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The New Financial Deal: Understanding the Dodd-Frank Act and its (Unintended) Consequences

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CHAPTER 1

INTRODUCTION: THE CORPORATIST TURN IN AMERICAN REGULATION

When President Obama signed the Dodd-Frank Act into law on July 21, 2010, he began a new epoch in financial regulation. The old epoch dated back to the early 1930s, when President Roosevelt and the New Deal Congress enacted the securities acts of 1933 and 1934, as well as banking reforms that broke up the giant Wall Street banks and put deposit insurance in place for the first time. Never again, they promised, would investors be forced to live by their critical wits in unregulated markets, or ordinary Americans lose their life savings if their bank failed.

The new legislation comes in the third year of the worst American financial crisis since the Great Depression, a crisis that was exacerbated by financial instruments and new forms of financing that were not dreamed of in that earlier era. Most Americans had never even heard of the financial assembly line known as securitization before the collapse of major mortgage lenders like Countrywide and the more cataclysmic failures of Bear Stearns, Fannie Mae, Freddie Mac, Lehman Brothers, and American International Group (AIG). Many still don't understand just what this process is all about—other than to repeat familiar clichés about the “slicing and dicing” of mortgages—but they know that the failure to adequately regulate these innovations has figured prominently in the crisis.

After watching the government bail out Bear Stearns and AIG in 2008, and pump well over one hundred billion dollars into Citigroup, Bank of America, and the other big banks the same year, Americans also know that the existing regulatory framework could not adequately oversee our largest financial institutions. Perhaps the best evidence of just how rickety that old regulatory structure was can be found in the best-selling books about the financial crisis. Bill Cohan's *House of Cards* showed just how little the nation's top regulators—then-Treasury Secretary Henry Paulson, Federal Reserve Chair Ben Bernanke, and then-head of the New York Federal Reserve Bank Timothy Geithner—knew about Bear Stearns's financial condition as they decided the investment bank's fate. Andrew Ross Sorkin's riveting page-turner on the crisis, *Too Big to Fail*, revealed just how unscripted and unnervingly ad hoc the decisions whether to nationalize (as with Fannie Mae and Freddie Mac), let go (as with Lehman Brothers), or bail out (as with AIG) were in the calamitous months that followed. The picture of one page from Henry Paulson's phone log in Sorkin's book is enough to make one's heart stop.¹

The Dodd-Frank Wall Street Reform and Consumer Protection Act—the Dodd-Frank Act for short—is the response to Americans’ call for help, for a new regulatory framework for the twenty-first century. To understand what American financial life is likely to look like in five, 10, or 20 years, and how regulators may respond to the next crisis, we need to understand the Dodd-Frank Act: both what it says and what it means. This, in a nutshell, is what the book you are reading is about.

The Path to Enactment

The Dodd-Frank Act got its start in March 2009, when the Department of the Treasury released a framework it called “Rules for the Regulatory Road” shortly before a major meeting of the G-20 nations. Treasury released a more complete White Paper and proposed legislative language several months later. The White Paper would provide the template for all of the major parts of the legislation that eventually passed.

Throughout the summer and fall of 2009, Treasury Secretary Tim Geithner and other defenders of the proposed legislation were hammered by critics. On the right, the emerging Tea Party movement lumped the financial reforms together with the health care reform proposals as evidence of the Big Government inclinations of the Obama administration, and condemned the reforms as institutionalizing the bailout policies of 2008. Many on the left were equally critical. For liberal critics, the bailouts and the proposed legislation suggested that the administration was catering to Wall Street, while doing very little to ease the suffering that the financial crisis had brought to Main Street.

In response to these criticisms, the administration tightened up portions of the legislation that could be construed as inviting bailouts. They also insisted that the legislation wouldn’t perpetuate the bailouts of the prior year. By giving regulators the power to dismantle systemically important financial institutions that were on the brink of collapse, they argued, it actually would end the use of bailouts.

The next major step toward enactment came when Congressman Barney Frank steered a version of the proposed legislation through his Financial Services Committee, and then, on December 11, 2009, through the House of Representatives.

In January 2009, the Obama administration was forced to make a major concession to populist criticism of the legislation by the stunning victory of Republican Scott Brown in the election to fill Edward Kennedy’s Senate seat in Massachusetts. Two days after Brown’s election, President

Obama endorsed a proposal by former Federal Reserve Chairman Paul Volcker that would ban banks from engaging in proprietary trading—that is, trading for their own accounts. Until the Brown election, the administration had resisted the proposal as an undesirable interference with the activities of the big banks.

