

When the Solution to the Financial Crisis Becomes the Cause: Senate Passes Fake Financial “Reform” Bill

By [Washington's Blog](#)

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The Senate passed a financial “reform” bill today by a 59-39 vote which won’t fix any of the core problems in the financial system, and won’t prevent the next financial crisis.

The bill doesn’t include the Volcker Rule (it wasn’t even debated), doesn’t break up or even substantially rein in the too big to fails, and doesn’t force transparency in the derivatives market.

Senator Feingold [said](#):

The bill does not eliminate the risk to our economy posed by “too big to fail” financial firms, nor does it restore the proven safeguards established after the Great Depression, which separated Main Street banks from big Wall Street firms and are essential to preventing another economic meltdown. The recent financial crisis triggered the nation’s worst recession since the Great Depression. The bill should have included reforms to prevent another such crisis. Regrettably, it did not.

Senator Cantwell agreed, saying:

While this bill takes much needed steps to help prevent a crisis of this magnitude from ever happening again, it fails to close the very same loopholes in derivatives trading that led to the biggest economic implosion since the Great Depression.... Throughout this debate I have fought hard against efforts to weaken this legislation as well as to pass language to strengthen it further. But the fact of the matter is, without key reforms in derivatives trading, this bill does not safeguard America’s economy from a repeat of this crisis.

It sets up a process for responding the next time we have a financial crisis, but it doesn’t prevent this kind of thing from ever happening again. We have to stop these kinds of dangerous activities. We need stronger bans on banks gambling with depositors’ money. We need bright lines – like Glass-Steagall – that separate risky activities from the traditional banking system. We need to refocus our financial system away from synthetic bets and get more capital into the hands of job creators and Main Street businesses. There are good, strong provisions in this bill, and I’m proud of the work we did to get them in there, but I fear that without closing the loopholes primarily responsible for this economic meltdown, we are missing the entire heart of the matter.

Nouriel Roubini [said](#) the bill is “cosmetic”, and won’t stop the next crisis.

And as I [pointed out](#) last month:

In a letter to Senate majority leader Harry Reid and minority leader Mitch McConnell, luminaries including former SEC Chief Accountant Lynn Turner, former Labor Secretary Robert Reich, hedge fund owner Jim Chanos, former Lehman Brothers Vice Chair Peter Solomon, former S&L investigator Bill Black, former Senate Banking Committee Chief Economist Rob Johnson, economists Dean Baker, Barry Eichengreen and others [pointed out](#) that Dodd’s proposed financial reform legislation wouldn’t have prevented the current crisis ... and won’t prevent the next crisis.

Dodd himself has [admitted](#) that his bill “will not stop the next crisis from coming”.

In fact, the bill is wholly ineffective, failing to address the core things which need to be done to stabilize the economy. See [this](#), [this](#) and [this](#).

As I [wrote](#) last month:

Senator Dodd is trying to push through a financial “reform” which bill won’t do anything to break up the too big to fails, or do much of anything at all ...

For example, Dodd’s bill:

- [Won’t break up or reduce](#) the size of too big to fail banks
- [Won’t remove the massive government guarantees](#) to the giant banks
- And [won’t even increase liquidity requirements](#) to prevent future meltdowns

As Senator Ted Kaufman [points out](#):

What walls will this bill erect? None.

Just this week, a Moody’s report stated: “...the proposed regulatory framework doesn’t appear to be significantly different from what exists today.”

In sum, little in these reforms is really new and nothing in these reforms will change the size of these mega-banks.

Moreover – as Simon Johnson [notes](#) – the bill intentionally doesn’t have much in the way of specifics, but just pushes off on regulators the ability to crack

down on Wall Street in the future. As Johnson notes, this is a recipe for continued failure to rein in Wall Street:

If legislation can only empower regulators then, given regulators are only as strong as a newly elected president wants them to be, the approach in the Dodd bill simply will not work.

Indeed, Democratic Congressman Brad Sherman – a senior member of the House Financial Services Committee and a certified public accountant – [said](#) recently:

The Dodd bill has unlimited executive bailout authority. That's something Wall Street desperately wants but doesn't dare ask for. The bill contains permanent, unlimited bailout authority.

And as Arthur Delaney [points out](#), the bill is riddled with carve-outs purchased by lobbyists:

“Obtaining a carve-out isn't rocket science,” said a Republican financial services lobbyist. “Just give Chairman Dodd [D-Conn.] and Chuck Schumer [D-N.Y.] a shitload of money.”

On MSNBC Tuesday morning, Sen. Bob Corker (R-Tenn.), a Banking Committee member who worked closely with Dodd, said there was “no question” that Dodd's draft contained loopholes. Corker mentioned a few hits from the carve-out list: “Private equity firms are left out,” he said. “Hedge funds are left out.”

The bill is all holes and no cheese.

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