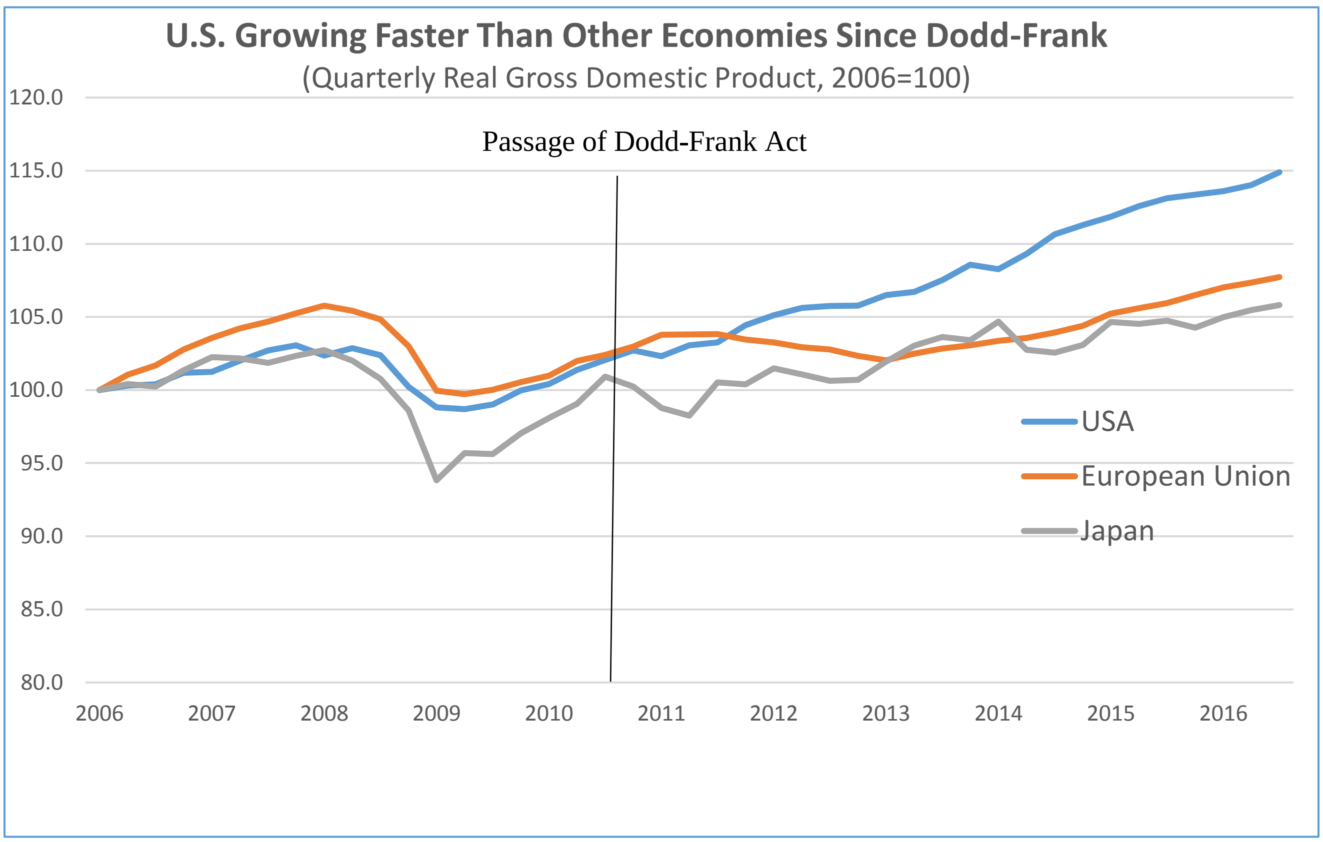
AFR Americans for Financial Reform

The U.S. Economy Is Growing Faster Since Dodd-Frank Was Passed

In recent years bank lobbyists have started to blame Wall Street regulatory reforms such as those passed in the Dodd-Frank Act for slow economic growth. But the claim that better financial oversight is responsible for a poor economic recovery has no foundation. It ignores not only the devastating economic costs of the financial crisis itself, but key facts about the performance of the U.S. economy and the profitability of the financial sector since Dodd-Frank passed.

Since The Passage of the Dodd-Frank Act, The U.S. Has Grown More Than Twice as Fast As Other Advanced Economies

Since the Dodd-Frank Act was passed in the third quarter of 2010, the U.S. economy has grown by 12.6 percent. In contrast, the Euro Area economy has grown by just 5.4 percent and the Japanese economy has grown by 4.9 percent.[1] As the chart below shows, this growth gap has only been increasing as more of the Dodd-Frank Act is implemented.