Even after this shift, the fate of the legislation remained uncertain for several months. Given the heavy Democratic majorities in Congress and the obvious inadequacies of existing regulation, most observers thought some version of the legislation would pass. But it wasn't clear what version, or when.

The pivotal push once again came from outside the halls of Congress. On April 19, the Securities and Exchange Commission (SEC) sued Goldman Sachs, which had emerged as a principal villain of the financial crisis—"a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money," in the immortal words of *Rolling Stone* magazine. Approved by a 3 to 2 vote of the SEC's commissioners, the SEC lawsuit alleged that Goldman had defrauded investors by failing to tell them that the mortgage-related investments it had sold them were picked in part by a hedge fund that was betting that the mortgages would default. The securities fraud allegations transformed the political landscape, shifting the momentum decisively in favor of the legislation. On May 20, the Senate passed its version, known as the Dodd Bill after Senate Banking Committee Chair Christopher Dodd. In the ensuing two months, a conference committee worked out the differences between the two bills, and with the President's signature, Dodd-Frank was born.²

The Two Goals of the Dodd-Frank Act

Contrary to rumors that the Dodd-Frank Act is an incoherent mess, the Wall Street Reform portion of its 2,319 pages (a mere 800 or so when the margins and spacing have been squeezed) has two very clear objectives. Its first objective is to limit the risk of contemporary finance—what critics often call the shadow banking system; and the second is to limit the damage caused by the failure of a large financial institution. (Although the Wall Street reforms are this book's particular focus, it also devotes a chapter to the new consumer regulator, which is the heart of Dodd-Frank's contribution to consumer protection.)

The Dodd-Frank Act tackles the first task by putting brand-new regulatory structures in place for both the *instruments* and the *institutions* of the new financial world. The principal instruments in question are

derivatives. A derivative is simply a contract between two parties (each called a counterparty), whose value is based on changes in the price of an interest rate, currency, or almost anything else, or on the occurrence of some specified event (such as a company's default). An airline may buy an oil derivative—a contract under which it will be paid if the price of oil has risen at the end of the contract term—to hedge against changes in oil prices. Southwest Air's judicious use of these derivatives was one of the keys to its early success.

The Dodd-Frank Act's main strategy for managing the riskiness of these contracts is to require that derivatives be cleared and traded on exchanges. To clear a derivative (or anything else, for that matter), the parties arrange for a clearinghouse to backstop both parties' performance on the contract. If the bank that had sold Southwest an oil derivative failed, for instance, the clearinghouse would pay Southwest the difference between the current and original oil price or would pay for Southwest to buy a substitute contract. If the same derivative were exchange traded, it would have standardized terms and would be purchased on an organized exchange, rather than negotiated privately by Southwest and the bank. Clearing reduces the risk to each of the parties directly, while exchange trading reduces risk to them and to the financial system indirectly by making the derivatives market more transparent.

To better regulate institutions, the Dodd-Frank Act seeks to single out the financial institutions that are most likely to cause systemwide problems if they fail, and subjects them to more intensive regulation. The legislation focuses in particular on bank holding companies that have at least \$50 billion in assets, and nonbank financial institutions such as investment banks or insurance holding companies that a new Financial Stability Oversight Council deems to be systemically important. ("Bank" in this context means a commercial bank—a bank that accepts customer deposits. A bank holding company is a group of affiliated companies that has at least one commercial bank somewhere in the network, or has chosen to be subject to banking regulation, as Goldman Sachs and Morgan Stanley did in the fall of 2008. I will sometimes use "bank" to refer to either.) Banks like Citigroup or Bank of America automatically qualify, as do 34 others, whereas an insurance company like AIG will be included only if the Council identifies it as systemically important. The Dodd-Frank Act instructs regulators to require that these systemically important firms keep a larger buffer of capital than ordinary financial institutions, to reduce the danger that they will fail.³

If Dodd-Frank's first objective is to limit risk before the fact—before an institution or market collapses—the second objective is to limit the destruction caused in the event that a systemically important institution

does indeed fail, despite everyone's best efforts to prevent that from happening. For this second objective, the legislation introduces a new insolvency framework—the Dodd-Frank resolution rules. If regulators find that a systemically important financial institution has defaulted or is in danger of default, they can file a petition in federal court in Washington, D.C., commencing resolution proceedings, and appoint the Federal Deposit Insurance Corporation (FDIC) as receiver to take over the financial institution and liquidate it, much as the FDIC has long done with ordinary commercial banks.

