Industry Repeats Itself

The Financial Reform Fight

Public Citizen • Cry Wolf Project

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SECURITIES LAW WORRIES BANKERS

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Says Investment Machinery

WASHINGTON May 3 President Roosevelt told the Chamber of Commerce of the United States tonight that the American people

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About Public Citizen
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> “History Doesn’t Repeat Itself, But It Rhymes.”
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> *–Attributed to Mark Twain, undated*

Bankers and business leaders described the reforms following the financial meltdown in foreboding language, such as “monstrous systems” imposing an “impossible degree of regulation” that would “cripple” the economy and set the country on a course toward socialism.

Many of the chieftains’ complaints centered on matters affecting their own industries, but they portrayed regular Americans as the true victims because, they said, new laws and regulations were halting the flow of capital, grinding the nation’s job creation engine to a halt.

Although readers could be forgiven for assuming that these complaints refer to the debate over the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the quotes above are actually 75-year-old responses to the New Deal reforms following the Great Depression.

The “monstrous” reforms of yesteryear included the creation of the Federal Deposit Insurance Corporation and the Securities and Exchange Commission, and requiring publicly traded companies to disclose their earnings and other material information. Today, these are bedrocks of our financial system.

In retrospect, the business community’s wildly inaccurate forecasts over the New Deal reforms should serve as data points in evaluating whether the ominous predictions surrounding recent financial reforms, particularly the Dodd-Frank Act of 2010, should be taken seriously or dismissed out of hand as mere special interest hyperbole.

FDIC was "exceedingly dangerous."

Among the first New Deal actions was passage of the Banking Act of 1933, which, among other things, created the Federal Deposit Insurance Corporation (FDIC). The FDIC provided government-backed insurance for most consumers' bank deposits and gave the government authority to take control of failed banks and sell them to solvent institutions.

> "In my opinion, [the law creating the FDIC] is an exceedingly dangerous bill."

When the plan was enacted, bankers were outraged and predicted its failure. Francis S. Sisson, president of the American Bankers Association, predicted that the bill was so unsound that it would "ultimately force its own repeal." [1]

"In my opinion, it is an exceedingly dangerous bill," Sisson said less than a week after the law took effect.[2] "You simply cannot cover up vice with this kind of virtue, by forcing the good banks to carry the burdens of the weak."[3]

Time characterized Wall Street's reaction even more stridently:

"Through the great banking houses of Manhattan last week ran wild-eyed alarm," *Time* wrote. "Big bankers stared at one another in anger and astonishment. A bill just passed by both houses of Congress would rivet upon their institutions what they considered a monstrous system of guaranteeing bank deposits. Such a system, they felt, would not only rob them of their pride of profession but would reduce all U. S. banking to its lowest level. They saw their deposits which they had spent a lifetime to build up and protect with their good names confiscated by the government to pay for the mistakes and dishonesty of every smalltown bankster."[4]

But federal insurance of savings accounts soon proved an invaluable guardian against runs on banks. Less than a year after the American Bankers Association's executive director castigated the program as "extremely dangerous" and destined to fail, the ABA's executive council endorsed it.[5]

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[1] "Sisson Denounces Glass Banking Act: Measure Is Unsound and Will Force Its Own Repeal, He Tells Virginia Bankers," *The New York Times*, June 23, 1933.
[2] The law that created the FDIC was the Glass-Steagall Act, which also separated commercial and investment banks. In this instance, Sisson was referring to the FDIC component of the bill.
[3] *Ibid.*
[4] "Banks: Deposits Guaranteed," *Time*, June 5, 1933.
[5] "The First Fifty Years: A History of the FDIC 1933-1983," FDIC Web site. Available at http://www.fdic.gov/bank/analytical/index.html.

