US Treasury releases plan to roll back Dodd-Frank bank regulations

Gabriel Black
19 June 2017

Last week, the US Treasury Department released the first of several reports on the 2010 Dodd-Frank "Wall Street Reform and Consumer Protection Act." The reports will guide the Trump administration in rolling back the Obama-era legislation.

The proposed changes to Dodd-Frank grant the major banks a wishlist of demands to strip out most of the law's minimal restrictions on their speculative activities. None of the top bankers whose fraudulent and in many cases illegal activities triggered the 2008 financial crash were prosecuted under Obama. Instead of serving long prison sentences for sending the economy into the worst slump since the 1930s and stripping tens of millions of people of their life savings, they were granted even greater control over the US and world economy and allowed to add billions more to their personal fortunes.

Now, under Trump, the largely cosmetic reforms instituted under Obama are being removed by an administration that includes Goldman Sachs alumni in top posts, including Treasury Secretary Steven Mnuchin, and embodies in its policies and personnel the American financial oligarchy.

The Dodd-Frank Act was passed amid intense social anger over the financial crash and multi-trillion-dollar government bailout of the banks. As the *World Socialist Web Site* wrote at the time, Dodd-Frank "was intended to shield the major financial institutions and regulatory agencies from any substantive change while leading the public to think that the predatory and illegal practices of Wall Street were being curbed."

Not only did the act not break up the big banks or impose limits on their size and power, it failed to reinstate more serious limits on speculation, such as the 1930s Glass-Steagall Act, or restrict derivatives trading and other forms of financial gambling that fueled the 2008 financial collapse.

The major provisions of the act, such as the requirement for big banks to draw up "living wills," the Volcker rule limiting commercial bank proprietary trading, and the establishment of the Consumer Financial Protection Bureau (CFPB), imposed no serious limits on the activities of Wall Street. Nevertheless, the financial elite denounced them as intolerable infringements of its prerogatives and lobbied furiously against them.

While the Trump administration is moving to whittle down Dodd-Frank, the Republican Financial Choice Act, passed by the House of Representatives on June 8, would entirely repeal Dodd-Frank and allow the biggest banks to effectively avoid any regulatory oversight if they can show that they have a certain amount of base capital.

Mnuchin's initial recommendations would further water down the Volker Rule, which already contains sufficient loopholes to permit major banks to continue carrying out proprietary trading, i.e., using clients' money to make investments in behalf of the bank, rather than the clients.

Another proposal would change how the "living wills" section of Dodd-Frank works, reducing the frequency and severity of "stress tests" run by the Federal Deposit Insurance Corporation to ensure that major banks can withstand a new financial crisis. The biggest banks would be allowed to forego the tests altogether if they could show that they have a certain amount of unleveraged capital.

Mnuchin's report also advocates changing how the Consumer Financial Protection Bureau is financed. The CFPB was created for the nominal purpose of helping consumers challenge fraudulent bank practices. Mnuchin's proposal would defund the organization by making it reliant on congressional budget funds, effectively putting it on the chopping block. At present, it works through the Federal Reserve Board.