BETTER MARKETS

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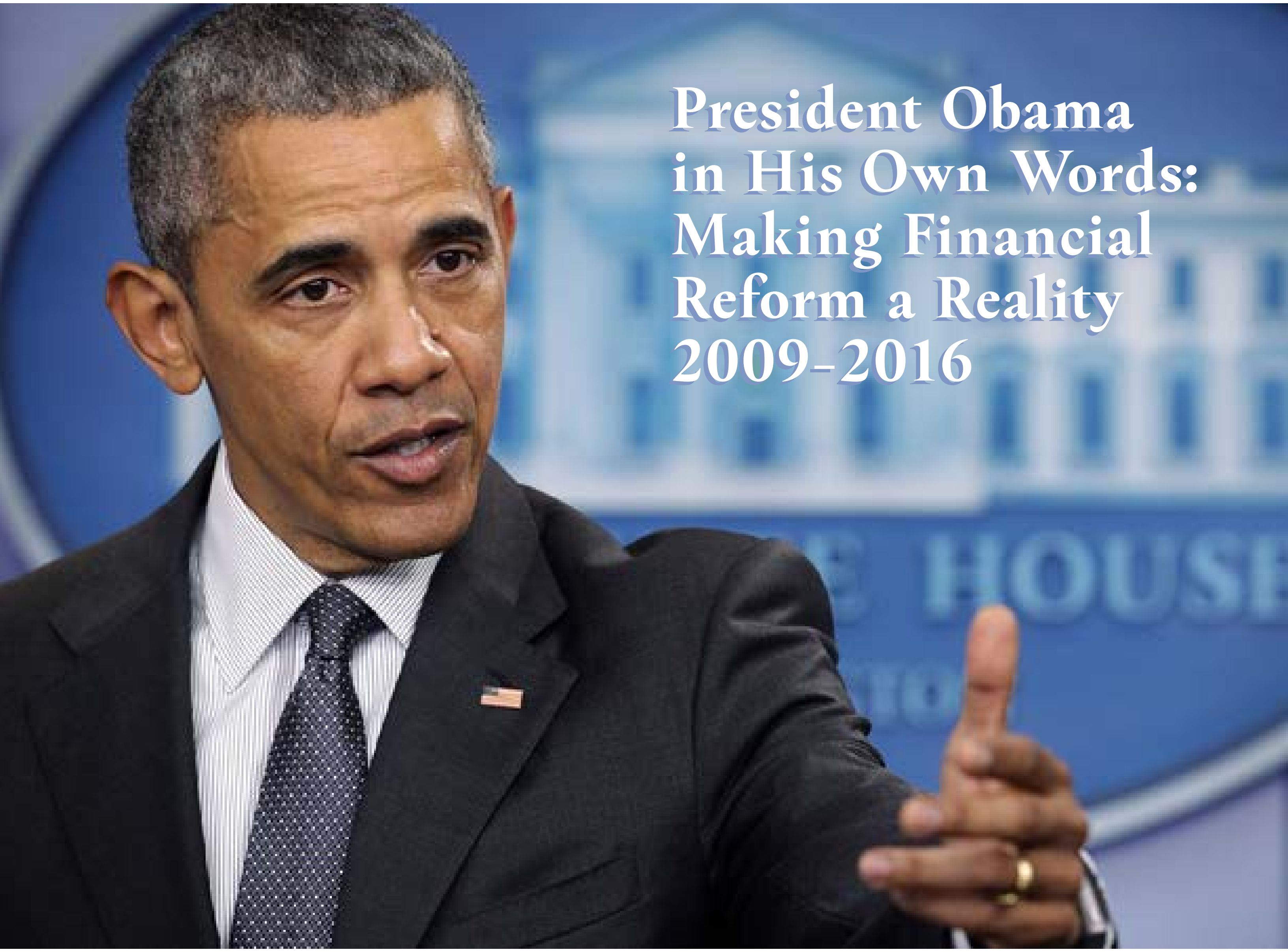

President Obama in His Own Words: Making Financial Reform a Reality 2009-2016

RELEASED IN CONNECTION WITH BETTER MARKETS'
10TH ANNIVERSARY EVENT OF THE SIGNING OF THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT OF 2010:

"Ten Years After Dodd-Frank, Stopping the Next Financial and Economic Crash: Progress Made and Challenges that Remain."

