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Embracing opportunity in financial reform

FRONTLINES

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President Obama recently signed the Dodd-Frank financial reform bill into law — the most sweeping financial reform since the Great Depression. Now, the real work begins: One law firm estimated that implementation will require no fewer than 243 new formal rule-makings by 11 different federal agencies. Many in business have decried the legislation as the demise of capitalism itself.

History suggests otherwise.

After the Great Depression, business lobbied against reforms. New York Stock Exchange President Richard Whitney called the exchange "a perfect institution."

To be blunt, Whitney was wrong. Unprecedented innovation and enviable wealth creation followed the Depression. As chronicled in Larry Samuel's book, "Rich: The Rise and Fall of American Wealth Culture," in 1933 there were only 46 Americans earning $1 million or more. Soon, however, the "new economy" of radio broadcasting, and later television, began to generate huge fortunes. The same kind of innovation and new business opportunity is present today.

After the Great Depression, the besieged accounting industry was accused of shoddy standards and abetting fraud. Rather than shrink from view, however, the industry responded by forming the American Institute of CPAs and developing Generally Accepted Accounting Principles. Result? The industry emerged as a more legitimate, necessary and institutionalized force in American business. Good for accountants; good for the country.

Applying this to beleaguered industries today, such as asset management and housing, the lesson is clear. If reform is inevitable, why not "own" the issues and control the debate? For the intrepid and visionary, watershed moments present unique leadership opportunities. Is it outrageous to think that a core group of leaders in the financial services industry could galvanize support for voluntary adoption of disclosure standards called for in Dodd-Frank? Imagine the public support that would result.

The business leaders who see this opportunity are also recognizing that, details of financial reform aside, we are talking about the restoration of trust. William McNabb, chairman and CEO of The Vanguard Group, gets this point. Vanguard has explicitly acknowledged that trust has been breached with the investing public, provided a clear statement of the company's thoughts on financial reform and presented a new vision based on simplicity, transparency and candor. Good for investors; good for Vanguard.

While not tied to the financial crisis, the CEOs of Exxon Mobil, Shell, Chevron and ConocoPhillips also demonstrated what it means to snatch victory from the jaws of legislation. The four companies recently announced they would each contribute $250 million to a $1 billion fund for rapid response to deepwater oil spills. They did not wait to be told to do so. They opened their eyes, assessed the industry landscape and took action.

As reform settles in, other corporate leaders have the same opportunity. The idea that government has emasculated industry represents nothing more than a naysayer's lack of initiative. To quote Aerosmith, their "get up and go must have got up and went."

In the coming weeks and months, as the broad strokes of financial reform come into clearer focus, there will be those who look for loopholes in the fine print. But there also will be those enterprising leaders who learn from history, recognize the big picture and make the most of this unique moment in history.

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