In 1933, 4,000 banks failed. In 1934, the FDIC's first year, only 52 failed, including only nine that participated in the insurance program.[6] Bank failures averaged fewer than 40 a year over the next decade, and never reached double digits in a single year in the ensuing three decades.[7] Since the FDIC's inception, nobody has lost a penny of insured deposits.[8]

The creation of the FDIC is now widely credited with helping restore confidence in the financial and banking industry. Perhaps the greatest homage to the FDIC was paid by Milton Friedman. The libertarian economist's opposition to government was so broad that he opposed licensure of doctors and regulation of prescription drugs,[9] but he and co-author Anna Jacobson Schwartz in 1963 praised the creation of the FDIC as "the structural change most conducive to monetary stability" since the Civil War.[10]

Truth in Securities Act threatened "wholesale defaults," creating "business emergency of vast importance."

The Securities Act of 1933, also known as the Truth in Securities Act, required disclosure of accurate financial information for new offerings of securities (*e.g.*, stocks and bonds).[11] The law, largely modeled after state laws,[12] made corporate officers and others involved in underwriting securities liable for misrepresentations and deceptions in their filings.

> "A business emergency of vast importance has been created by the Federal Securities Act."

Today, most experts consider these principles vital to maintaining the public's faith in the markets. But following the law's enactment in 1933, bankers blamed it for further harming the already ravaged economy.

Investment Bankers Association President Frank Gordon said four months after the act's passage that its liability provisions were inhibiting investment to such an extent that they threatened to cause "wholesale defaults."

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[6] A temporary fund performed the function of the FDIC until the permanent agency began operating in 1935.
[7] FDIC data. Available at http://www2.fdic.gov/hsob/HSOBSummaryRpt.asp?BegYear=1934&EndYear=2011&State=1
[8] FDIC. See, *e.g.*, http://www.fdic.gov/deposit/deposits/penny.
[9] See, *e.g.*, "Milton Friedman - Curing American Health Care." Available at http://www.youtube.com/watch?v=TdcaLReCG3Y&feature=related. See also, "Milton Friedman - Government Regulation." Available at http://www.youtube.com/watch?v=dZL25NSLhEA.
[10] Milton Friedman and Anna Jacobson Schwartz," A Monetary History of the United States, 1867-1960," National Bureau of Economic Research, 1963, p. 434.
[11] See, *e.g.*, www.sec.gov/about/laws.shtml#secact1933.
[12] James M. Landis, "Should the Federal Securities Act of 1933 Be Modified?" *Congressional Digest*, May 1934.

"All over the United States corporations are ready to undertake the necessary financing," Gordon said in an address to the IBA's members. "But no corporation director is going to risk existing resources by putting his name on financing under a law that makes him personally liable for the next ten years and adopts the unprecedented principle that he is to be judged guilty unless he can be proven innocent."[13]

In February 1934, the Merchants Association of New York warned of dire consequences stemming from the 1933 Securities Act. "A business emergency of vast importance has been created by the Federal Securities Act, which if not promptly corrected may result in seriously delaying business recovery and in increasing unemployment through bankruptcies which are practically certain to occur in industrial fields," a study commissioned by the association concluded.[14]

The Investment Bankers Association passed a resolution naming the liability clauses in the Truth in Securities Act the chief culprit for lagging investment in the capital markets. "The absence of a capital market may be attributable to several causes, including the present unsettled economic conditions, but in the opinion of our association, the most important single cause has been and is [the liability] provisions of the Securities Act," the resolution said. "This condition is seriously interfering with industrial recovery and re-employment."[15]

The liability provisions were amended slightly in June 1934, increasing the onus on investors to show that inaccuracies in registration statements were related to a decline in a stock's value, shortening the statute of limitations and modifying the standard of care bankers would need to demonstrate to avoid liability.[16] But the fundamentals of the provision remained: individuals involved in new stock offerings were held liable for knowingly or negligently disseminating false information or omitting important information.