The Lehman Brothers' name is illuminated at the headquarters of Lehman Brothers Holdings Inc. September 15, 2008, in New York City. Lehman Brothers had filed a Chapter 11 bankruptcy petition in U.S. Bankruptcy Court after attempts to rescue the storied financial firm failed.

(Photo by Mario Tama/Getty Images)

COVER PHOTO: Former U.S. President Barack Obama delivers a statement on the economy at the James Brady Press Briefing Room of the White House on April 5, 2016, in Washington, D.C. (Photo by Alex Wong/Getty Images)

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INTRODUCTION

President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ten years ago today, on **July 21, 2010**. As he understatedly noted in remarks on that tenth anniversary of signing the law, "Passing and implementing this law was not easy."[1] His administration was, he said, "met every step of the way by entrenched and well-funded opposition who tried to block any reform at all." That's why it took almost two years to get the Dodd-Frank Act passed. For the same reasons, that's also why it required the next six years of the Obama administration to make sure that the law became a reality and protected America's families, taxpayers, consumers, investors and Main Street businesses.[2]

With so much going on today, it's difficult to remember the dire economic and financial circumstances facing the country in the fall of 2008 and the beginning of 2009 as President Obama was taking office. Simply put, 2008 was the worst financial crash since 1929, and it caused what was then the worst economy since the Great Depression of the 1930s. More than $29 trillion was spent, lent, guaranteed or otherwise used to bail out the financial industry,[3] and the damage it caused the country exceeded $20 trillion in lost GDP.[4]

> Simply put, 2008 was the worst financial crash since 1929, and it caused what was then the worst economy since the Great Depression of the 1930s.

It was, by any measure, a scary time. Many feared that we were going to fall into a second Great Depression. Hardworking Americans across the country were experiencing serious economic and financial pain, compounded by fear and uncertainty. The largest banks in the country were collapsing. The financial system was freezing up. Companies across the country were laying off workers, and many were closing and going bankrupt.

Millions of people were losing their jobs. Making that worse, they were also losing their benefits like health care. Millions more were losing their savings. As tragic as all that was, it was all made worse as millions of Americans also lost their homes. Not their houses—their homes. Young people graduating from college couldn't find jobs, and many looking forward to retirement went back to work to make ends meet as they saw the value of their lifelong savings slashed.

In short, as President Obama said at the tenth anniversary event "a lifetime of hard work was evaporating, almost in an instant" for tens of millions of Americans. But it wasn't just jobs, savings, homes and retirements that were lost. People were also losing hope. The American Dream itself seemed to be slipping away.

That's what President Obama was facing as he took the oath of office in January 2009.

Taking Action Early

Even before he was sworn in, President Obama and his team were working on programs and actions to stop the freefall of the economy and the financial system. They were focused on stabilizing the financial system, getting a stimulus bill passed, and getting people back to work as soon as possible.

But, as the President said on July 21, 2020, they "also worked to prevent recklessness on Wall Street from devastating folks on Main Street ever again." A key goal was to make sure that taxpayers never again had to bail out Wall Street's biggest financial institutions for their dangerous and high-risk activities.

That's why on February 25, 2009, just a month after being sworn in, President Obama met with his economic team and key Congressional leaders. Their goal was to transform America's outdated and deficient 20th century financial regulatory system into one that protected 21st century families, consumers, businesses, markets and the economy.[5]

He recognized that the "financial crisis was not inevitable. It happened when Wall Street wrongly presumed markets would continuously rise and traded in complex financial products without fully evaluating their risks. Here in Washington, our regulations lagged behind changes in our markets—and too often, regulators failed to use the authority that they had to protect consumers, markets and the economy."

President Obama knew that

> "strong financial markets require clear rules of the road, not to hinder financial institutions, but to protect consumers and investors, and ultimately to keep those financial institutions strong. Not to stifle, but to advance competition, growth and prosperity. And not just to manage crises, but to prevent crises from happening in the first place, by restoring accountability, transparency and trust in our financial markets."

