Insight

4 Years Later: Broken Promises of the Dodd-Frank Act

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Next week marks the four year anniversary of President Obama signing the Dodd-Frank Act into law. The president and supporters of the law have made many promises about the results that Americans can expect from implementation. But, has the law delivered on these promises?

To commemorate the four year anniversary, we have 5 broken promises of the Dodd-Frank Act.

Broken Promise #1: "We Will Not Simply Layer New Rules On Top Of Old, Outdated Ones."

The need to streamline regulation of the financial services industry is self-evident. Over the course of several decades, Washington simply piled on new regulations on top of old regulations. Despite then-Secretary Geithner's promise that "We will not simply layer new rules on top of old, outdated ones," the Dodd-Frank Act added 400 new regulations without eliminating existing ones. The wait continues….

Broken Promise #2: Financial Reform to Address the Causes of the Crisis. ??

Dodd-Frank was supposed to address the causes of the financial crisis. Fannie Mae and Freddie Mac, the two Government-Sponsored Enterprises (GSEs), were at the core of the bursting of the housing bubble the fueled the financial crisis. Yet, the Dodd-Frank Act left them untouched, even though Fannie and Freddie received a taxpayer bailout to the tune of $170 billion. Progressives excluded any reform for the GSEs, protecting failed institutions and missing a real opportunity to address a cause of the crisis and protect taxpayers.

When asked by reporters why GSE reform was not included in Dodd-Frank, the supporters claimed Fannie and Freddie were "too complicated" to reform.

Putting aside whether GSE reform is "complicated," the truth is that the American public overwhelmingly supports winding them down.

And, today, we still wait on reforms to Fannie and Freddie.

Broken Promise #3: Coordination among Financial Regulators to Identify Systemic Risk

The financial crisis exposed the lack of coordination among financial regulators. In an attempt to fix this, Dodd-Frank created the Financial Stability Oversight Council to facilitate coordination and to identify systemic risks to the economy. In practice, however, coordination appears to be lacking. Recently, the FSOC has been examining the asset management industry to determine whether the industry should be designated as "systemically important." However, the FSOC has done very little to consult with the primary regulator with expertise on the industry: the SEC. Commissioners of the SEC have complained about being left out of the decision making process, the FSOC's lack of expertise on the industry, threats posed to the SEC and other agencies

, failure to consult with appropriate regulators, and the ability of FSOC to undermine regulation of the industry. Even Barney Frank agreed that the FSOC's potential designation of asset managers as "systemically important" runs counter to the intent of Dodd-Frank.

Broken Promise #4: "We must create a sound foundation to grow the economy and create jobs"

The economic recovery has been weak. The U.S. has experienced sustained high unemployment, record long-term unemployment for American workers, sluggish job creation, and stagnant wages. The Dodd-Frank Act prescribed 400 new regulations, many of which impact small businesses and community banks alongside national banks. These new regulations increase the cost of doing business, have in practice led capital to sit on the sidelines, and contributed to delay of hiring and expansion plans. The Congressional Budget Office estimated that Dodd-Frank will remove $27 billion from the economy. That is $27 billion that could be spent on productive uses such as hiring more workers, investing to build new facilities, etc.

Even Barney Frank has acknowledged that Dodd-Frank will actually cost jobs.

Broken Promise #5: Mitigating Risk In The Financial System

The Dodd-Frank conference committee was held over the span of two weeks and many of the provisions were added without a thorough review of the consequences. Within days of the President signing the bill into law, many unintended consequences arose. One of the immediate consequences was the freezing of the asset-backed securitization market. This forced the SEC to step in and provide clarifying guidance.

In regulating derivatives, Democrats and Republicans alike have recognized that the swaps provisions in the law "weaken both financial stability and strong prudential regulation of derivative activities," as former Federal Reserve Chairman Ben Bernanke claimed.

And, some Democrats acknowledge that bank standards for insurance companies could make the "financial system riskier, not safer."