

Government Bids for Business Controls

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President Obama's chief of staff, Rahm Emanuel, believes in not wasting a good crisis. Taking advantage of the current recession, the administration and Congress seek reform of the nation's financial system. Public anger over the loss of millions of jobs and billions of dollars because of reckless actions by Wall Street and banks make reform likely.

The U.S. needs some financial reform to avoid future financial meltdowns like the one recently experienced. But it is dubious that either of the two reform bills currently in the U.S. Senate and House of Representatives provides a solution.

For example, the bills glaringly omit Fannie Mae and Freddie Mac. But their reckless and irresponsible involvement in sub-prime mortgages largely triggered the recession.

Fannie and Freddie gave subprime mortgage home loans to people unable to repay the loans. They then made matters worse by bundling the mortgages and selling them as securities. Defaults on paying the subprime mortgages panicked Wall Street and started the nation's downward financial spiral.

The Senate and House reform bills, however, bypass Fannie and Freddie which continue to devour taxpayer dollars. In addition to the \$140 billion already given to the two institutions to keep them operating, they keep losing money and now want \$60 billion more. Their appetite for taxpayer dollars seems insatiable.

So why do the reform bills ignore Fannie and Freddie? Possibly the bills ignore them because of Representative Barney Frank, D-Mass, and Senator Chris Dodd, D-Conn, who received large campaign contributions from both of Fannie and Freddie. Previously, Frank and Dodd resisted attempts to pass regulations controlling Fannie and Freddie.

They also dismissed evidence of the institutions' poor financial conditions. Just two weeks before Fannie and Freddie's financial problems became public knowledge; Frank declared them financially sound and recommended them as good long-term investments.

It is inexplicable why Obama named Frank and Dodd as point persons for financial reform given their questionable ethics and judgment.

The reform bills also ignore the serious problem of commercial banks trading and owning securities. Major banks almost failed during the recent financial crisis because of huge investment losses. Only the government's infusion of billions of taxpayers' dollars into their coffers saved them.

In 1933 Congress passed the Glass-Steagell Act forbidding commercial banks from engaging in the investment business. Before the stock market crash of 1929, commercial banks rapidly expanded their services to include securities underwriting. Reckless investing by banks caused almost 5,000 bank failures in 1929.

Passed as part of President Roosevelt's New Deal, Glass-Steagell protected banks, their depositors, investors, and the financial system from the risky practice of trading and owning securities.

In 1999, President Clinton and Congress repealed the Glass-Steagell Act. Commercial Banks rapidly developed and expanded their securities services. Financial losses in trading and selling by commercial banks helped fuel the financial crisis and resulting recession.

Paul A. Volker, former Federal Reserve Chairman and renowned economist, urged President Obama and Congress to pass a new version of the Glass-Steagell and stop commercial banks from investing. Although both the administration and Congress consider Volker an economic genius, they ignored his advice because of pressure from large commercial banks that want to keep trading and selling securities.

Essentially, the bills create more government councils and agencies to control U.S. businesses. If a business gets into serious financial trouble, a council of regulators led by the Treasury secretary decides if the business is too big for the government to allow it to fail. If the council decides its failure would pose a systemic risk to the nation's economy, the Federal Deposit Insurance Corporation seizes the business and oversees its resolution, including restructuring and creditor debts.

Obama likes both bills and only awaits final resolution between the Senate and House bills to sign the new financial reform legislation – 1,500 pages each – by July 4.

Financial reform legislation as proposed promises more bureaucracy and greater government control of the nation's businesses. It also opens the door to political abuse.