Conclusions

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The Dodd-Frank Act was not the perfect remedy for all of the problems of the U.S. financial sector that came together to form the "perfect storm" of the financial crisis of 2007-2009. Many faculty authors at Stern have previously criticized the shortcomings of Dodd-Frank, and in this White Paper, we again criticize many of these shortcomings with the advantage of a few more years of experience. But, to its credit, Dodd-Frank did recognize the importance and pernicious nature of systemic risk in the U.S. financial system and created prudential regulatory institutions and procedures to address and lessen that risk. Again, those institutions and procedures are far from perfect and could surely be made better. But, on net, Dodd-Frank represented a positive step in lessening the risk in our financial system.

The Financial CHOICE Act espouses some principles that we heartily endorse. Chief among them is that the more well-capitalized institutions are, the less of a threat they pose to financial stability. And we endorse removing many inefficient parts of Dodd-Frank. But at the end of the day, the CHOICE Act is fatally flawed by a failure to recognize systemic risk and to understand the dangers that it poses for the financial system—and thus for the healthy functioning of the U.S. economy. Because of this failure, the CHOICE Act represents a step backward in the establishment of a prudential regulatory system that would ensure a safer and better functioning financial sector for the U.S. economy.

Because the Financial CHOICE Act is still at the stage of proposed legislation, there is still adequate time and opportunity for its drafters to reach a better understanding of these issues. We hope that the chapters in this White Paper will help in that process.