

Op-Ed Columnist

Friends of Fraud

By PAUL KRUGMAN

Published: February 3, 2013

Like many advocates of financial reform, I was a bit disappointed in the bill that finally emerged. Dodd-Frank gave regulators the power to rein in many financial excesses; but it was and is less clear that future regulators will use that power. As history shows, the financial industry's wealth and influence can all too easily turn those who are supposed to serve as watchdogs into lap dogs instead. There was, however, one piece of the reform that was a shining example of how to do it right: the creation of a Consumer Financial Protection Bureau, a stand-alone agency with its own funding, charged with protecting consumers against financial fraud and abuse. And sure enough, Senate Republicans are going all out in an attempt to kill that bureau.

Why is consumer financial protection necessary? Because fraud and abuse happen.

Don't say that educated and informed consumers can take care of themselves. For one thing, not all consumers are educated and informed. Edward Gramlich, the Federal Reserve official who warned in vain about the dangers of subprime, famously asked, "Why are the most risky loan products sold to the least sophisticated borrowers?" He went on, "The question answers itself — the least sophisticated borrowers are probably duped into taking these products."

And even well-educated adults can have a hard time understanding the risks and payoffs associated with financial deals — a fact of which shady operators are all too aware. To take an area in which the bureau has already done excellent work, how many of us know what's actually in our credit-card contracts?

Now, you might be tempted to say that while we need protection against financial fraud, there's no need to create another bureaucracy. Why not leave it up to the regulators we already have? The answer is that existing regulatory agencies are basically concerned with bolstering the banks; as a practical, cultural matter they will always put consumer protection on the back burner — just as they did when they ignored Mr. Gramlich's warnings about subprime.

So the consumer protection bureau serves a vital function. But as I said, Senate Republicans are trying to kill it.

How can they do that, when the reform is already law and Democrats hold a Senate majority? Here as elsewhere, they're turning to extortion — threatening to filibuster the appointment of Richard Cordray, the bureau's acting head, and thereby leave the bureau unable to function. Mr. Cordray, whose work has drawn praise even from the bankers, is clearly not the issue. Instead, it's an open attempt to use raw obstructionism to overturn the law.

What Republicans are demanding, basically, is that the protection bureau lose its independence.

They want its actions subjected to a veto by other, bank-centered financial regulators, ensuring that consumers will once again be neglected, and they also want to take away its guaranteed funding, opening it to interest-group pressure. These changes would make the agency more or less worthless — but that, of course, is the point.

How can the G.O.P. be so determined to make America safe for financial fraud, with the 2008 crisis still so fresh in our memory? In part it's because Republicans are deep in denial about what actually happened to our financial system and economy. On the right, it's now complete orthodoxy that do-gooder liberals, especially former Representative Barney Frank, somehow caused the financial disaster by forcing helpless bankers to lend to Those People.

In reality, this is a nonsense story that has been extensively refuted; I've always been struck in particular by the notion that a Congressional Democrat, holding office at a time when Republicans ruled the House with an iron fist, somehow had the mystical power to distort our whole banking system. But it's a story conservatives much prefer to the awkward reality that their faith in the perfection of free markets was proved false.

And as always, you should follow the money. Historically, the financial sector has given a lot of money to both parties, with only a modest Republican lean. In the last election, however, it went all in for Republicans, giving them more than twice as much as it gave to Democrats (and favoring Mitt Romney over the president almost three to one). All this money wasn't enough to buy an election — but it was, arguably, enough to buy a major political party.

Right now, all the media focus is on the obvious hot issues — immigration, guns, the sequester, and so on. But let's try not to let this one fall through the cracks: just four years after runaway bankers brought the world economy to its knees, Senate Republicans are using every means at their disposal, violating all the usual norms of politics in the process, in an attempt to give the bankers a chance to do it all over again.

A version of this op-ed appeared in print on February 4, 2013, on page A19 of the New York edition with the headline: Friends Of Fraud.