Position: Act should be passed

This position addresses the topic Restoring American Financial Stability Act.

For this position

"The volume of howling by the broad, shrill chorus of the U.S. financial community is the audio benchmark that Dodd is on the right track. Remember, these shrieking free-market frauds were bailed out by U.S. taxpayers, saved from collapse and then counted the infusions of federal cash as part of a market rebound that should be included in calculations of customary annual bonuses."

From Dodd's financial-salvage mission, by Lance Dickie (The Seattle Times, March 18, 2010) (view)

"The new consumer financial protection bureau established in the bill is a milestone, not only for its intent and power to rectify lending abuses, but because it will institutionalize the insight that the safety and soundness of banks cannot — and should not — be measured by profitability alone, but by the impact that bank practices ultimately may have on consumers."


Against this position

"Fortunately, it is not necessary to provide this additional discretionary authority. During the past year since the administration proposed its financial reforms, bankruptcy experts have been working on a reform to the bankruptcy law designed especially for nonbank financial institutions. Sometimes called Chapter 11F, the goal is to let a failing financial firm go into bankruptcy in a predictable, rules-based way without causing spillovers to the economy and permitting, if possible, people to continue to use its financial services—just as people flew on United Airlines planes, bought Kmart sundries and tried on Hartmax suits when those firms were in bankruptcy."

“This would also mean that commercial banks could essentially end up paying to bail out large hedge funds. The new Orderly Liquidation Authority was explicitly created for nonbanks, since the Federal Deposit Insurance Corporation already has a resolution process for commercial banks. Dodd-Frank would thus codify the mistakes of 2008, with bank deposit insurance supporting the rescue of all manner of uninsured adventures in the capital markets.”


“In order to comply with the volumes of new regulation—and small banks are required to comply with the same consumer regulations that apply to the Wall Street banks—we will need to have a proportionately higher number of employees working day after day to interpret and implement all the new federal rules. This in itself, because of the sheer volume, has the potential to destroy community banking. Large banks have entire departments devoted to regulation compliance on a full-time basis; we have one employee, like most institutions our size.”

From The End of Community Banking, by Sarah Wallace (The Wall Street Journal, June 29, 2010) (view)

“The obvious -- and correct -- way to end Wall Street rescues is to let a failed financial firm go bankrupt. That is, the people who invested in a failed company -- including bondholders, people owed money on derivatives and other lenders -- should take the losses. Instead, Congress would "end" bailouts by directing the feds to rescue the creditors to any failed "too big to fail" financial company. Later, the feds would make the failed firm's competitors pay the cost.”

From A rotten 'reform', by Nicole Gelinas (New York Post, June 28, 2010) (view)

“The Treasury, which bailed out institutions willy-nilly without consistent rules, will now lead the Financial Stability Oversight Council that will have the arbitrary power to define which financial companies pose a “systemic risk” and which can be shut down without recourse to bankruptcy. Willy-nilly will now be the law. And the SEC, which created the credit-ratings oligopoly and missed Bernie Madoff, will get new powers to decide how easy it should be for union pension funds to get their candidates on corporate proxy ballots.”


“The trouble is that—contrary to conventional wisdom—"too big to fail" was just a symptom of the crisis, not its basic cause. That was old-fashioned bad lending: home loans to borrowers who couldn't repay. The panic arose because no one knew the size or location of the losses, now estimated to exceed $1 trillion. Ironically, the legislation may weaken the government's ability to quell future panics by restricting-in highly technical ways-the Fed's authority to lend to panic-stricken institutions in the midst of crisis.”

From Financial 'Reform' or Revenge?, by Robert J. Samuelson (Newsweek, July 6, 2010) (view)
"The Wall Street Journal reports that the 2,300-page law-- crafted by Sen. Christopher Dodd, D-Conn., and Rep. Barney Frank, D-Mass.-- requires no fewer than 243 new rules by 11 federal agencies. "A general attack on our free enterprise system," is how a frustrated U.S. Chamber of Commerce describes the law that will make it tougher for consumers and small businesses to borrow money."

From The financial services 'reform' mess, by J. C. Watts (Las Vegas Review-Journal, July 25, 2010) (view)

"All the forces of the White House's populist fury against Wall Street couldn't net it more than six House and Senate Republicans in total. That's because, like stimulus and health care, Democrats turned the financial regulation bill into a monstrosity. What started as a promise to streamline and modernize the financial system turned into 2,300 pages of new agencies and new powers for the very authorities that fomented the financial crisis."


"Effectively the bill institutionalizes the harmful bailout process by giving the government more discretionary power to intervene. The FDIC does not have the capability to take over large, complex financial institutions without causing disruption, so such firms and their creditors are likely to be bailed out again. The problem of "too big to fail" remains, and any cozy relationship between certain large financial institutions and the government that existed before the crisis will continue."

From The Dodd-Frank Financial Fiasco, by John B. Taylor (The Wall Street Journal, July 1, 2010) (view)

"In a bankruptcy, as in the Lehman case, the creditors learned that when they lend to weak companies they have to be careful. The Dodd bill would teach the opposite lesson. As Sen. Richard Shelby (R., Ala.) wrote in a March 25 letter to Treasury Secretary Tim Geithner, the Dodd bill "reinforces the expectation that the government stands ready to intervene on behalf of large and politically connected financial institutions at the expense of Main Street firms and the American taxpayer. Therefore, the bill institutionalizes 'too big to fail.'""

From The Dodd Bill: Bailouts Forever, by Peter Wallison, David Skeel (The Wall Street Journal, April 7, 2010) (view)

"The point is that the Dodd bill would give an administration determined to rein in runaway finance the tools it needs to do the job. But it wouldn't do much to stiffen the spine of a less determined administration. On the contrary, it would make it easy for future regulators to look the other way as another bubble inflated. So what the legislation needs are explicit rules, rules that would force action even by regulators who don't especially want to do their jobs."


"Mayor Bloomberg, Sen. Chuck Schumer and the rest of the New York gang support reform -- but they, too, have an obvious motive to "tolerate" big exceptions. The city's pols should stick up for Wall Street's future -- which means sticking up for markets, not fee factories built on an expectation of bailouts."
"insurance companies, like AIG, tend to have thrift charters rather than bank charters. So, as the bill stands now, AIG and other insurers that accepted massive bailout funds, such as The Hartford, would not be automatically covered. That's a head-scratcher only if you forget that most insurance companies reside in Dodd's home state, Connecticut."

"The sophisticated creditors of non-banks, however, neither need nor deserve a bailout. The Dodd bill would not require the FDIC to impose losses on these creditors; it only expresses a “strong presumption” that such losses would be imposed. As structured, this authority would allow the government to bail out non-bank creditors, and worse, to play favorites among them, just as we saw when the Obama administration gift-wrapped large stakes in the automakers for its union allies at the expense of secured creditors."

"But the fundamental nature of a mania is that you don't know it when you see it. Citigroup was one of the most regulated institutions on the planet, yet it was allowed to build up tens of billions in off-balance sheet mortgage assets. To believe regulators will prevent the next crisis is to make another one more likely."

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