Like the New Deal reforms, which gave us the FDIC and the SEC, among others, the Dodd-Frank Act creates several new regulators to achieve these two objectives, including the Financial Stability Oversight Council, whose members include the heads of all the major financial regulators, and a new federal insurance regulator. I have already mentioned that the other major new regulator (the Consumer Financial Protection Bureau) will also come into our story, in part as a foil to the key Wall Street banks.

A Brief Tour of Other Reforms

Throughout, the book focuses primarily on the reforms that relate most directly to the two goals just described. Although these are the most important of the reforms, several others have received significant attention. I give each at least glancing comment elsewhere in the book, but it may be useful to identify them briefly and more explicitly here.

The first two are a pair of corporate governance reforms, each of which is designed to give shareholders more authority. The more important of the two is a provision that simply gives the SEC the power to require a company to include shareholder nominees for director along with the company's own nominees when it sends proxy materials to all of its shareholders before its annual meeting. The SEC has already taken advantage of this authority, approving a regulation that will allow shareholders with at least 3 percent of a corporation's stock to include nominees for up to 25 percent of the directorial positions. The second, which was one of President Obama's campaign promises, will require that shareholders be given a nonbinding vote on the compensation packages of the company's directors and top executives. Neither is likely to have a particularly large effect, although the first—known as proxy access—has generated anxiety in directorial circles. These critics complain that unions and pensions will use the new shareholder power to promote their own agendas.⁴

The Dodd-Frank Act also took aim at a few of the problems plaguing the credit rating industry. The credit rating agencies—Standard & Poor’s, Moody’s Investors Service, and Fitch—did a notoriously poor job with the mortgage-related securities at the heart of the subprime crisis, handing out investment grade ratings to many securities that later defaulted. One problem with the current system is that the bank whose securities are being rated pays for the rating. (As my students like to say, it’s as if a school used a grading system in which students paid for their grades.) Although the legislation did not eliminate the “issuer pays” feature of credit ratings, it requires financial regulators to change the many rules that require entities like pension funds and insurance companies to buy securities that are certified as investment grade by a credit rating agency. These changes, it is hoped, will diminish the pressure to rely on credit rating agencies. Removal of the artificial demand for credit rated securities could significantly improve the credit rating process. Dodd-Frank also includes a variety of new rules for the governance of a rating agency.⁵

Finally, the legislation requires hedge funds to register for the first time. In the past, the defining characteristic of hedge funds was their exclusion from securities laws and related regulation that would otherwise require disclosure and oversight. Under the Dodd-Frank Act, hedge fund advisers must now register and make themselves available for periodic inspections.⁶

Each of these new provisions is related to the two principal objectives of the Act, but each is more at the periphery than the center. The core is Dodd-Frank’s treatment of derivatives, its regulation of systemically important financial institutions, and its new rules for resolving their financial distress, together with the counterweight of the Consumer Financial Protection Bureau.

Two Themes That Emerge

I wish I could say that the new regulatory regime will be as successful as the New Deal legislation it is designed to update. But I fear it won’t be. Unless its most dangerous features are arrested, the legislation could permanently ensconce the worst tendencies of the regulatory interventions during the recent crisis as long-term regulatory policy.

The problem isn’t with Dodd-Frank’s two objectives. The objectives are right on target. The problem is with how they are handled. The two themes that emerge, repeatedly and unmistakably, from the two thousand pages of legislation are (1) government partnership with the largest financial institutions and (2) ad hoc intervention by regulators rather

than a more predictable, rules-based response to crises. Each could dangerously distort American finance, making it more politically charged, less vibrant, and further removed from basic rule-of-law principles than ever before in modern American financial history.

