



Needed: A Considered Discussion of the Big Issues*

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While not much is happening legislatively this year that will change anything significant in the U.S. financial system, at least some efforts have been made to make a significant decision in the field of residential mortgage securitization. Hopefully, that effort will continue through the rest of this year since it is an attempt to address a basic issue in the U.S. financial system.

What neither it nor any other legislatively inspired effort has yet brought to the congressional agenda, however, is a true discussion of just what kind of financial system makes sense for the U.S. in the year 2014 and beyond. The chance for that kind of discussion could have been teed up in the years in which various prophylactic measures were applied to the system during the debate leading up to, and with the passage of, the Dodd-Frank Act. Unfortunately, the economy had taken such a nosedive that the all-consuming desire was to get it going again and ensure that the bad parts that caused the problem could not cause a repeat. And, maybe more to the point, scapegoats had to be found.

So, we did not have that discussion, and now the divisions in the country are so glaring that it is becoming very hard for those who need to be elected to take a dispassionate view of any major issue. In fact, the noise is so loud about peripheral issues in the financial system that a dispassionate voice about core issues probably would not be heard.

Still, there is no reason not to try.

The kinds of issues that could be addressed are many. Some are “big” and some are “not so big.” Among the big ones that have not been openly discussed are these:

- What system is best for the U.S. in a global economy in which more and more we are not the unchallenged leader;
- Have the basic financial needs of consumers in the U.S. changed from the 1930s when much of the core legislation was passed, and if so, so what;
- How much of a partnership between government and the private sector is both necessary and desirable in the present global economy;

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- How much of the financial system can safely and productively be outside the regulated system;
- Is “big” really good or bad, and if so, at what size is an institution “big;”
- Is reduction in the size of the largest financial institutions truly desirable;
- Can regulation truly be excessive, leading to a diminution in the contribution that the financial system can make to the nation’s economy, and if so, what are the consequences of reducing it;
- If financial firms are internally separated into specialty areas, will the economy be enhanced or diminished;
- Should the government be focused on providing stability or growth in our economy, and if a selection is made between them, is that the job of the central bank or the financial regulators, both, or neither;
- Should firm resources be dedicated to determining how the firm can be unwound, and if so, what is the basis for determining the best structure when the best for unwinding the firm is inferior to another structure for a viable firm;
- Has unauthorized information system invasion nullified some of the advantages of fast computation, and if so, is there a fix that saves the system but still protects it; and
- What is the responsibility of the consumer in our financial system?

What must be avoided in a discussion of any of these issues is the use of jargon and abusive epithets. Sloganeering such as “Too Big To Fail” or “Unleash the power of the free market” or “the predatory banks exploited consumers” must also be avoided. Otherwise the discussion becomes a shouting match and a rational discourse becomes nearly impossible.

Wanting to have discussions of big issues does not mean that “not so big issues” are unimportant. They are just relatively unimportant compared with the big issues.

It is important, for example, that we make decisions on TRIA, push outs, and how we fund highway construction and maintenance. Similarly, we must discuss the Export-Import bank reauthorization, for example, but trying to place it in the context of America’s competitive position in a global economy is more important than saying that it is crony capitalism, or that we will not be able to compete if it is eliminated. Instead, we should be discussing the best estimate of how the U.S. competitive position will be effected and how that fits in with the goals of our society in the global economy, explaining why those goals are the appropriate ones for this age, then decide.

Congress, of course, is not the only place that big issues can be discussed. In fact, the history of our country has found many examples in which the President has raised those issues and placed them in appropriate context. The Supreme Court has also made decisions after analyzing basic concepts upon which the country is based. Occasionally, someone from the private sector outlines an argument that starts from a dispassionate analysis of the foundations of an issue and builds to a recommendation on a big issue.

But lately, only the Court among the government entities has upheld its end in wrestling with big issues. The discussion in the recess appointment case was enlightening, and regardless of whether one felt that the majority opinion or the concurring opinion was correct, the Court looked at basic issues to decide the case and did not reduce itself to sloganeering. One felt that the decision was made only after considering how it fit within the basic constructs of our society.

That case is also instructive on the difficulties the President faces in addressing big issues. First, of course, the president is framed by his experiences, including the way in which he won election. So, he starts with an opinionated view of the best way to accomplish whatever he wants to accomplish during his administration. A lot of that success has come through attacks upon his opponent, slogans demeaning the opponent, jargon on major issues based on what words and phrases the polls say should be used in this or that particular audience, and his advisors have reached conclusions on just what won the last and will win the next election.

When, as in the case of the recess appointments, the President is unable to appoint his selections to office in regular order, he might be inclined (and urged by his advisors who are looking at poll numbers) to forget about adhering to the basic division of powers and reach for a way around it. The fact that the vote on the issue in the Supreme Court shows that in this case the President was way off base in that effort. Absent a change in the rules of the Senate adopted later by the Democrat controlled Senate, the President would have been unable to appoint his selection. Presidents have overcome these obstacles in the past however, so there is no doubt that the office itself is capable of producing careful thinking on major issues. It just didn't in this case.

No President has recommended, nor has Congress initiated, an office in an administration whose occupant is assigned to think about big issues and to report to Congress and the president how particular projects or legislation effect basic positions of the U.S. in the world economy. We could do that kind of thing if we thought the big issues were really important. We have taken the fairly bold step of adopting Inspectors General in most of the major agencies, and their job is freed from allegiance to the head of the agency. In many, but not all, cases, we have seen IGs express that independence and deal with basic problems in an agency. We also have established a Financial Stability Oversight Committee whose assignment is to promote stability in our financial industry. It has yet to prove itself, but a framework has been constructed. While establishment of the FSOC or the IGs are not perfect precedents for a big issues office, their existence is helpful. Perhaps they could be used in some way to create a big issues office.

Historically, the Presidentially-appointed Hunt Commission of 1970 produced a generally well-reasoned report many of whose ideas ultimately became a productive part of our laws. That is another path toward considered discussion that could be chosen.

Whatever the method, it seems as though a reasoned discussion of big issues surrounding our financial system is timely, it seems as though the need exists to drive the discussion toward addressing big issues. At the present time, our organs of government are not addressing the major issues surrounding the U.S. financial system.