

Treasury Plan Faces Critics to the Left, Skeptics to the Right

WASHINGTON April 07 (BestWire) — It could be the break proponents of federal insurance regulation have long been awaiting.

After years of congressional hearings, tens of millions in campaign contributions, and meticulous coalition-building that now encompasses many of the industry's major trade associations, optional federal charter now has the backing of a sitting U.S. president, and is included among an exhaustive list of Treasury Department proposals to remake the financial services landscape.

But with just seven weeks of congressional business scheduled before the August recess, even the report's author, Treasury Secretary Henry Paulson, is conceding he will most likely no longer be in office when and if the most ambitious aspects of the plan, including OFC, ever become law. And with opposition brewing from both the political left and right, even Paulson's goal of consolidating all U.S. financial services regulation into three central federal agencies within two to five years could prove optimistic.

Among those left unimpressed with the Treasury's Blueprint for a Modernized Financial Regulatory Structure is a man whose support is key to any plan moving forward: Senate Banking Committee Chairman Chris Dodd, D-Conn. In a conference call with reporters, Dodd initially characterized the report, whose debut coincided with Major League Baseball's opening day, as "a wild pitch...not even close to the strike zone." The chairman later softened his stance somewhat, asserting the plan would "receive a thorough review by the Congress, as do all efforts to make government more efficient and effective."

House Financial Services Committee Chairman Barney Frank, D-Mass., while critical of aspects of the plan he said he believed either took too much power from the states or failed to grant enough to federal regulators, nonetheless struck a more welcoming tone, crediting Paulson with performing "an important service."

"By rejecting the argument for the status quo; by making it clear that new regulation done properly enhances the function of the market rather than detracts from it; and by explicitly including consumer protection among the core functions of the system he proposes, he has narrowed, albeit by no means removed, the differences between his position and that of many Democrats," Frank said.

The OFC aspects of the plan were welcomed by Rep. Paul E. Kanjorski, D-Pa., who chairs the House panel's Capital Markets and Insurance Subcommittee. Kanjorski invited Treasury to "have a seat at the table" at a planned April hearing on insurance regulatory reform. He also offered strong support for the immediate goal of creating an Office of Insurance Oversight within Treasury, which would serve the twin goals of gathering information on insurance markets and setting policy on international insurance issues, such as reinsurance collateral.

"In today's markets, the federal government needs in-house expertise on insurance policy," Kanjorski said.

If the OIO proposal has the greatest short-term viability among Paulson's insurance planks, it also is likely the only piece likely to pass muster with the insurance industry's most ardent critics. J. Robert Hunter, director of insurance for the Consumer Federation of America, said some federal role in international insurance issues was likely necessary, because states cannot enact treaties,

though he hoped it would include the ability to project regulatory authority internationally.

But while he is critical of state regulators for growing too close to the industries they regulate, Hunter characterized Treasury's OFC plan as "a non sequitur" that would have "no positive value whatsoever."

"He basically wants to override good regulation with no regulation, and it seems remarkable that, given the mess the federal government has gotten us into, that they would propose more of the same — less control than even existed before," Hunter said.

Another set of concerns are stirring the passions of the plan's critics on the right. Peter J. Wallison, former White House counsel to President Reagan and now co-director of the conservative American Enterprise Institute's program on financial markets deregulation, is leery of the expanded powers Paulson's plan would grant the Federal Reserve, which would serve as an overarching "market stability" regulator, with the ability to collect information and require corrective action across the broad spectrum of financial services.

"The idea that the Fed is going to be able to look at new developments in the market and determine that, over time, they will result in systemic problems is simply a fantasy," Wallison said. "They will not be able to do it, and if they try to do it, they will suppress the innovation, which has made our markets so effective, so aggressive, so successful over time."

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