Thus, the President wanted to ensure that free markets served society, not become a free-for-all threat to hardworking Americans. As he said, “While free markets are the key to our progress, they do not give us free license to take whatever we can get, however we can get it.”

To achieve that, the President outlined seven core goals for financial reform:[6]

1. Establish effective oversight and regulation for large systemically important financial institutions;
2. Ensure that the markets are able to withstand future market-wide stress or failures of large financial institutions;
3. Rebuild trust in the financial system by encouraging openness, transparency and plain language;
4. Provide uniform supervision of financial products sold to investors and consumers;
5. Hold those at the top of the firms accountable for their actions;
6. Close loopholes in the regulatory system that allow financial institutions to pick and choose which rules they follow; and
7. Recognize that financial reform is a global problem that requires global solutions.

He concluded by recognizing that agreeing on and enacting financial reform “would not be easy” and “will not happen overnight,” but that it was imperative because “our market has always been the engine of American’s success—rewarding innovators and risk-takers, creating opportunities for generations of Americans and prosperity that is the envy of the world.”

Changing Wall Street’s Culture Was Key

The goals announced on February 25 were important guideposts, and the Obama administration started drafting a plan to enact them into legislation. But they also knew that they had to change the Wall Street culture that fueled the reckless, irresponsible and illegal behavior which was the witches’ brew igniting the crash.

They also knew that they had to change the Wall Street culture that fueled the reckless, irresponsible and illegal behavior which was the witches’ brew igniting the crash.

As the President said in remarks on March 18, 2009,[7] in response to the exploding AIG bonus scandal:[8]

> “People are rightly outraged about these particular bonuses. But just as outrageous is the culture that these bonuses are a symptom of, that have existed for far too long—a situation where excess greed, excess compensation, excess risk-taking have all made us vulnerable and left us holding the bag. And one of the messages that I want to send is that as we get out of this crisis, as we work towards getting ourselves out of recession, I hope that Wall Street and the marketplace don’t think that we can return to business as usual. The business models that created a lot of paper wealth but not real wealth in this country and have now resulted in crisis can’t be the model for economic growth going forward.”

"The business models that created a lot of paper wealth but not real wealth in this country and have now resulted in crisis can't be the model for economic growth going forward."

– President Obama

The President recognized that the financial system was too often a wealth-extraction mechanism for the few rather than a wealth-creation system for the many. That's why he wanted to start establishing a foundation for long-term economic growth that served the American people and supported the economy. As he said, "That means increasing our productivity across sectors, and not just relying on the financial sector for all our economic growth. It means that shareholders and boards of directors have to hold executives more accountable for their compensation scales."

That required his administration and Congress to try to put an end to the culture of irresponsibility and unaccountability where pocketing as much cash as fast as possible regardless of consequences was too often the norm and expectation.[9] Most have forgotten now, but that's what AIG's reckless sale of credit default swaps was all about. That's also what the AIG bonus scandal was all about.[10] The prevailing Wall Street attitude of "anything goes" to make a buck simply had to end. President Obama stated, without reservation, "That kind of culture has to change."

The administration was single-minded in focusing on making the financial structure stronger and better, as the President said:

> "We believe in the free market, we believe in capitalism, we believe in people getting rich, but we believe in people getting rich based on performance and what they add in terms of value and the products and services that they create. And it's appropriate for us to have some regulatory mechanisms in place to ensure that we never have a situation where the government has to step in, or you've got taxpayers who are having to foot the bill for other people's mistakes.
>
> "That requires some regulatory framework. And my hope is that one of the lessons we learn here is, is that putting smart regulations in place—oversight, transparency, accountability—those things are not anti-market, they're pro-market.... look, all we're trying to say is you've got to be accountable to somebody. And it's that measure of accountability that I think is part of what has made America strong, and we have to get back to those kinds of values."