The first theme, as I just noted, is government partnership with the largest Wall Street banks and financial institutions. Dodd-Frank singles out a group of financial institutions for special treatment. The banks that meet the \$50 billion threshold, and the nonbank financial institutions designated by the new Financial Stability Oversight Council as systemically important will be put in their own separate category. Unlike in the New Deal, there is no serious effort to break the largest of these banks up or to meaningfully scale them down. Because they are special, and because no one really believes the largest will be allowed to fail, they will have a competitive advantage over other financial institutions. They will be able to borrow money more cheaply, for instance, than banks that are not in the club. Dodd-Frank also gives regulators a variety of mechanisms they can use to channel political policy through the dominant institutions. The partnership works in both directions: special treatment for the Wall Street giants, new political policy levers for the government.

The second theme overlaps with the first: Dodd-Frank enshrines a system of ad hoc interventions by regulators that are divorced from basic rule-of-law constraints. The unconstrained regulatory discretion reaches its zenith with the new resolution rules for financial institutions in distress. Dodd-Frank resolution is designed for systemically important financial institutions that have been singled out for special treatment. But the rules do not even require that an institution be designated as systemically important in advance. If regulators want to take over a struggling bank, they can simply do so as long as they can say with a straight face that it is “in default or in danger of default” and its default could have “serious adverse effects” on stability. Not only this, but they may be able to take over every affiliate in the bank’s network.. Once the institution is in government hands, the FDIC can pick and choose among creditors, deciding to pay some in full while leaving the rest with the dregs that remain after the favored creditors are paid.

The basic expectations of the rule of law—that the rules will be transparent and knowable in advance, that important issues will not be left to the whim of regulators—are subverted by this framework. Nor is the tendency limited to the end-of-life issues I have been discussing. The Dodd-Frank Act invites ad hoc intervention with healthy financial institutions as well.

The two tendencies I have just described will not come as a surprise to anyone who followed the legislative debates that led to the Dodd-Frank Act. Massachusetts Institute of Technology (MIT) Professor Simon Johnson and Nobel Prize economist Joseph Stiglitz, among others, insisted that the largest banks need to be broken up because they are too big to effectively regulate and because they distort the financial markets. I will refer to this perspective throughout the book as Brandeisian, in honor of Louis Brandeis, the Roosevelt adviser and Supreme Court justice, who advocated this view throughout the early twentieth century.⁷

Similarly, many critics complained about the dangers of the new legislation's casual disregard of the rule of law during the legislative debates. The contrast between the new resolution rules and the more predictable, transparent, rule-oriented bankruptcy process was a frequent subject of concern.

The administration and advocates of the legislation did not simply ignore these criticisms. At several points, they were forced to make concessions. The most important concession is the provision now known as the Volcker Rule. Promoted by Paul Volcker, the popular former chairman of the Federal Reserve and an adviser to President Obama during the 2008 election campaign, the Volcker Rule is a throwback to New Deal legislation that made it illegal to conduct commercial and investment banking under the same umbrella. As noted earlier, the Volcker rule prohibits commercial banks from engaging in proprietary trading—that is, trading and speculating for the bank's own account—which is central to contemporary investment banking, and limits their investment in hedge funds or equity funds.

Responding to criticisms that the legislation would invite a repeat of the ad hoc bailouts of 2008, proponents of the legislation tinkered with the resolution rules. This second set of concessions amended the emergency lending authority that the Federal Reserve used to fund the bailouts, transplanted several bankruptcy provisions into the Dodd-Frank resolution framework, and added a requirement that the institutions subject to the regime be liquidated.

In theory, these concessions could give regulators the ability to rein in the giant financial institutions. . But , in a classic illustration of the law of unintended consequences, both are more likely to make the prevailing tendencies of the new legislation worse. Although the Volcker Rule is forcing banks to adjust their operations, the concept of proprietary trading is so slippery that its application will depend on how, and how strictly, regulators interpret it. This will entail an ongoing negotiation between the largest banks and the regulators, which could simply reinforce the

partnership between the two, with the government softening its definition of proprietary in return for an implicit agreement by the banks not to shift their proprietary trading operations overseas.

The adjustments that purport to end bailouts and ad hoc interventions will do nothing of the kind. Although the restrictions on the Federal Reserve's emergency lending authority are based on a valuable principle—that the Fed should not single out individual firms for rescue—they will not prevent future bailouts. Regulators can pressure other systemically important firms to fund a bailout—as they did when the Long-Term Capital Management hedge fund collapsed in 1998—or they can simply maneuver around the restrictions by creating an across-the-board lending facility that is really a single firm bailout in disguise. If regulators do take over a large financial institution under their resolution authority, they can evade the bankruptcy-like provisions by simply agreeing to pay favored creditors in full under the FDIC's *carte blanche* to cherry-pick among creditors.

