

ABSTRACT

The Honorable Richard D. Cudahy

The Coming Demise of Deregulation II

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Abstract by Kyle Ingram

With the country deep within the financial crisis at present, it is clear that the era of deregulation is over. While the public clamors for regulation, however, it is not apparent what additional regulation of credit markets would accomplish. Two factors seem to influence public opinion on regulation: whether the regulation in question has been recently invoked in response to a crisis or an ongoing depression, or both, and how it is thought to have performed in restraining the crisis or depression. Regulation prior to the current crisis likely would have pressed lenders in the direction of liberalizing credit markets and likely would not have forestalled the present crisis. The securitization of mortgages and credit default swaps, which were securitized into collateralized debt obligations (CDOs) and synthetic CDOs, respectively, had a similar destabilizing effect by creating unknown and unmeasured risk, a dangerous and unacceptable condition. Despite these risks, only increased transparency would offer an alternative that would be unambiguously better than the current system. There are no compelling reasons to believe that this situation should reawaken interest in reregulating formerly regulated industries, instead, increased regulation will be focused on the previously unregulated or under-regulated financial sectors. While the forces of reregulation are gaining strength, laissez-faire economics will likely become attractive again soon.