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Is Financial Reform Simply Washington's Latest Boondoggle?

23 04 2010



By [Timothy D. Naegele\[1\]](#)

When I arrived in Washington, D.C. after graduating from law school in California, I spent two years at the Pentagon working as an Army officer in intelligence and budgets. It was a great experience, and I have the utmost respect for our military, which is the best of our government. One lesson I learned was that if Congress was breathing down the Pentagon's neck, the easiest way to deal with the issue was to "reorganize," which would throw them off the track—and the "bloodhounds" would lose the scent.

Then I worked on Capitol Hill as a young attorney with the Senate Banking Committee, and realized that when there was a national policy issue that was "too hot to handle," a presidential commission would be formed, not unlike reorganizations at the Pentagon.

Months and sometimes years would pass while people studied the issues ad nauseam; and in the interim, the monkey was off the politicians' backs. One of my first tasks on the Hill was to staff such a presidential commission.

Fast-forward to today, and no regulatory "overhaul" is going to make a tinker's damn in preventing future economic crises or solving the present one. By and large, the financial regulatory agencies (*e.g.*, the Fed, the FDIC) do a fine job, often under very difficult circumstances. There are career professionals who will keep doing their jobs, regardless of what Barack Obama or Congress propose or enact—which is high political theater and demagoguery, and not a whole lot more.

Recent reorganizations, such as in the intelligence community, have not produced better intelligence. Similarly, changes to the financial regulatory structure will not prevent the economic meltdown that riveted the nation in 2008, and continues to this day. It is a tsunami, and Man's ability to stop or affect it is marginal at best. Reorganizing the deck chairs on the Titanic, or closing the barn door after the horse is out, will never address future problems. The flim-flam boys of Wall Street and other financial capitals will make sure of that.

Alan Greenspan unleashed the tsunami; and the words of Giulio Tremonti, Italy's Minister of Economy and Finance, are true and cogent to this day:

Greenspan was considered a master. Now we must ask ourselves whether he is not, after [Osama] bin Laden, the man who hurt America the most.[\[2\]](#)

No financial regulatory overhaul will prevent a Fed chairman like Greenspan, or some other government official from making mistakes that produce massive suffering domestically and globally. Perhaps if Paul Volcker had been in charge of the Fed instead of Greenspan, the economic meltdown would have been avoided. After all, Greenspan admitted in testimony before the House that he never saw the housing crisis coming.

Like the emperor with no clothes in Hans Christian Andersen's fable, no one was willing to call Greenspan a buffoon who was over his head—until he had unleashed economic pain, the likes of which has not been seen since the Great Depression. It will continue to the end of this decade, in all likelihood; and there is nothing that government can do to stem it.[\[3\]](#)

With respect to the existing financial regulatory agencies, it must be remembered that they and their affiliated agencies (*e.g.*, the FSLIC, RTC) dealt effectively with the savings and loan crisis of the 1980s and 1990s. In the process, almost 800 S&Ls failed, an enormous financial crisis was averted, and the ultimate cost to the taxpayers was less than expected.

Nonetheless, in 1999, Congress repealed the Glass–Steagall Act, which had controlled financial speculation since its enactment in 1933.[\[4\]](#) Under Glass–Steagall, there had been a separation between commercial banking and "investment banking"—or gambling by Wall Street. Coupled with Greenspan's mistakes and financial *deregulation*, which had

been championed by him, a laissez faire attitude in Washington resulted in the massive problems of today.

Can greed on Wall Street and in other financial markets be stopped? Never. Can the SEC do a better job? Can the existing financial regulatory agencies tighten up here and there, and do their jobs better with enhanced powers? Sure, but the system is not perfect just as human beings are not perfect. Utopia is not possible; and history repeats itself over and over again. More government regulation will not prevent economic tsunamis and meltdowns from happening. Anyone who says so might try to sell you a bridge in Brooklyn next—or ObamaCare.[\[5\]](#)[\[6\]](#)

Yet, capitulation to political demagoguery and public anger is likely.[\[7\]](#) With the repeal of Glass–Steagall and financial deregulation, a blurring of the lines between commercial banking and investment banking took place; and now the chickens are coming home to roost. The baby is in the process of being thrown out with the bath water; and the demagogues in Washington are strutting in full bloom.[\[8\]](#) A Wall Street Journal editorial states:

While the details matter a great deal, the essence of the exercise is to transfer more control over credit allocation and the financial industry to the federal government. The industry was heavily regulated before—not that it stopped the mania and panic—but if anything close to the current bills pass, the biggest banks will become the equivalent of utilities.

The irony is that this may, or may not, reduce the risk of future financial meltdowns and taxpayer bailouts.

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As in health care, Democrats are intent on ramming this reform through Congress, and Republicans ought to summon the will to resist. Absent that, the only certain result is that Washington will be the new master of the financial universe.

Amen, and then some![\[9\]](#)

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[\[1\]](#) Timothy D. Naegele was counsel to the U.S. Senate Banking Committee, and chief of staff to Presidential Medal of Freedom and Congressional Gold Medal recipient and former U.S. Senator Edward W. Brooke (R-Mass), the first black senator since Reconstruction after the U.S. Civil War. He practices law in Washington, D.C. and Los Angeles with his firm, Timothy D. Naegele & Associates (www.naegele.com). He has an undergraduate degree in economics from UCLA, as well as two law degrees from the School of Law (Boalt Hall), University of California, Berkeley, and from Georgetown

University. He is a member of the District of Columbia and California bars. He served as a Captain in the U.S. Army, assigned to the Defense Intelligence Agency at the Pentagon, where he received the Joint Service Commendation Medal. Mr. Naegele is an Independent politically; and he is listed in Who's Who in America, Who's Who in American Law, and Who's Who in Finance and Business. He has written extensively over the years. *See, e.g.,* www.naegele.com/whats_new.html#articles

[2] *See* http://www.americanbanker.com/issues/173_212/-365185-1.html

[3] *See, e.g.,* http://www.realclearpolitics.com/news/tms/politics/2009/Apr/08/euphoria_or_the_obama_depression.html and <http://www.philstockworld.com/2009/10/11/greenspan's-legacy-more-suffering-to-come/>; *see also* http://en.wikisource.org/wiki/The_Emperor%27s_New_Clothes

[4] *See, e.g.,* http://en.wikipedia.org/wiki/Glass-Steagall_Act

[5] Harvard professor Niall Ferguson and Wall Street investor Ted Forstmann state in a Wall Street Journal article:

By all means let us regulate the derivatives market—beginning with a reform that makes it a real market. And let's clamp down on excessive bank leverage. But let us not believe we can abolish both bailouts and depressions, other than by creating another layer of government regulation.

See <http://www.naegele.com/documents/BacktoBasicsonFinancialReform.pdf>

I agree with their conclusion.

[6] *See also* <http://naegeleblog.wordpress.com/2009/12/16/the-great-depression-ii/>

[7] *See, e.g.,* <http://www.naegele.com/documents/AScoldingforWallStreetHonchos.pdf>; *see also* http://online.wsj.com/article/SB10001424052748704830404575200580858688618.html?mod=WSJ_hps_MIDDLEThirdNews

[8] Real problems with the legislation may be considerable. *See, e.g.,* <http://online.wsj.com/article/SB10001424052748703876404575199582764862248.html>

[9] *See* <http://www.naegele.com/documents/TheNewMasterofWallStreet.pdf>

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