The two central themes of the Dodd-Frank Act—government partnership with the largest financial institutions and ad hoc intervention—survived the Brandeisian concessions fully intact.

Fannie Mae Effect

I have made several references already to the possibility that the government will channel political policy through the large financial institutions that are singled out for special treatment. Historically, this kind of collaboration between the government and large businesses has been called *corporatism*. It is a familiar feature of corporate and financial regulation in Europe. Perhaps I should be more specific about how this could work in the Dodd-Frank Act.

Most pervasively, the Dodd-Frank Act invites the government to channel political policy through the big financial institutions by giving regulators sweeping discretion in the enforcement of nearly every aspect of the legislation. Suppose, for instance, that regulators are determining whether a group of Citigroup bankers are engaged in proprietary trading at a time when the government is unhappy with the big oil companies, or with weapons manufacturers. It is not hard to imagine Citigroup's directors concluding that they had better limit the bank's financing of the disfavored industry if they wish to get sympathetic treatment as regulators decide whether the bank is in compliance with the Volcker Rule. Many other provisions will give regulators similar leverage in their partnership with the largest financial institutions.

This, of course, was how Fannie Mae and Freddie Mac functioned under both Republican and Democratic administrations before the two entities collapsed and were nationalized in 2008.⁸

The corporatist dimension of the legislation is further evident in the extraordinary authority the Dodd-Frank Act gives to the secretary of the Treasury and the Treasury Department. Because the Treasury secretary is directly responsible to the President, he is the least independent, and the most political, of the financial regulators. Yet the Treasury secretary is given leadership responsibility on the new Financial Stability Oversight Council and in other areas. Dodd-Frank also locates an enormous new research facility—the Office of Financial Research—in the Treasury Department. Control over knowledge is power, of course, which suggests that the ostensibly neutral research facility could become yet another channel of Treasury influence.

Covering Their Tracks

The special treatment of the largest firms and the reliance on ad hoc intervention raises a perplexing puzzle. Given that this is precisely what so many Americans found offensive about the bailouts of 2008 and were so anxious to reform, how did we end up with legislation that has such similar qualities?

Perhaps the moral is that bank-government partnership and ad hoc intervention in a crisis are simply unavoidable. We cannot dismiss this possibility out of hand. In a different context—national security—several top legal scholars have argued that in times of national crisis, the executive branch of our government will inevitably take unilateral action, without waiting for Congress. The executive branch, they argue, is more responsive to the concerns of the country as a whole, and is better able to act quickly and decisively.⁹

Perhaps financial crises are similar. The rule of law will always give way in a crisis. But even if it is impossible to guarantee that there will never be another ad hoc bailout, this reasoning doesn't really explain Dodd-Frank itself. It doesn't explain why the legislation protects the largest Wall Street banks, and it doesn't explain why the legislation encourages ad hoc intervention, in good times as well as crises, rather than trying to make it as rare as possible.

A different explanation is much more plausible: The Dodd-Frank Act was an opportunity for the same regulators that gave us the Bear

Stearns and AIG bailouts to cover their tracks. The legislation was drafted by the same people who designed the bailout strategy, and it shows.

When future generations look back on the origins of the Dodd-Frank Act, this fact may seem more amazing than any other. Consider a simple analogy. Every bank has two different departments for the loans it makes to businesses. In one department, loan officers make the loans. But if the borrower falls into financial distress, the loan is transferred to another department, the workout group. Banks do not let the original loan officer handle the negotiations to restructure the loan, because they suspect the loan officer's judgment would be clouded by the rationales that caused the loan officer to make the loan at the beginning. Banks know, and have known for generations, that they need a fresh set of eyes after things go wrong.

