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Obama plan is less sweeping than FDR's
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Three quarters of a century ago, President Franklin Roosevelt earned the undying enmity of Wall Street when he used his enormous popularity to push through a series of radical regulatory reforms that completely changed the norms of the financial industry.

On Wednesday, President Barack Obama tried to follow in Roosevelt's footsteps, introducing new reforms as the nation recovers from the greatest financial crisis since the Depression.

"A culture of irresponsibility took root from Wall Street to Washington to Main Street," Obama said in a speech to industry executives and senior officials in the East Room of the White House. "A regulatory regime basically crafted in the wake of a 20th-century economic crisis — the Great Depression — was overwhelmed by the speed, scope and sophistication of a 21st-century global economy."

Obama introduced what he described as "a sweeping overhaul of the financial regulatory system, a transformation on a scale not seen since the reforms that followed the Great Depression."

In terms of the sheer number of proposals, outlined in an 88-page document, that is undoubtedly true. On the surface, there was no area of the financial industry the plan didn't touch.

"I was impressed by the real estate it covered," said Daniel Alpert, the managing partner of Westwood Capital.

The president's proposal addresses derivatives, mortgages, capital and even, in the wake of the American International Group fiasco, insurance companies. Among other things, it would give new regulatory powers to the Federal Reserve, establish a new agency to help protect consumers of financial products, and make derivatives trading more transparent.

It would give the government the power to take over large bank holding companies or troubled investment banks and would force banks to hold on to some of the mortgage-backed securities they produce and sell to investors.

"It really represents a comprehensive and pragmatic approach to reforming our regulatory system," SEC Chairman Mary Schapiro said. "It really does a lot to address things we're most concerned about."

But in terms of the scope and breadth of the Obama plan — and its overall effect on Wall Street's modus operandi — it's not even close to what Roosevelt accomplished.

The regulatory structure erected by Roosevelt in the Great Depression — including the establishment of the Securities and Exchange Commission, the establishment of serious banking oversight, the guaranteeing of bank deposits and the passage of the Glass-Steagall Act, which separated banking from investment banking — lasted six decades before it started to crumble in the 1990s.

The Obama plan appears to be little more than an attempt to stick some new regulatory fingers into a very leaky financial dam rather than rebuild the dam itself.

Take, for instance, the handful of banks that are "too big to fail" — which, in some cases, the government has had to spend tens of billions of dollars propping up. In a recent speech in China, the former Federal Reserve chairman — and current Obama adviser — Paul Volcker called on the government to limit the functions of any financial institution, such as the big banks, that will always be reliant on the taxpayer should they get into trouble.

Many experts, even at the Federal Reserve, think that the country should not allow banks to become too big to fail. Some of them suggest specific economic disincentives to prevent growing too big and requirements that would break them up before reaching that point.

Yet the Obama plan accepts the notion of "too big to fail" — in the plan, those institutions are labeled "Tier 1 Financial Holding Companies" — and proposes to regulate them more "robustly."

Or take derivatives. The Obama plan calls for "plain vanilla" derivatives to be traded on an exchange. But standard derivatives are not what caused so much trouble for the world's financial system. Rather it was the so-called bespoke derivatives — customized, one-of-a-kind products that generated enormous profits for institutions such as AIG that produced them, and, in the end, generated enormous damage to the financial system. For these derivatives, the Treasury Department merely wants to set up a clearinghouse so their price and trading activity can be more readily seen. But it doesn't attempt to diminish the use of these "bespoke" derivatives.

"Derivatives should have to trade on an exchange in order to have lower capital requirements," said Ari Bergmann, a managing principal with Penso Capital Markets. Bergmann also thinks that another way to restrict the bespoke derivatives would be to strip them of their exemption from the anti-gambling statutes. In a recent article in The Financial Times, George Soros, the financier, wrote that "regulators ought to insist that derivatives be homogeneous, standardized and transparent."

Under the Obama plan, however, customized derivatives will remain an important part of the financial system. Some of the reason behind this more moderate approach lies in the fact that the plan has to make it through Congress.

Administration officials said that much of the proposal would not require congressional action and would be adopted by regulators. But no sooner had Obama proposed the new regulatory road map than a senior lawmaker expressed reservations about one of the plan's central elements — to broadly expand the reach of the Federal Reserve to regulate financial risk across the entire system.

Sen. Christopher Dodd, D-Conn., the chairman of the Senate Banking Committee, said the central bank's failure to be a tough-minded regulator over the last decade — critics argue the Fed failed to crack down on dubious mortgage practices — had left him and other lawmakers without "a lot of confidence in the Fed at this point."