The Daily Dish

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The EPA will reissue the wage garnishment regulation that caused many to shake their heads. The agency had approved the regulation as final, but left a caveat to rescind if it received "adverse comments." After numerous adverse comments, the EPA has decided for the rule to go through normal channels of public scrutiny, proposing wage garnishment as a draft rule and opening for public comment. You may remember Douglas Holtz-Eakin's Eakinomics section on this issue just a week ago.

The Acting Secretary of the VA, Sloan Gibson, admits the agency has lost the faith of veterans and the American people, but pledged to fix the environment that led to secret lists of patients waiting for care. Gibson told the Senate Veterans Affairs Committee, "As a consequence of all these failures, the trust that is the foundation of all we do — the trust of the veterans we serve and the trust of the American people and their elected representatives –has eroded." The agency has asked for $17.6 billion in additional funding to alleviate the problems.

Eakinomics: The Facts of the Financial Crisis

Monday, July 21 marks the 4th anniversary of the signing of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). As AAF points out, it has some serious drawbacks, both from the perspective of what it did and what it did not do. Obviously, the goal going forward should be to get both aspects right. An obstacle to this is that there continues to be a large gap between the facts of the crisis and the myths that drive the public debate. As fleshed out in greater detail in my dissenting statement in the Financial Crisis Inquiry Commission final report some of the key ones are:

Fact: The crisis was global in its origins, propagation, and fallout. There were housing bubbles in the United Kingdom, Spain, Australia, France and Ireland; some of them even more pronounced than in the United States. Large financial firms failed in Iceland, Spain, Germany, and the United Kingdom, among others.

- Myth: The crisis was caused by the crony Wall Street capitalism of too-big-too-fail banks. If so, why were there similar financial institution failures in the United Kingdom, Germany, Iceland, Belgium, the Netherlands, France, Spain, Switzerland, Ireland, and Denmark?
- Myth: The housing bubble and crisis were the creations of toxic housing-based financial assets. If so, why did the housing bubbles in Spain, Australia, and the United Kingdom — countries with mortgage finance systems vastly different than that in the United States?
- Myth: Deregulation caused the finical crisis. If so, why did countries without large changes in financial regulation experience severe crises? Moreover, the major financial regulation legislation in the 2000s was regulatory — the expensive and intrusive Sarbanes-Oxley legislative response to the accounting scandals.

Fact: The fundamental lending error was originating millions of low-quality mortgages. Mortgages were a well-known product, originated from lender to borrower, and they went badly underwater.

- Myth: Proprietary trading caused the financial crisis. There were lots of causes (10 in my dissent), but

there is no evidence for this claim. (Related: removing the Glass-Steagall prohibitions on banks had nothing to do with the crisis.)
- Myth: Fancy derivatives caused the financial crisis. In fact, outside of one derivative (credit-default swaps) in one firm (AIG), derivatives had nothing to do with the crisis.

Fact: There were instances of both too little and too much government involvement in the economy. Countrywide's irresponsible lending and AIG's failure were in part attributable to ineffective regulation and supervision, while Fannie Mae and Freddie Mac's failures were the result of policymakers using the power of government to blend public purpose with private gains and then socializing the losses.

- Myth: Big government policies caused the financial crisis. Many of the most notable policies (e.g., the Community Reinvestment Act) had nothing to do with the crisis. Others (Affordable Housing Goals) contributed but did not cause it.
- Myth: Unfettered private greed caused the crisis.

These examples scratch only the surface. However, if Dodd-Frank is to be re-molded into an effective framework for 21st century financial policy, they will have to be better absorbed by the policy-makers.

From the Forum

4 Years Later: Broken Promises of the Dodd-Frank Act by Douglas Holtz-Eakin, AAF President, and Marisol Garibay, AAF Deputy Communications Director