Legislation Targets Financial Sector

Less than a week after Federal Reserve Chairman Ben Bernanke urged Congress to act with dispatch to pass new legislation giving the Fed and the Federal Government more surveillance powers and control over the financial sector, the Obama administration has unveiled a bill that, if passed, would put most of Bernanke's proposals into effect.

The Obama bill would, according to a Reuters report, "grant vast powers to a new systemic risk regulatory council, the Federal Reserve and the Federal Deposit Insurance Corporation to monitor and address risks to economic stability posed by shaky financial holding companies." Under the new regime, "those deemed severely undercapitalized by the council could be restructured or even shut down by regulators. Managers could be dismissed, credit exposures limited, pay and bonuses restricted, acquisitions and new ventures blocked."

The rationale for this bold new foray into financial fascism is, of course, that the recent economic crisis has exposed the inadequacies of current financial regulations. According to Reuters:

> Treasury Secretary Timothy Geithner told a packed room of Wall Street dealers and bankers on Tuesday they could not look America in the eye and argue that financial regulation is fine as it is.

Geithner said the financial system was tragically fragile after the crisis and the government must respond by adding new regulations and strengthening old ones.

"It's a war of necessity, not a war of choice," he said at the Securities Industry and Financial Markets Association annual meeting in New York. "And it's a just war."

The only war being waged by the Obama administration and its accomplices in Congress is a war against free market capitalism. While it is certainly true that the ongoing financial and economic crisis has exposed the weaknesses in our current system, the lesson to be drawn is that an excess — not a lack — of government regulation of financial activity, combined with the monetary policies of the Federal Reserve, encouraged and exacerbated the crash.

It was, for example, the Community Reinvestment Act (CRA) that coerced banks into making mortgage loans to subprime borrowers, leading to the buildup of "toxic" mortgage-backed assets that triggered the real estate collapse. The assurance of government bailouts for corporations deemed to large to fail encouraged riskier investment strategies than would have been the case in a true free-market environment, where failure is as impartially punished by market forces as success is rewarded. And the longstanding attempts by the Federal Reserve to "stimulate" the economy by lowering interest rates far below what the free market would dictate have encouraged a spree of borrowing and consumption unparalleled in human history, leading to massive market distortions that only the pain of a severe recession can correct.

Add to such systemic failures the absence of any constitutional authority for federal micromanagement of the financial sector, and the Obama bill and other similar proposals are shown up for the folly they are. Yet government in its appalling lack of wisdom will continue to push to compound the mistakes of the past by trying anew what has failed so miserably in the past. The stifling and illegitimate interference of the Federal Government in our once comparatively free financial sector will come to an end only when Americans once again demand a truly free market. That will be a just war indeed.

Photo: AP Images