Industry's forecast that the provision would have dire effects on the economy was wrong. After shrinking by an average of more than 15 percent per year in the three years leading up to the law's enactment, the economy slipped by only 3 percent in 1933. From 1934 to 1936, the economy grew by an average of 14.1 percent per year.[17]

[13] "Security Act Held A Bar To Recover: It May Lead to Wholesale Defaults, F.M. Gordon Warns Investment Bankers," *The New York Times*, Oct. 31, 1933.
[14] "Merchants Fight Securities Law: Association Sends Resolutions to President and Congress Urging Amendment," *The New York Times*, Feb. 13, 1934.
[15] *Ibid*.
[16] See, *e.g.,* Eustace Seligman, "80% Improvement in Securities Act," *The New York Times*, June 6, 1934.
[17] Bureau of Economic Analysis.

Stock offerings were few in the 1930s and 1940s because of the roiled economy, the second world war and the public's lingering distrust of the stock market following the 1929 crash. But despite their claims, the stock market flourished during most of the second half of the 20th century, most likely aided by laws ensuring accurate information about potential investments. New offerings of securities played a vital role in helping businesses raise capital. The 2000 stock market crash following a spree of "dot com" issues—and Wall Street's exaggeration of their value—most likely did far more to slow the momentum of initial public offerings than the laws governing them ever did.

SEC bill imposed "impossible degree of regulation" on businesses; NYSE president said it would "destroy our security markets."

Industry elevated its rhetoric during the debate over the Securities Act of 1934, which eventually established the Securities and Exchange Commission, required public company financial reporting and regulated the secondary trading of securities (as opposed to the initial offerings of securities, which were governed by the Securities Act of 1933).

The 1934 Act required publicly traded companies to file earnings reports and to issue timely notices of material events, such as major changes in personnel or significant losses of assets. This information was intended to enable investors to evaluate whether to buy or sell stock and to combat insider trading.

> "[The SEC bill] would not provide for regulation but destruction."

Today, organizations such as the U.S. Chamber of Commerce hail the principles of the 1934 Act. For example, the Chamber's Center for Capital Markets Competitiveness wrote in a 2010 letter to the Securities and Exchange Commission that "America's well-regulated, efficient, and transparent markets promote economic growth and prosperity while also maintaining the U.S. as the premier global financial center."[18]

That was not the attitude of the Chamber of Commerce or other business trade groups in 1934.

At that time, Chamber President Henry I. Harriman said the proposal to require publicly traded companies to register their securities with the Federal Trade Commission[19] would require a company to "sign away its constitutional rights to protect its property rights from being taken away from it without due process of law" and he predicted that the bill would

[18] David T. Hirschmann, president and CEO of Center for Capital Markets Competitiveness, letter to Elizabeth M. Murphy, secretary, U.S. Securities and Exchange Commission, April 21, 2010.
[19] The legislation ended up creating the Securities and Exchange Commission to regulate securities instead of assigning the function to the Federal Trade Commission, which was originally proposed.

lead to the federal commission actually choosing who served on businesses' boards of directors.[20]

The proposal represented an "impossible degree of regulation of the credit agencies and business enterprises of the country," the board of directors of the Chamber of Commerce wrote in a statement a week later.[21]

The Chamber's directors added that the 1934 Act "would produce even greater injury than the [1933 Act] in retarding or preventing the flow of securities into new and refunding issues, which are indispensible if employment is to be maintained and increased and the huge burden on the Treasury is to be relieved."[22]

> "[The SEC] bill, if passed by Congress, will not only destroy our security markets but will as a necessary consequence interrupt the flow of credit and capital into business."

The National Association of Manufacturers offered an equally gloomy forecast: "Taken together with the Securities Act of 1933, [the 1934 Act] will effectively bar the flow of capital into American business," National Association of Manufacturing Vice President George Houston, told the Senate banking committee in March.[23]

As with the 1933 Act, critics accused the 1934 Act of imposing untenable conditions on financial industry professionals.

