Criticisms of the Dodd-Frank Wall Street Reform and Consumer Protection Act

By U.S. Representative Mia Love

President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law on July 21, 2010. The bill brought significant changes to financial regulation in the United States, after the stock market crisis just a few years earlier. Those changes were among the most significant since Congress responded to the Great Depression in the 1930s. But reform under Dodd-Frank has not worked as planned or promised.

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I ran for Congress because I wanted to help solve problems. A country as big and complex as the United States has many challenges on many fronts. Addressing those challenges not only strengthens our nation as a whole, but helps improve the lives of individual Americans and their families. That is why I was attracted to a career in public policy.

What I have learned since becoming a member of Congress is that effective public policymaking is more challenging than I anticipated. And that is because the policy responses that seem to make all the sense in the world not only often complicate what you are trying to achieve, but can produce circumstances that are exactly the opposite of what was intended. Let me give you a specific example: the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Dodd-Frank was intended to corral the risks associated with our nation's largest banks. Its two fundamental objectives were to end the corrupt and profoundly unfair notion of "too big to fail" and to prevent another financial crisis like the one that began in 2008 from happening again.

Dodd-Frank has not achieved either objective, despite hundreds and hundreds of pages of legislative language and thousands of pages of implementing regulations. Rather than ending "too big to fail," Dodd-Frank has ensured that big banks can count on being treated differently. The Act designates banks with total assets of $50 billion or greater as "systemically important"—with special oversight by the Federal Reserve. Dodd-Frank also established a special procedure for handling the future failure of large banks called "orderly liquidation"—a discretionary procedure that envisions the rescue and relaunching of surviving entities deemed viable by regulators. By any objective standard of fairness, large banks that fail should be put through bankruptcy, rather than bailed out by taxpayers.

Meanwhile, America's small banks—the ones millions of American businesses and households rely on for credit and financial services—have been hammered by Dodd-Frank and its avalanche of regulation. In a desperate attempt to survive, many small banks are merging (i.e., getting bigger). So ironically, by increasing their regulatory burden, Dodd-Frank applies strong pressure on small banks to get bigger.

As for improving the safety and stability of the financial system to ensure that we don't go through another crisis, Dodd-Frank 's benefits are very questionable. For example, there is evidence that the Act's Volcker Rule, which bans proprietary trading by banks, has dramatically reduced the liquidity of corporate bond and other fixed-income markets, with the effect of increasing market instability and volatility...leaving financial markets more vulnerable to a future crisis. The Volcker Rule also places a heavy compliance burden on small banks, which is why I have introduced legislation to eliminate this burden on community banks with less than $10 billion in assets.

So by any standard, Dodd-Frank has missed the mark of smart and effective regulation: big banks are bigger and enjoy special treatment; small banks are disappearing at a record pace; and our financial system is more vulnerable and less resilient.

Americans have just come through the worst financial crisis in 80 years, costing many people their savings, their homes, and their jobs. I believe we can fix the problem without expanding government and its footprint in our lives. We can find smarter ways to protect the American people from the next crisis.