Treasury Reorganization: Recession Response or Red Herring?

On March 31st, the Treasury Department announced a new plan to help the troubled financial sector weather the sub-prime mortgage storm. This new system replaces some agencies while redrawing the jurisdictions of existing authorities like the Securities and Exchange Commission and the Federal Reserve. In particular, the Fed's role in averting future crises is greatly expanded, a decision that is in keeping with the recent sea change in America's monetary policy. But can the Fed keep up with its new responsibility? The main difficulty in predicting future financial crises is that, as evidenced by Bear Stearns' epic fall, they can come with less warning than one would like. The Federal Reserve, with 24 hours notice, brokered the boiler-room deal that changed the course of the financial market for the first time since the Great Depression. Therefore, they must plot their course through uncharted waters with more weight on their shoulders during an election year. Conventional wisdom suggests that streamlined regulations will make American markets more competitive globally, but different motives may underly Henry Paulson's brainchild coming to fruition. The consolidation of the various regulatory bodies has been a long time coming, with many created to deal with specific financial incidents and left afterwards to languish in a morass of bureaucracy for decades. While re-regulation may not help address current market instability, its effects in the future are sure to be more far-reaching if the proposed plan doesn't get killed in committee somewhere down the line. As the election looms large across the political landscape, Presidential candidates have seized on the opportunity to discredit financial overseers and large investment banks, yet their calls for more change may fall on deaf ears for the time being. As regular Americans continue to feel the pinch of economic hardship and rising commodity prices, an announcement of departmental shakedowns is a wonderful excuse to divert attention away from other important changes that are taking effect now. With lowering mortgage interest rates not as effective as it was in the past Bernanke has already been repeatedly questioned in hearings before Congress about what else the Federal Reserve can do to bail out troubled investment banks and a middle class reeling from foreclosures and recession. While his advice was limited to generalities about the need to slow foreclosure rates and help offer new mortgages, what he didn't say spoke louder than his words: That the present financial crisis is so entangled that they don't even know what to recommend. Since the first clues of the credit crisis in August of last year the Fed has taken bold strides towards mitigating the credit crunch through injecting billions of dollars into the economy and reducing interest rates to their lowest levels since the dot-com bust of 2001. Now that they have been legitimized by their counterpart, the Bernanke Fed has some tough times ahead. One can only hope that they will be able to keep the economy stable but maintain the accountability that defines it. Otherwise we may be looking a a different model for government intervention that will shape America's domestic and foreign policy for years to come.

About the Author

Ki helps buyers interested in Austin real estate http://www.escapesomewhere.com his website has a free search of the Austin MLS http://www.escapesomewhere.com/realestate_searchthemls.html along with updates on his Austin real estate blog http://www.escapesomewhere.com/austinblog/