The Impact of the Dodd-Frank Act on Financial Stability and Economic Growth

Draws from work by Bipartisan Policy Center's Financial Regulatory Reform Initiative

Including forthcoming paper by Martin Neil Baily, Aaron Klein and Justin Schardin

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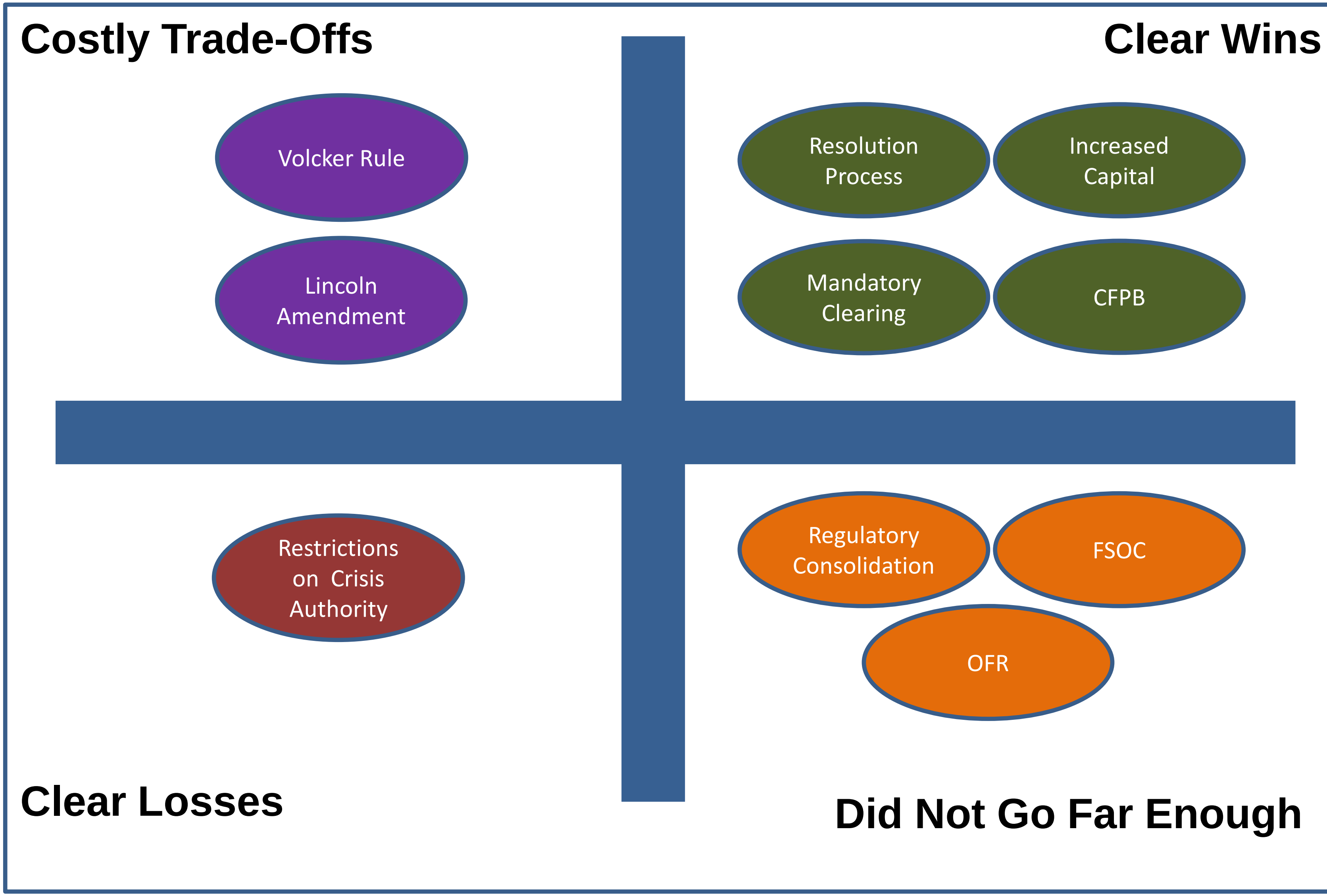
A framework for assessing Dodd-Frank

The goal of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was to **increase financial stability** to ensure that there would never be a repeat of the crisis of 2007-2009.

