takeaway from the Republican FinReg proposal is that they ... basically agree with the Democrats. At least on the big-picture stuff. They agree that the correct questions for financial reform are "how much information, and how much power, do regulators have?" In fact, their main differences with the Democrats are when they give politicians and regulators *more* discretionary power than Dodd does.

For instance, in the Dodd bill, the Treasury Department, FDIC and Federal Reserve all need to agree that a firm is failing in order for it to be taken over. In the Republican bill, the president and the D.C. district court also need to sign onto the decision. The question in both bills is whether there's any chance that the government will take down a firm before its imminent collapse sparks a crisis. It's too-big-to-fail meets too-hard-to-intervene.

Another example: In the Dodd bill, virtually all derivatives go through a clearinghouse so regulators can see what's happening and companies have to keep sufficient cash on hand to pay off their bets. In the Republican bill, the SEC, the Commodity Futures Trading Commission, and the Federal Reserve Board of Governors will write up regulations for which types of derivatives have to be cleared.

So if you basically liked the Dodd bill but were looking to give regulators just a little bit more discretion, then the Republicans are here for you (for a more comprehensive side-by-side comparison, head here). But what if you think that the financial sector itself is broken, and even good regulators can't fix a broken sector?

Here I'd direct you to Arnold Kling's 8-point FinReg fantasy. Kling is an adjunct scholar at Cato and a former economist at the Federal Reserve, but his plan -- which includes getting Fannie and Freddie out of the mortgage market, breaking up big banks, and making derivatives less attractive by deprioritizing them in bankruptcy hearings -- doesn't read like the Republican plan and it doesn't read like the Democratic plan.

The argument over the *policy* of financial reform -- which is distinct from its politics -- is not between Republicans and Democrats, or even liberals and conservatives. It's between people who think the financial sector needs to be changed and people who think we just need to give the regulators more information, power, and instructions so they can look after it better. Kling is a libertarian and I'm not, but we're probably closer on this than I am to either the Democratic or Republican proposal.

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