Senate Democrats join Republicans to gut Dodd-Frank banking regulations

Tom Hall
16 March 2018

The US Senate voted Wednesday by 67 to 31 to repeal major provisions of the Dodd-Frank Act, an Obama-era banking regulation law passed after the 2008 financial crisis.

The bill was passed with bipartisan support, with 17 Democrats voting in favor. Democratic senators Heidi Heitkamp of North Dakota, Jon Tester of Montana, Joe Donnelly of Indiana and Mark Warner of Virginia joined Republican members of the Senate banking committee in support of the bill. Eleven Democrats had co-sponsored the bill when it first appeared before the full Senate in January, giving it a filibuster-proof majority and making its passage a foregone conclusion.

Other Democrats who voted for the bill include Tim Kaine of Virgnia (Hillary Clinton's running-mate in 2016), Debbie Stabenow of Michigan, Angus King of Maine (a nominal independent who caucuses with the Democrats), Claire McCaskill of Missouri, Bill Nelson of Florida, and Doug Jones of Alabama. The support by Jones is particularly significant, given the fact that Democrats hailed his victory over the fascistic Republican candidate Roy Moore, after a campaign focused largely on decades-old allegations of sexual misconduct against Moore, as a blueprint for the Democratic Party's strategy in the 2018 midterm elections.

The bill increases the threshold from $50 billion to $250 billion for banks to be considered "systematically important financial institutions" and subject to closer regulatory oversight. This includes the establishment of "living wills" which outline the process by which a bank can be liquidated without destabilizing the economy, and requiring banks to undergo "stress tests" to prove that they can handle a major economic crash without going bankrupt, as occurred in 2008 with the collapse of banks such as Lehman Brothers, Bear Stearns and Washington Mutual.

This was portrayed dishonestly by senators as an attempt to protect local "community banks" from the allegedly crushing costs of complying with financial regulations. "What I have said consistently is that Dodd-Frank was supposed to have stopped too big to fail, but the net result has been too small to succeed," Heitkamp told reporters. In fact, companies exempted under the higher threshold include giant entities such as Barclays, American Express, BB&T and BMO.

The Senate bill also exempts banks with less than $10 billion in assets from the "Volcker Rule" prohibiting high-risk investments with federally guaranteed deposits. It also exempts banks which have granted fewer than 500 mortgages from reporting requirements.

The Dodd-Frank Act was always a fig leaf which did nothing to significantly curtail the parasitic and criminal activities which led to the 2008 financial crisis in the first place. The years since 2008 have seen the growing consolidation of the financial industry's assets into a smaller number of ever-larger entities which are "too big to fail," investing in newer, larger and more dangerous speculative bubbles, fueling record profits and unprecedented rises in the stock market even as the real economy continues to stagnate or decline.

Within financial circles, there is growing concern that a newer and far larger financial crisis is imminent. A report in Bloomberg News on Wednesday, "Bigger Than Any Past Bubble: Beware of Soaring Household Assets," warned that the market value of household real and financial assets increased by nearly $50 trillion since 2009 to $114.4 trillion, "dwarfing the levels" immediately preceding the collapse of the housing bubble in 2007-2008.

Nevertheless, the financial industry considers even the Dodd-Frank Act's modest regulations to be

intolerable, and has pushed for the repeal of the law for years.

It is unclear at this stage whether the Senate bill will ultimately be signed into law, given the support by the Republican majority in the House of Representatives for dismantling even more of the law's regulatory measures. In the event that the House and the Senate pass two different bills, the two versions must be reconciled in a conference committee including representatives from both chambers.

The differences between the Senate and House positions create a slight possibility of a repeat of the collapse of the Republican campaign to repeal Obamacare, which failed due to the opposition of a handful of right-wing Republicans demanding even more severe measures. Jeb Hensarling, the chairman of the House Financial Services Committee, has declared that the House would not even vote on the Senate bill unless Senate leaders agreed to negotiate with the House.

However, given the widespread support for the repeal of Dodd-Frank in the financial industry (as opposed to significant opposition from insurance companies, who benefitted financially from provisions of the law requiring individuals to purchase healthcare, to the repeal of Obamacare), it is far more likely that the two houses of Congress will come to some sort of agreement.

As has been widely reported, 10 out of the 17 Democrats who voted for the bill face re-election in the fall, including seven in states where Trump won the general election in 2016. To a certain extent, their votes reflected concerns that Wall Street banks would punish them for voting against the bill by pouring funds into the campaign war chests of their Republican opponents.

More fundamentally, the Senate vote demonstrates the fact that the Democrats, like the Republicans, are a party of the American financial aristocracy.

The leader of the Democrats in the Senate, Chuck Schumer of New York, has received more campaign contributions from Wall Street than any other senator. While he voted against the bill—a meaningless gesture given the certainty of its passage—he made clear that he would do nothing to dissuade other Democrats from voting in favor.

The Senate vote comes one month after Democrats provided the votes necessary to pass a spending bill increasing annual military spending by 17 percent, to $1.4 trillion over the next two years, and three months after the passage of massive tax cuts for the wealthy and for US corporations. While Democrats voted against that bill, which passed on party lines, Democrats made clear their desire to see such cuts enacted, criticizing Republicans primarily for cutting them out of the negotiations (and thus from the financial rewards from Wall Street). Earlier this month, congressional Democrats released their policy proposals for the 2018 midterm elections, calling for maintaining the vast majority of the tax cuts enacted by Republicans last December.