The bill would "not provide for regulation but destruction," Edward Pierce, who ran one of the largest wire brokerage houses in the country, said in testimony to the House commerce committee. "It would help me by driving 85 percent of my competitors out of business, if I could manage to keep out of Atlanta or Leavenworth [prisons] myself."[24]

In addition to regulating publicly traded companies, the 1934 Act prevented investors from borrowing more than 55 percent of the value of equities they purchased. During the 1920s, investors frequently borrowed up to 90 percent of the value of their investments, creating a

[20] "Chamber Assails Exchange Control: Harriman Sees Fletcher Bill Subjecting Businesses to Rigid Regulation; Fears 'Extreme' Effects'," *The New York Times*, Feb. 26, 1934.
[21] "Exchange Control Held Deflationary: National Chamber Assails Bill As Forcing Liquidation of Bank Loans," *The New York Times*, March 5, 1934.
[22] *Ibid.*
[23] "Flays Stock Bill As Deflationary: Potter of Guaranty Trust Says It Imperils Press Freedom We Should Preserve," *The Wall Street Journal*, March 13, 1934.
[24] "Power to 'Destroy' In Stock Bill Hit: F.R. Hope Tells House Group That Exchange Curb Would 'Regiment' Corporations," *The New York Times*, Feb. 25, 1934.

vulnerability that worsened the impact of the stock market crash of 1929.[25] Predictably, Wall Street opposed these "margin" requirements, fearing that they would prompt investors to pull out of the market.

"I submit that no such rigid limitations should be placed upon the loans which may be made by banks," Wiliam C. Potter, chairman of the board of Guaranty Trust Co. of New York, testified to the Senate banking committee.[26] "Establishment of minimum margins is unfair and unnecessarily restrictive in principle," he said, warning that they would have a "harmful, deflationary effect."[27]

Perhaps nobody was more histrionic in his characterization of the proposed 1934 Securities Act than Richard Whitney, president of the New York Stock Exchange. Aside from predicting "banks, industry and all investors" would be harmed by margin requirements, he characterized the powers proposed for the the stock market regulatory agency as "so great that many of the functions of management are, in effect, transferred to an administrative department in the government." [28]

In a 1934 newsreel film, Whitney forecast: "There is no important aspect of the economic life of this country, whether it be agriculture, industry, banking or commerce, which will not be adversely affected by this bill. This bill, if passed by Congress, will not only destroy our security markets but will as a necessary consequence interrupt the flow of credit and capital into business."[29]

Whitney had reason to fear regulation and limitations on margin borrowing. In 1938, he was forced to declare bankruptcy after years of margin-financed investing caught up with him and he was convicted for embezzlement schemes. He was sentenced to 5-to-10 years in prison, and ended up serving two years in New York's Sing Sing penitentiary.[30]

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[25] The bill originally limited investors from borrowing no more than 55 percent of the value of the equities they purchased and granted the SEC authority to adjust the level. Since 1974, the figure has remained at 50 percent. See, *e.g.*, Bruce Bartlett, "Should the Fed Raise Margin Requirements," National Center for Policy Analysis, April 25, 2000 and " Margin: Borrowing Money To Pay for Stocks," Securities and Exchange Commission, available at www.sec.gov/investor/pubs/margin.htm.
[26] "Flays Stock Bill As Deflationary: Potter of Guaranty Trust Says It Imperils Press Freedom We Should Preserve," *The Wall Street Journal*, March 13, 1934.
[27] *Ibid.*
[28] Statement of Richard Whitney, President of the New York Stock Exchange, to a congressional committee, "In Regard to H.R. 1752, the Short Title of Which is 'The National Securities Exchange Act of 1934'," 1934. [Name of committee and date unavailable.] Provided by the Virtual Museum and Archive of the History of Financial Regulation. Available at www.sechistorical.org/museum/papers/1930/.
[29] Richard Whitney on Proposed Market Regulation, Fox Movietone News Film, February 1934. Provided by the Virtual Museum and Archive of the History of Financial Regulation. Available at http://www.sechistorical.org/museum/film-radio-television.
[30] James Bandler and Doris Burke, "70 years before Madoff, There Was Whitney," CNN, Dec. 16 2008.