Dodd-Frank ignored this basic principle of sound business; it never had that fresh set of eyes. As I have mentioned, the main architects of the 2008 bailouts were then-Treasury Secretary Henry Paulson, then-head of the New York Fed Timothy Geithner, and Federal Reserve Chair Ben Bernanke. Of the three, Geithner seems to have the deepest commitment to ad hoc bailouts and to financial policy as a friendly negotiation between elite regulators and the heads of the largest banks. (Geithner's coziness with the dominant banks explains why he has often been mistakenly identified as a former Goldman Sachs banker.) By bringing Geithner into his administration as Treasury secretary, President Obama ensured that the earlier policies would be carried into the new administration. Ben Bernanke still holds the same post he occupied throughout the crisis, chair of the Federal Reserve. Of the three, only Paulson did not have a substantial role in framing the new financial legislation, although he did offer his own form of encouragement: a memoir recounting the bailouts through a revisionist lens, suggesting that all he, Bernanke, and Geithner had needed were more regulatory powers.¹⁰

Geithner's Treasury Department devised a framework that attempts to perfect what he, Paulson, and Bernanke did in 2008. By implication, the new law legitimates their bailouts and covers their tracks.

Is There Anything to Like?

A leading banking authority recently wrote to me in an e-mail that the Dodd-Frank Act is the "worst piece of financial legislation" in his lifetime, and suggested that it is a disaster from first page to last. Is he correct? Does the legislation lack even the smallest worthwhile contributions?¹¹

I am not quite so pessimistic. Although the overall pattern of the legislation is disturbing, a handful of its contributions could genuinely improve the regulatory landscape. The new framework for clearing derivatives and trading them on exchanges is an unequivocal advance. To be sure, there are substantial uncertainties even here. The extent to which clearing and exchange trading will transform the derivatives markets for the better will depend, like much of Dodd-Frank, on how effectively the principal regulators implement the reforms—whether they ensure that most derivatives do in fact migrate to clearinghouses and exchanges, for instance, and how well they regulate the clearinghouses. But the reforms promise to make the derivatives markets far more transparent than in the past, and to diminish the risk that the default of a major financial institution will cause upheavals throughout the financial markets.

A second step forward is the new Consumer Financial Protection Bureau established by the legislation to serve as a consumer watchdog with respect to credit card and mortgage practices. Although the new bureau will be part of the Federal Reserve, it will be almost completely insulated from second-guessing by the Fed or other bank regulators. (Only if a regulation could cause a systemic crisis can other regulators override the Consumer Bureau.) Although some critics plausibly argue that the Consumer Bureau has been given too much power, consumers' interests were woefully underrepresented during the recent crisis. It never made sense to simply include consumer protection among the Fed's other tasks, for instance, since the Fed's primary concern is maintaining the stability of the banking system, which stands in considerable tension with consumer protection. Although consumer protection will still be within the Federal Reserve, it will be far more robust now that it is a separate operation.

I suspect my relative optimism may stem from another factor as well. The effects of government partnership with the largest financial institutions, and of the ad hoc framework for dealing with their financial distress, could not be more pernicious. We may see political factors influencing banking decisions, which could prevent promising but politically unconnected industries from getting the funding they need. We also may see another bailout the next time a systemically important financial institution or important company falls into distress. But I believe that some of the worst tendencies of the new legislation could be curbed with a few very simple reforms.

In the chapter that comprises Part I of the book—"Relearning the Financial Crisis"—I revisit two key events in the recent crisis. The first is the fall of Lehman. Rather than showing that bailouts are necessary and that

bankruptcy does not work, as the conventional wisdom suggests, I argue that the problems caused by Lehman actually were the result of a regulatory bait-and-switch. With their earlier bailout of Bear Stearns, regulators had strongly signaled their intent to bail out any systemically important financial institution. But they pulled the rug out from under Lehman and its potential buyers by shifting course at the very last moment. The other key event whose significance has not been fully appreciated is the bailouts of Chrysler and General Motors. These bailouts were achieved first by appropriating funds meant for financial institutions and then by commandeering the bankruptcy process. The apparent success of those bailouts was construed by the regulators involved as a confirmation of the regulatory philosophy that underlies the Dodd-Frank Act.

The heart of the book comes in Part II, Chapters 3 through 8. After an inside account of the legislative process, drawing on my own trips back and forth to and from Washington, D.C., in Chapter 3, the chapters that follow carefully explore each of the major planks of the new regulatory framework, explaining what they will do, what they mean, and what some of their unintended consequences may be.

In the final part, I look to the future. The first chapter in Part III outlines several simple bankruptcy reforms that would curb the excesses of the new government-bank partnership and the reliance on ad hoc regulatory intervention; and the second considers ways to address international dimensions of the new financial order that are largely neglected by the Dodd-Frank Act.

Although much of the book is critical, I conclude on a note of hope.