The growth gap has emerged even though the U.S. has passed stronger financial regulatory reforms than those passed in either the Euro Area or Japan, and U.S. regulators have consistently exceeded the international regulatory minimums set forth by the Basel Committee. Reforms in the Euro Area have been so weak that the European banking system is teetering on the brink of another financial crisis, an outcome that tougher U.S. regulations have helped to avoid.[2]

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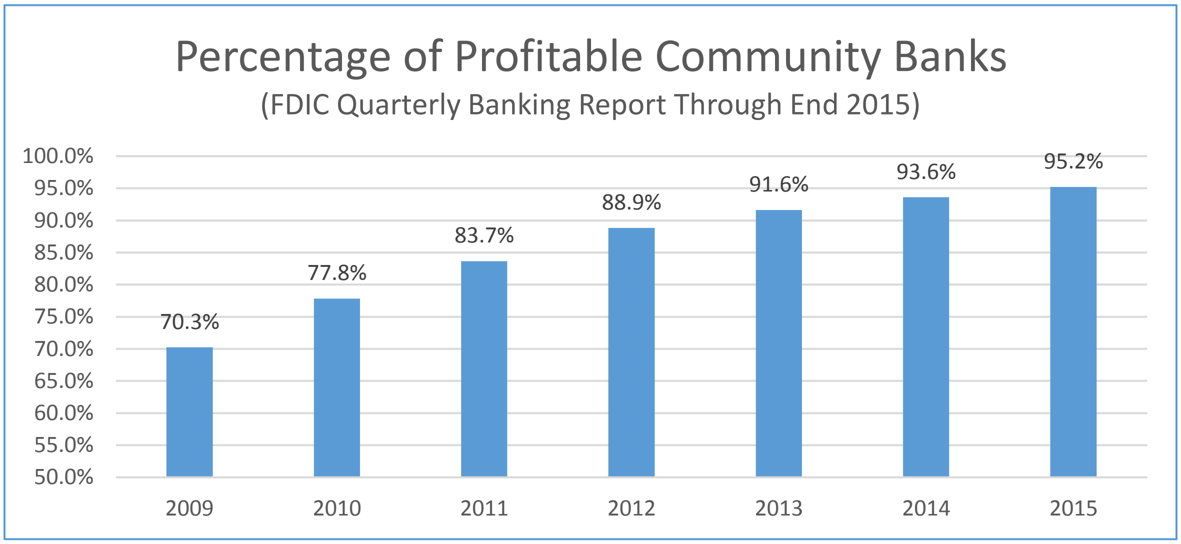
The U.S. recovery has certainly not been fast enough. But the major reason for this is the financial crisis itself. Numerous non-partisan sources have estimated that the cost of the crisis exceeded $10 trillion in lost economic output, and extensive research demonstrates that economic recoveries after major financial crises tend to be unusually slow.[3] Given that the U.S. has been growing much faster than other countries with weaker regulatory responses to the crisis, blaming a shortfall in growth on the Dodd-Frank Act is seriously misleading.

The Financial Sector Continues to Be Highly Profitable Under Dodd-Frank

Theories that Dodd-Frank is harming the economy pivot around the claim that new regulations have burdened the financial sector excessively. But over the five full years since the Dodd-Frank Act passed, the financial sector has averaged $375 billion in annual total profits.[4] While this profit level is slightly lower than the profit level in the peak boom years immediately prior to the financial crisis (2004-2006), it remains higher than inflation-adjusted financial sector profits for any other year since WWII. Financial sector profits remain at near-record levels.

Of particular interest, the community banking sector has returned to profitability under Dodd-Frank. When Dodd-Frank passed in 2010, less than 78% of community banks were profitable. By year end 2015 over 95% of community banks were profitable.



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[1] Based on real, inflation adjusted GDP growth through the third quarter of 2016. Euro area GDP (19 countries) sourced from St. Louis Federal Reserve and available at https://fred.stlouisfed.org/series/CLVMEURSCAB1GQEA19. U.S. GDP sourced from St. Louis Federal Reserve and available at https://fred.stlouisfed.org/series/GDPC1 . Japanese GDP sourced from Japanese government and available at http://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2016/qe163_2/gdemenuea.html

[2] See International Monetary Fund, "Global Financial Stability Report", October 2016. Available at https://www.imf.org/external/pubs/ft/gfsr/2016/02/index.htm

[3] Reinhart, Carmen and Kenneth Rogoff, "Recovery From Financial Crises: Evidence From 100 Episodes", American Economic Review, Volume 104, No.5, 2014. Available at http://scholar.harvard.edu/files/rogoff/files/aer_104-5_50-55.pdf. Americans for Financial Reform, "Costs of the Financial Crisis", July, 2015. Available at http://ourfinancialsecurity.org/wp-content/uploads/2012/09/CostCrisis2015July-Long-1.pdf

[4] Average of 2011 to 2015 profits, all profits converted to real 2015 dollars.