The complaints over the financial reforms were a part of a chorus of business community arguments that the New Deal was ruining the United States' capitalist system, perhaps even by design.

Chamber of Commerce Vice President Philip J. Fay, for example, said in 1936 that nobody with "any practical acquaintance with business process" could look at the two securities acts and other new laws and regulations "and arrive at any verdict other than they cripple and retard business rather than help revive it. The fact is even so clear that it is hard to keep from wondering if such a result were not actually intended."[31]

Recent financial reforms said to amount to "summary execution" of corporations and "stalking horses for government intervention."

Much of the rhetoric aired over the two major financial reform laws instituted during the past decade, the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act of 2010, has echoed the alarmist language of the 1930s.

Sarbanes-Oxley—passed in the wake of accounting scandals accompanying the demise of Enron, WorldCom, Tyco, and other firms—enhanced the standards and accountability for public companies' financial disclosures.

The law requires chief executives and top financial officers of publicly traded companies to certify that they know of no untrue statements or material omissions in their financial statements, and that they have designed internal systems to ensure that they would be alerted of such problems. The requirement was similar to language in the 1933 Act concerning principals' responsibilities and liabilities when issuing new securities, only this provision covered public companies' ongoing financial reports.

> "[Sarbanes-Oxley would] hand American corporations back to the trial lawyers for summary execution."

The business community's reaction to the proposal was just as strong as it had been 70 years earlier. "If the CEO of a $50-billion corporation operating in 112 countries is required to sign a document saying he guarantees under penalty of law that all these numbers are correct, there's not a CEO in America that will sign it," Chamber of Commerce President Thomas J. Donohue said as the bill neared passage.[32]

[31] "Denounces Spread of Federal Power: Fay Declares Trade Groups Must Form Solid Front to Preserve Freedom," *The New York Times*, April 28, 1936.
[32] Thomas S. Mulligan, "The WorldCom Scandal: Reaction to Pitt's Proposal Is Mixed," *Los Angeles Times*, June 28, 2002.

Donohue predicted that the bill would "hand American corporations back to the trial lawyers for summary execution."[33]

In fact, prosecutions stemming from the certification clause in Sarbanes-Oxley have been rare, likely too rare. The onslaught of litigation that Donohue predicted has not occurred. The number of securities class action settlements in 2010 was the lowest in a decade. The annual dollar value of settlements has remained fairly constant since the law's passage, with the exception of the years in which settlements were reached against Enron, WorldCom, and Tyco, the companies that precipitated the reforms.[34]

By 2010, Donohue had revised his view. "Fair enough," Donohue said of the 16 regulations called for in Sarbanes-Oxley. "A lot of it was well worth doing."[35]

By then, Donohue had a new villain: the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. "When Dodd-Frank passed, it had something in the neighborhood of 300 mandatory regulations and 200 suggested regulations," Donohue said. "My grandchildren will be retiring before all that stuff gets done. That wasn't a regulation, that was stuff done in anger outside the normal lines of how you do business in the U.S. Congress."[36]

Dodd-Frank, passed in the wake of the 2008 financial meltdown, is the most comprehensive overhaul of financial sector regulation since the Great Depression. Among its many facets, the bill increases transparency (particularly in derivatives markets); creates a new Consumer Financial Protection Bureau to ensure that consumers receive straightforward information about financial products and to police abusive practices; improves corporate governance; increases capital requirements for banks; deters particularly large financial institutions from providing incentives for employees to take undue risks; and gives the government the ability to take failed investment institutions into receivership, similar to the FDIC's authority regarding commercial banks.

