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Introduction

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The recent crisis highlighted the need for a regulatory framework that allows the system to evolve in a dynamic and innovative fashion, while remaining reliable and resilient, particularly in times of stress, when institutions and markets must remain active and liquid. Many believe that financial regulation, supervision and examination need strengthening, and that a prerequisite to this strengthening is a structure that concentrates expertise and accountability, and reduces regulatory gaps.

We at the Pew Financial Reform Project are working to create a fair, competitive and stable financial system for the 21st century. As part of our efforts we convened a Task Force of eminent scholars of disparate views this spring. The Task Force is working to build a consensus on the major issues of reform that should represent the best thinking of the economics profession on the subject. Regulatory consolidation has been at the forefront of our discussions.

In this issue of Lombard Street, Financial Reform Project Task Force members and authors offer commentary on the consolidation of bank regulators. In our first of two papers supporting consolidation, Task Force Co-chair Martin N. Baily argues that the balkanized alphabet soup of today's regulators contributed to the worst financial crisis since the Great Depression. He suggests that a single federal micro prudential regulator should be created, combining the regulatory and supervisory functions currently carried out at the Fed, the OCC, the OTS, the SEC and the FDIC. Baily contends that this federal regulator should partner closely with state regulators to ensure the safety and soundness of state chartered financial institutions, sharing supervisory authority. In the second, Adriane Fresh and Martin N. Baily examine the current structure of financial regulation in several major economies, and prior efforts to reform the financial regulatory architecture in those countries, to see what lessons the United States may draw from those experiences.

Two contributors defend the multi-agency approach. NYU Sloan School Professor Lawrence J. White offers a defense of regulatory complexity, suggesting that the consolidation process entails more costs than benefits. White argues that there is a greatly underappreciated strength to the current regulatory structure - a beneficial receptivity to innovation in many dimensions - that would likely be lost (or at least greatly weakened) in consolidation. Cato Scholar Mark A. Calabria challenges the regulatory arbitrage argument. He says there is no solid reason to think competition between bank regulators contributed to the crisis, and in fact some evidence to the contrary.

In closing, let's not forget that Treasury officials in the administrations of both George W. Bush and Barak Obama produced recommendations for consolidation. Both argued that OTS and the OCC be consolidated. The Paulson Blueprint went much further and argued for putting all
depository institution regulation under one roof. Both cite regulatory arbitrage as a prime reason, as well as a desire to reduce gaps and redundancies.

Here you get both sides of the argument.