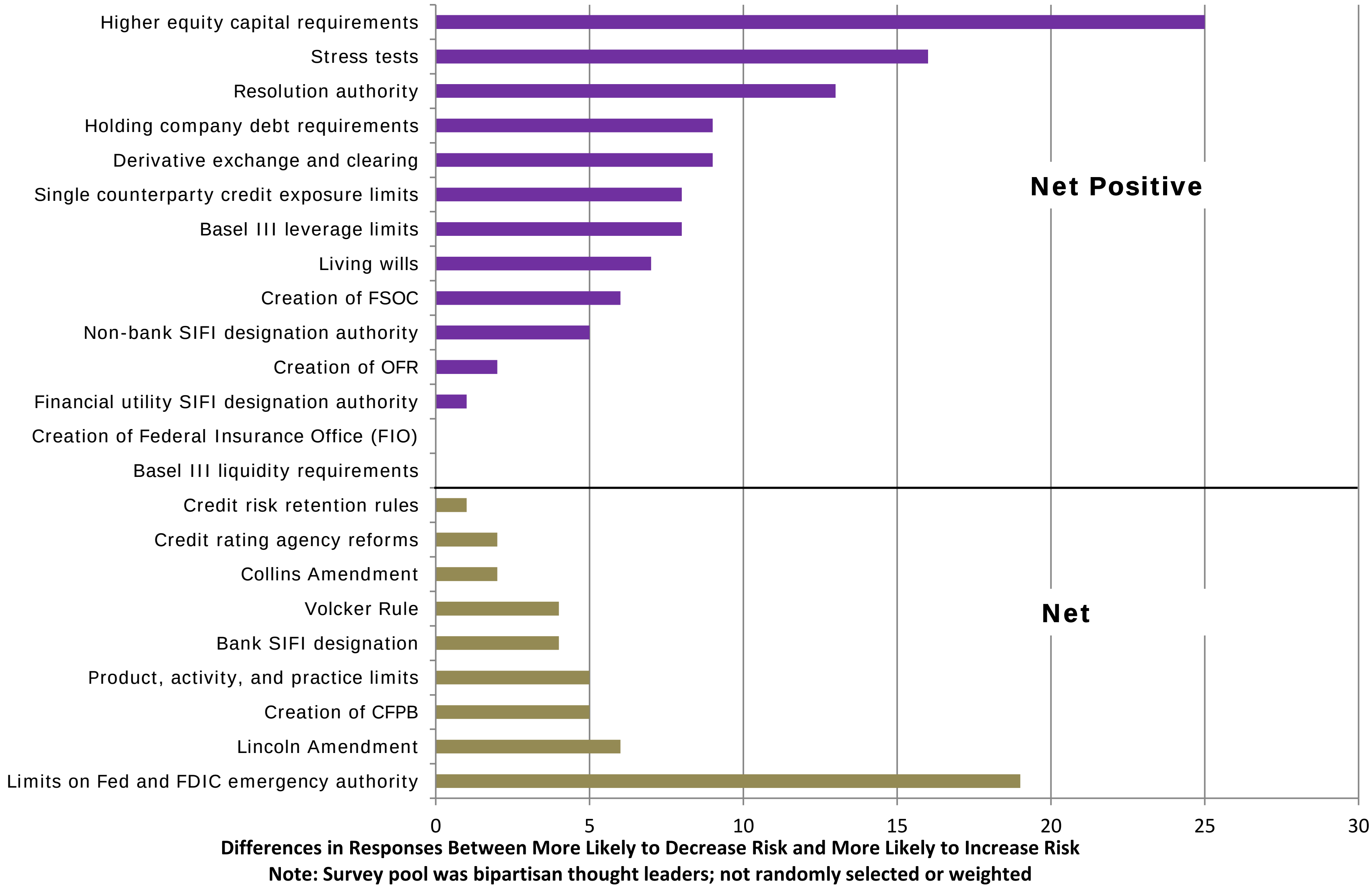
We divide Dodd-Frank's provisions into five sets, those that have:

- Improved stability with positive impacts on both efficiency and economic growth or with strong impacts on stability with minimal impact on economic growth (**clear wins**)
- Decreased financial stability without benefitting economic growth (**clear losses**)
- Achieved little increase in stability at considerable cost to efficiency and economic growth (**costly trade-offs**)
- Failed to adequately address a problem (**unfinished business**)
- Created an uncertain trade-off between financial stability and economic growth (**too soon to tell**)



Too Soon To Tell: Insurance Regulation

Validity Check:
BPC Survey of Thought Leaders on Dodd-Frank Policies to Affect Systemic Risk



