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Posner: Obama Plan Suffers From FDR Envy

Erin Geiger Smith | Jul. 23, 2009, 1:15 PM | 8

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A prominent federal judge blasted Obama's plans to overhaul financial regulations this week.

The Obama administration's regulatory reform report is impossible to implement and based on ignorance of the causes of the financial collapse, according to Richard Posner, a judge for the Seventh Circuit U.S. Court of Appeals, a lecturer at the University of Chicago Law School and author of many books focusing on law and economics.



"The [r]eport's fundamental weaknesses are its prematurity, overambitiousness, reorganization mania, and FDR envy," Posner said in [part one](#) of what will be a two-part article, featured on [FinReg21.com](#).

Unlike FDR's plans that seemed to work "in the blink of an eye," the report's proposals could not be implemented for years, Posner said. This problem would be obvious if the report had "addressed costs, staffing requirement, and milestones for determining progress toward program goals."

The report is both too short and too long for Posner - "too long to be a statement of principles that would provide a basis of discussion, too short to enable an assessment of the desirability and feasibility of the specific proposals the report makes." Posner, it seems, would have preferred either a ten-page think piece or a proposed bill with full cost-benefit analysis.

Posner's main complaints are that the report assumes it knows the causes of the economic collapse (mainly blaming a combination of disasters among bankers, credit rating agencies and consumers and a lack of regulation) when they will not truly be clear for years, if ever. What's more, he writes that the report gives regulators a free pass. It should have noted that the Federal Reserve made massive errors in setting monetary policy and that the annual budget deficits make it difficult for the government to rescue the economy.

We guess the Obama administration might reply that it wanted to focus on solutions rather than causes. But Posner thinks that we're unlikely to come up with effective remedies if we can't first diagnose what made the economy so sick and admit that we may not fully know for years to come.

Posner thinks that the biggest reform proposed--classifying big banks and other financial firms that pose systemic risk at "Tier 1" companies subject to more stringent regulation--won't do much to prevent a future collapse. The banks will just find ways to game any new system or would break themselves up in a way that allows them to avoid the additional scrutiny. Plus, Posner says, it would not have mattered if there were 10,000 tiny banks - the securities-backed mortgage fiasco would have caused all of them to fail, no matter their size.

Posner argues that the Federal Reserve and other regulators could have done well more with the tools they already had. Throwing more guidelines and regulations on the financial industry will only add more confusion at a time when

9/9/2009

Posner: Obama Plan Suffers From FD...

How can there be such racism in such an idyllic, quaint liberal setting?"

Old China Hand said:

Jul 23, 9:26 PM

Posner is one of our top judges. He combines a mastery of legal theory with a deep understanding of human action. It is odd that he would openly criticize the policies of a sitting president. But the First Amendment guarantees him the right to do so.

Economy 101 said:

Jul 27, 2:00 PM

Great food for thought. Overall, that website listed, FinReg21.com, has some really interesting and unique material. Well done!