The Chamber weighed in heavily in an unsuccessful effort to derail the proposed Consumer Financial Protection Agency, which was ultimately included in Dodd-Frank[37] and is charged

[33] Gail Russell Chaddock, "Corporate Fraud Under Siege," *Christian Science Monitor*, July 11, 2002.
[34] Ellen M. Ryan and Laura E. Simmons, "Securities Class Action Settlements 2010 Review and Analysis," Cornerstone Research, 2010.
[35] " 'Regulatory Tsunami' Hurts Job Growth, U.S. Chamber Leader Says," *Des Moines Register*, Oct. 7, 2010.
[36] Tim Logan, "Chamber President Talks Jobs, Health Care: Pragmatist Sees Better Days Ahead," *St. Louis Post-Dispatch*, March 13, 2011
[37] It was renamed the Consumer Financial Protection Bureau.

with promoting "fairness and transparency for mortgages, credit cards, and other consumer financial products and services."[38]

Despite the proposed agency's stated purpose of overseeing financial services products, the Chamber portrayed it as a missile aimed straight at Main Street.

Corner butchers and bakers who let their customers "run a tab and pay the bill over time to help make ends meet" would be harmed, the Chamber warned, because "Washington wants to make it even tougher on everyone."[39]

> "If we have higher capital requirements than the rest of the world, now you are just putting the nail in the coffin."

If you were "a school, church or other non-profit that provides financial advice to low-income taxpayers," then "You guessed it!" a Chamber ad warned, you could be regulated by the CFPA.[40]

The CFPA, the Chamber said in an ad depicting a construction worker, would "cut access to credit for millions of small businesses, making it harder for growing companies to expand operations and hire new employees."[41] But the law only covers institutions that are primarily engaged in financial activities.

Others criticized the bill for forms of regulation it actually would undertake. New rules for pay day lenders and check cashers, and increased disclosure requirements for providers of financial products would reduce job creation in the United States by more than 4 percent because aspiring entrepreneurs would not be able to get the credit they need, a pair of law professors predicted.[42]

A proposal to increase the capital that banks must maintain to avoid a repeat of the meltdown of 2008 prompted JP Morgan CEO Jamie Dimon to predict, "If we have higher

[38] See U.S. Department of Treasury. Available at http://www.treasury.gov/initiatives/Pages/cfpb.aspx.
[39] Chamber ads, available at www.cfpbspotlight.com/wp-content/uploads/2009/09/Cake_large.jpg and http://www.cfpbspotlight.com/wp-content/uploads/2009/09/Butcher.pdf.
[40] Chamber ad. Available at http://www.uschamber.com/sites/default/files/chambers/files/smallbusinessandthecfpa.pdf.
[41] Chamber ad, available at http://www.cfpbspotlight.com/wp-content/uploads/2009/12/US_Chamber_CFPA_03.pdf
[42] Donald C. Evans, University of Chicago Law School and Joshua D. Wright, George Mason University School of Law, "The Effect Of The Consumer Financial Protection Agency Act Of 2009 On Consumer Credit," George Mason University Law and Economics Research Paper Series, January 2010.

capital requirements than the rest of the world, now you are just putting the nail in the coffin."[43]

Many forecast that the law would result in massive government intrusion in private sector affairs, much as Richard Whitney forecast for the Securities Act of 1934.

In a reprise of the Chamber's "corner butcher" fear mongering, a coalition of conservative and Tea Party groups wrote in a letter to Senate leaders that "Main Street non-financial businesses would be hit with taxation, regulation, and possible nationalization by the Federal Reserve."[44] Proposals to give shareholders a greater say in corporate governance would "empower union pension funds and other progressives by forcing companies to fund their Saul Alinsky-style campaigns for a company's board of directors." The coalition imagined that the directors would seek to make peace with the shareholders by, among other things, "kicking conservative media personalities off the air."[45]

Gregory Zerzan, a deputy assistant treasury secretary under George W. Bush, wrote that the proposals under discussion in Dodd-Frank were "stalking horses allowing government intervention into virtually every facet of the U.S. economy."[46]

> "Your Republic is over! … the America we have grown up in is gone."