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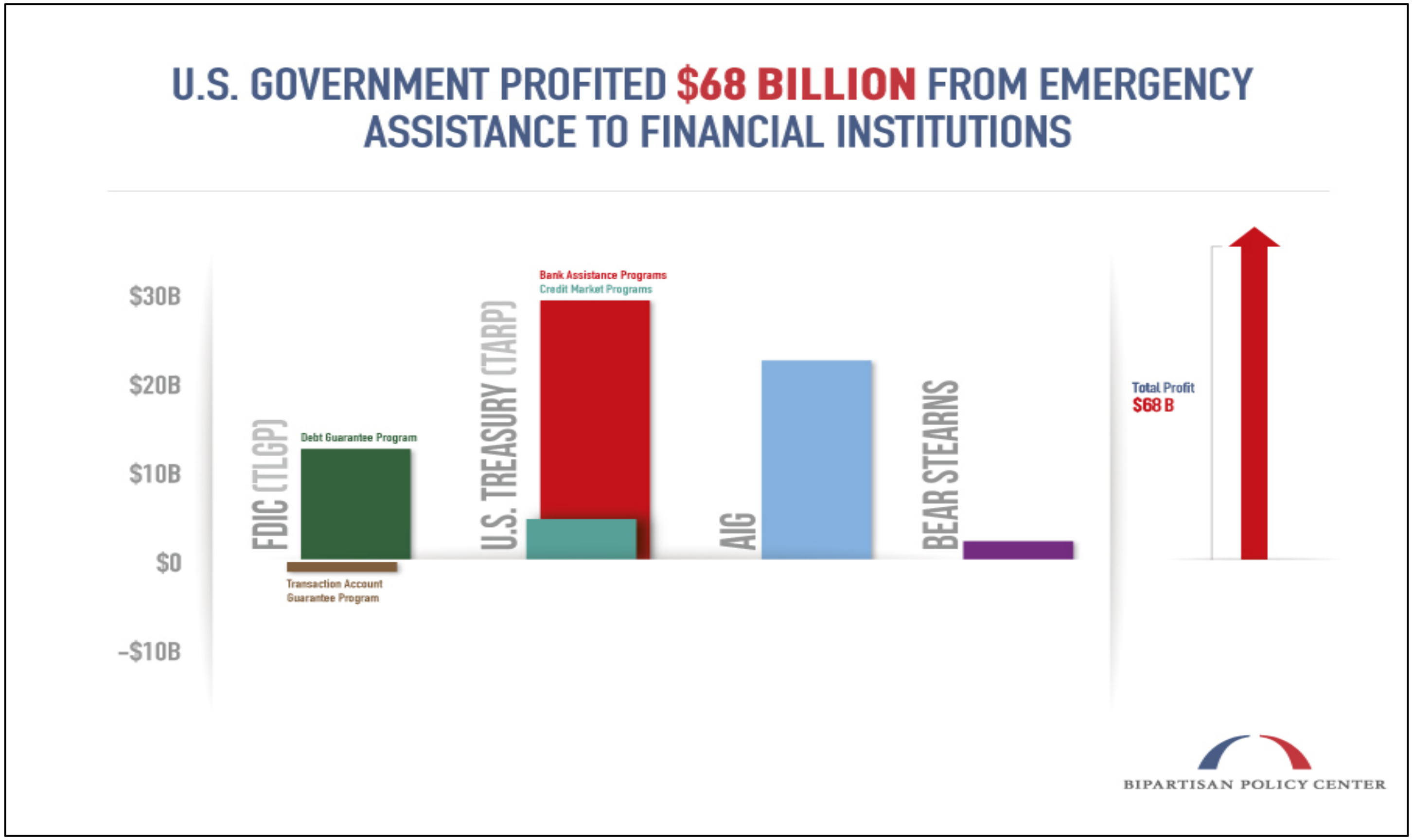
Clear losses: Restrictions on Fed and FDIC crisis authority

The Fed stabilized multiple markets and prevented financial contagion. The FDIC guaranteed newly-issued bank debt.



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Conclusions

The financial sector is much safer today

Increased capital requirements and stronger regulation and supervision has created a much safer financial sector.

There is a clear path to ending TBTF

The single point of entry strategy has been a breakthrough. It still requires further implementation and progress on cross-border resolution.

Economic growth is a vital priority

The regulatory system should be efficient and not inhibit lending to households and businesses provided risks are being priced and managed correctly. Regulators and supervisors should make sure bank staffs are doing their jobs but should not try to take over those jobs.