Does finance reform bill go far enough?

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Kai Ryssdal: All right, if that's what's in the Dodd plan, what does it all add up to. To help figure that out we've called Hal Scott at Harvard Law School. He teaches law and finance there, as well as capital markets regulation. Good to have you with us.

HAL SCOTT: Nice to be here, Kai.

Ryssdal: The president said this afternoon that Senator Dodd's proposal was in essence a good place to start. What do you think?

SCOTT: Well, I hope we're not starting. We've been at this for a long time. It's time to get to the finish line, I hope. I think it's pretty comprehensive, it's much more than a start.

Ryssdal: Let's break it down into its component parts then. First of all, consumer protection. Much has been made of the Consumer Protection Financial Agency, whether there will be one or there won't. In Senator Dodd's plan there won't, it'll be a branch of the Federal Reserve. Is the consumer well served by this piece of legislation?

SCOTT: Well, I'm disturbed by it. I'm disturbed as to why we are putting this agency, which by the way is still supposed to be independent, even though it's within the Federal Reserve. That is, it's got its own rule-making authority. Nobody at the Fed can tell it to do anything. But it's at the Federal Reserve. Could be in the Treasury, could be its own agency. I don't see the rationale for it, but I know that Senator Corker, in negotiations with Senator Dodd, felt strongly for reasons I don't completely understand that it should be in the Fed. The whole criticism in the past has been that the banking agencies haven't really served the consumers because they haven't made consumer protection a priority. So why are we putting this in the heart of a banking agency, even though the banking agency has no power over it. It's an odd solution.

Ryssdal: Here's a trillion-dollar question for you, professor. Senator Dodd said he's going to take care of too big to fail, and we're going to have ways to unwind these big banks if they risk bringing down the entire economy. What about the prospect of more taxpayer dollars going to bail out these big banks? Anything in there that's going to take care of that?

SCOTT: I think there should be a lot more in there than is in there. Let me tell you what I see. Continued authority for the Treasury to bail out systemically important institutions, which of course is what it did to some extent during the crisis. I see continued authority for the Fed to lend in a crisis situation, although it's a little bit more constrained than it was in the past. So I think on those scores we still have taxpayer exposure. Now I'm not one that believes you could design a bill in which there was, as people in Congress like to refer to it, no foam on the runway. But I think we need some foam. I'd rather have the foam coming from the Treasury Department, from the administration itself, than through the Fed. Even though there are provisions in this bill that says the Fed has to report on what they do, etc., etc. I think inherently the Treasury is much more responsible politically than is the Fed.

Ryssdal: The foam on the runway being a little thing to ease that bad landing, right?

SCOTT: Yeah, yeah, yeah.

Ryssdal: Hal Scott at Harvard Law School. He's also a director of the Committee on Capital Markets Regulation, which does capital markets regulation. Professor Scott, thanks a lot for your time.

SCOTT: Good talking with you, Kai.