Another Dodd-Frank Triumph

Did we mention its new source of systemic risk?

Only seven months too late, official Washington is starting to acknowledge flaws in the architecture of the Dodd-Frank law passed last July. Yesterday, for example, Federal Reserve Governor Daniel Tarullo admitted in testimony to the House Committee on Financial Services that by forcing much of the derivatives market through central counterparties, the government would now be creating new too-big-to-fail institutions and new potential sources of systemic financial risk.

Somehow this wasn't one of President Obama's talking points last year, but yesterday Mr. Tarullo said the government would have to watch these new entities very closely: "This heightened oversight is important because financial market utilities such as central counterparties concentrate risk and thus have the potential to transmit shocks throughout the financial markets." Oh, and because these "utilities" are backed by the government, taxpayers will end up paying if they fail.

The Fed Governor added that the Federal Reserve Board "also was given new authority to provide emergency collateralized liquidity in unusual and exigent circumstances to systemically important financial market utilities. We are carefully considering ways to implement this provision in a manner that protects taxpayers and limits any rise in moral hazard."

Translation from bailout-speak: The regulators are now trying to figure out how to reduce the impact on taxpayers from the very moral hazard that financial reform was supposed to prevent. Instead of reducing systemic risk, Dodd-Frank has created more institutions whose failure would create it.

Like ObamaCare, Dodd-Frank was rushed through by Democrats before the curtain came down on their one-party control of Washington. Also like health care, we are now finding out what they really passed and its very costly consequences.