In Zerzan's vision, the government would categorize just about any major company as a "financial" business for the purpose of taxing it to raise money to pay for future "bailouts of failed financial services firms." Thus an airplane manufacturer that "holds customer down payments for future delivery" would be forced to pay for the losses of investment firms that crash and burn. But airplane manufacturers have little to fear. The law defined financial institutions as those that derive more than 85 percent of their revenue or assets from financial activities.[47]

The law would "push the government into the business of dictating the terms at which consumers and businesses can contract," wrote Mark A. Calabria, director of financial regulation studies at the Cato Institute.[48] "This has nothing to do with protecting

[43] Jamie Dimon Bashes Financial Regulation," *The Wall Street Journal*, March 30, 2011.
[44] Conservatives groups' coalition letter to Sen. Harry Reid (D-Nev.) and Mitch McConnell (R-Ky.), April 24, 2010.
[45] " 'Grave Concerns' Persist on Stalled Senate Financial Reg Bill," CEI, April 28, 2010.
[46] Gregory Zerzan, "Will Walmart Pay For The Next Bailout? The Dodd Bill Would Regulate And Tax Plenty Of Non-Banks," *The Wall Street Journal*, May 23, 2010.
[47] Dodd-Frank Wall Street Reform and Consumer Protection Act, Title I, Financial Stabilities, Section 102, Definitions.
[48] "Dodd's Job Killer," Mark A. Calabria, Cato Institute. Published April 20, 2010, in the *New York Post*. Available on Cato site at http://www.cato.org/pub_display.php?pub_id=11707.

> [It is] time to stop crying 'wolf.'
>
> *–President Franklin D. Roosevelt to U.S. Chamber of Commerce, May 1934*

consumers and everything to do with replacing consumer preferences with bureaucrats' choices."

Although most of the above regards predictions offered before the bill was passed, the ominous forecasts and hot rhetoric have continued since passage.

A study commissioned by the U.S. Chamber of Commerce, Business Roundtable, derivatives advisor Chatham Financial and the National Association of Corporate Treasurers concluded the greater capital and margin requirements for derivatives trading would result in the elimination of 100,000 to 130,000 jobs.[49] But the study did not acknowledge the role of derivatives—which legendary investor Warren Buffett in 2002 labeled "financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal"[50]—for causing the financial meltdown, which has resulted in the loss of about seven million jobs.

And the law's passage prompted television commentator Glenn Beck to hurl the 2,300-page bill the camera and declare: "Your Republic is over! … the America we have grown up in is gone … America, you have no idea what you're facing."[51]

Conclusion

In May 1934, a month before the 1934 Securities Act was passed, President Franklin D. Roosevelt told the Chamber of Commerce that it was "time to stop crying wolf" and holding out "false fears" about the government's efforts to move the country toward recovery.[52]

If history is a guide, the forecasts of doom surrounding Dodd-Frank soon will sound as absurd in retrospect as industry's rants over the New Deal reforms do now.

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[49] "An Analysis of the Coalition for Derivatives End-Users' Survey on Over-the-Counter Derivatives Prepared For: Coalition for Derivatives End-Users," Keybridge Research, February 11, 2011.
[50] Berkshire Hathaway Inc. 2002 Annual Report, 2002, p. 19
[51] Glenn Beck broadcast on July 22, 2010. Available at http://www.therightscoop.com/glenn-becks-epic-monologue-on-the-financial-reform-bill/. Cited portion starting at 11:30.
[52] " 'Time to Stop Crying Wolf,' Roosevelt Tells Chamber; Asks Cooperation Instead: 'False Fears' Are Decried," *The New York Times*, May 4, 1934.