POLINITICS™

October 8, 2012

On Politics and Markets

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Romney's Rap on Dodd-Frank

CALLING FOR THE OUTRIGHT REPEAL OF DODD-FRANK, AS MITT ROMNEY HAS DONE FOR MANY MONTHS, IS RECKLESS.

Anyone who needs to know why we have Dodd-Frank – the 2010 law that was enacted to address the systemic failures that led to the Great Recession and the worldwide financial crisis of 2008/9 – should read two books: **Andrew Ross Sorkin's** *Too Big to Fail*, and **Michael Grunwald's** *The New New Deal: The Hidden Story of Change in the Obama Era*. These are big books, but easy reads, and they lay out the reasoning behind Dodd-Frank in narrative form, with all of the insider jargon explained.

And what's the reasoning? It's simple. The financial services sector (of which I am a 30 year veteran), either directly or indirectly, caused the US housing market to fall off of a cliff, created the conditions for the seizing-up of credit, threw the country into the deepest recession since the Great Depression, and revealed through all of the above the fissures and cracks of systemic risk that were set to make things worse than they were (if one can imagine things being worse than they were).

Don't believe me? Here is what **The Financial Crisis Inquiry Report** tells us (page xvii): "The crisis was the result of human action and inaction, not of Mother Nature or computer models gone haywire. The captains of finance and the public stewards of our financial systems ignored warnings and failed to question, understand, and manage evolving risks within a system essential to the well-being of the American public. Theirs was a big miss, not a stumble. While the business cycle cannot be repealed, a crisis of this magnitude need not have occurred. . . . Despite the expressed view of many on Wall Street and in Washington that the crisis could not have been foreseen or avoided, there were warning signs. The tragedy was that they were ignored or discounted."

Among the things that were part of the "big miss" were: failures in financial regulation and supervision; failures in corporate governance; failures in risk management; excessive borrowing; risky investments on the part of banks; lack of transparency; government unpreparedness for a crisis of this magnitude; a systemic breakdown of accountability and ethics; a collapse of mortgage lending standards, and a pipeline (known as mortgage securitization) that pumped bad loans throughout the financial system; an opaque OTC derivatives market; large but largely unregulated market actors, such as hedge funds; and a credit rating system that performed horribly.

These are not merely my conclusions. They are the conclusions of the bi-partisan commission that gave us the report just cited (**The Financial Crisis Inquiry Commission**), composed of the following persons: **Phil Angelides**, **Bill Thomas**, **Brooksley Born**, **Byron Georgiou**, **Senator Bob Graham**, **Keith Hennessey**, **Douglas Holts-Eakin**, **Heather H. Murren**, **John W. Thomas**, and **Peter J. Wallison**.

Given the litany of failures that the Commission addressed, is it any wonder that a rather large and sweeping piece of legislation (**The Dodd-Frank Wall Street Reform and Consumer Protection Act,** aka “Dodd-Frank”) was enacted?

Republicans have always warned about the drag that unnecessary or outdated regulation can place on business. They are right to sound their warnings. I have seen and have had to deal with reams of silly regulations that don’t serve the public interest very well, but cause businesses tens of thousands or even hundreds of thousands of dollars in compliance costs each year and, in some cases, reputational damage for breaches. On the other hand, the catastrophe that was 2008/9 did not suggest the need for regulatory half-measures. It signaled the need for a major review and updating of financial services and ancillary regulations in order to meet the threats and challenges of a new time. Certainly, certain pieces of Dodd-Frank will have to be rethought or improved, but that is to be expected.

Dodd-Frank was a significant step in the right direction. The carping by many CEOs and others that the rulemaking called for by Dodd-Frank creates a “climate of uncertainty” that prevents businesses from making long-term strategic plans may be apt in certain instances, but such carping is largely misguided and short-sighted. Some of the CEOs who are carping the loudest should spend less time blaming Congress, the President, and government agencies, and more time looking in the mirror.

Calling for the repeal of Dodd-Frank, as **Mitt Romney** has done for many months but without outlining replacement legislation that contains reasonable alternatives to the new requirements contained in it, is beyond irresponsible. It is reckless. It is one thing to pander to the business community to get some votes and campaign contributions, it is another thing to let off the hook the actors in the international business community who are responsible for the current pain that millions of Americans (as well as millions of non-Americans) are now facing – lost jobs, lost incomes, decimated communities, and millions of dreams deferred.