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April 13, 2017

United States Senate
Committee on Banking, Housing and Urban Affairs
Washington, DC 20510
Attn: Chairman Mike Crapo (R-Idaho) and Ranking Member Sherrod Brown (D-Ohio)

Dear Senators Crapo and Brown:

I am submitting this letter in response to your request for legislative proposals to increase economic growth. The 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act fails to live up to its name. It spawned approximately 400 separate rulemakings across the financial sector, but it neither reformed Wall Street nor protected consumers.

Dodd-Frank expanded the existing authority of the federal regulators who missed the 2008 financial crisis, created new federal agencies, failed to adequately address the causes of the crisis, imposed unnecessarily high compliance burdens on firms, worsened the too-big-to-fail problem, and contributed to the unusually sluggish recovery. It extended command-control type regulation well beyond the banking sector even though this approach has repeatedly failed to keep the banking system sound. The notion that unregulated financial markets – or even a lightly regulated sector within those markets – caused the 2008 crisis is demonstrably false.[1]

Salim Furth, my Heritage Foundation colleague, and I have used a standard macroeconomic model to quantify the benefits of reducing one of the likely effects of Dodd–Frank: excess

[1] Norbert J. Michel, "The Myth of Financial Market Deregulation," Heritage Foundation Backgrounder No. 3094, April 26, 2016, http://www.heritage.org/report/the-myth-financial-market-deregulation.

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borrowing costs.[2] The model estimates that removing this "investment wedge" would have a measurable positive impact on the economy. The results also suggest that legislation repealing Dodd-Frank would have a budgetary impact that triggers a dynamic score from the Congressional Budget Office. A few of the key results from this "repeal" scenario predict that, on average from 2017 to 2026, removing this 22 basis point investment wedge would:

- Increase GDP 1 percent per year.
- Increase the capital stock by almost 3 percent per year.
- Decrease the federal debt ratio by nearly 1 percent per year.

The Dodd–Frank Act did little to address the root causes of the crisis and expanded the federal safety net – a major contributing factor to the crisis – for financial firms. Congress should repeal the Dodd–Frank Act and implement legislation that improves private incentives in financial markets, thus allowing people to create financial markets that expand economic opportunities and secure their financial futures.

The Financial CHOICE Act, introduced in the U.S. House of Representatives, includes key policy changes that will help to achieve this goal. The Heritage Foundation has also released a new book, *Prosperity Unleashed: Smarter Financial Regulation*,[3] which includes countless reform ideas, from approximately 20 different scholars, to improve incentives in financial markets. I look forward to working with you and your colleagues on the Banking Committee to implement these policies.

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[2] Norbert J. Michel and Salim Furth, "The Macroeconomic Impact of Dodd Frank—and of Its Repeal," Heritage Foundation Issue Brief No. 4682, April 13, 2017, http://www.heritage.org/sites/default/files/2017-04/IB4682.pdf.

[3] Norbert J. Michel, ed., *Prosperity Unleashed: Smarter Financial Regulation*, The Heritage Foundation, 2017, http://www.heritage.org/prosperity-unleashed.

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Sincerely,

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