The President was also focused on the ultimate goals:

> "My interest is not protecting banks. My interest is protecting the American people; the people's 401(k)s; ordinary folks who have a credit line with a bank for their small business; people whose pension funds are invested in some of these financial institutions. The prospect of all of that unraveling would have been unacceptable—an unacceptable risk. Now, what we're trying to do is get ourselves in a position where we make sure that going forward we're not held hostage to all these bad decisions that were made by these huge institutions in the past, and that we create a system where they can't make all these bad bets."

That's why he had to change the rules and change the culture. He knew that smart regulation, clear rules of the road, accountability for banks and bankers, and protection for investors, consumers and taxpayers were all pro-market. Those changes would restore trust and confidence in the financial system, the firms and the people running them, which would benefit everyone and the entire economy.

Proposing a Law

Less than six months after taking the oath of office, on June 17, 2009, the President officially announced a plan for financial reform and released a report with detailed policy suggestions.[11] He began by stating that the administration was "working hard to build a new foundation for sustained economic growth," while acknowledging that it would "not be easy."

> "That's our goal—to restore markets in which we reward hard work and responsibility and innovation, not recklessness and greed."
> – *President Obama*

He said that, "We know that this recession is not the result of one failure, but of many. And many of the toughest challenges we face are the product of a cascade of mistakes and missed opportunities which took place over the course of decades.... [And,] this new foundation also requires strong, vibrant financial markets, operating under transparent, fairly-administered rules of the road that protect America's consumers and our economy from the devastating breakdown that we've witnessed in recent years." However, he also recognized that:

> "It is an indisputable fact that one of the most significant contributors to our economic downturn was an unraveling of major financial institutions and the lack of adequate regulatory structures to prevent abuse and excess. A culture of irresponsibility took root from Wall Street to Washington to Main Street. And a regulatory regime basically crafted in the wake of a 20th century economic crisis—the Great Depression—was overwhelmed by the speed, scope, and sophistication of a 21st century global economy."

So, the President "propos[ed] a sweeping overhaul of the financial regulatory system, a transformation on a scale not seen since the reforms that followed the Great Depression." But he was also clear about his objectives:

"I want everybody here to hear my words: We will not go back to the days of reckless behavior and unchecked excess that was at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses."

– President Obama

> "In these efforts, we seek a careful balance. I've always been a strong believer in the power of the free market. It has been and will remain the engine of America's progress—the source of prosperity that's unrivaled in history. I believe that jobs are best created not by government, but by businesses and entrepreneurs who are willing to take a risk on a good idea. I believe that our role is not to disparage wealth, but to expand its reach; not to stifle the market, but to strengthen its ability to unleash the creativity and innovation that still make this nation the envy of the world.
>
> "That's our goal—to restore markets in which we reward hard work and responsibility and innovation, not recklessness and greed; in which honest, vigorous competition…in the system is prized, and those who game the system are thwarted."

Importantly, President Obama, after consulting far and wide with Democrats and Republicans, bankers and businessmen and businesswomen, regulators and regulated, made clear that the ultimate objective was to "help more Americans live their own dreams," noting "that's why these reforms are so important."

Taking the Fight for Reform to Wall Street

As expected, the opposition to the President and his financial reforms was ferocious, largely from those in the financial industry and, in particular, those at the largest financial firms on Wall Street. The old system that enabled the financial crash and that benefited the few at the expense of the many was very, very profitable for those lucky few. They were not going to allow it to be changed without putting up a considerable fight.

That's why on the first anniversary of the collapse of Lehman Brothers, September 14, 2009, the President went to the historic Federal Hall in New York City, the belly of the Wall Street beast so to speak. Its address is 11 Wall Street and it's right next to the New York Stock Exchange.

U.S. President Barack Obama speaks at Federal Hall National Memorial in New York, U.S., on Monday, Sept. 14, 2009. Obama, speaking a year after the Lehman Brothers Inc. collapse, outlined his plan for unwinding government involvement in the financial sector. (Photo by Daniel Acker/Bloomberg via Getty Images)

He wanted to speak directly to those leading the charge against reform and make the stakes clear. The President said,[12]

> "There are some in the financial industry who are misreading this moment. Instead of learning the lessons of Lehman and the crisis from which we're still recovering, they're choosing to ignore those lessons.
>
> "I'm convinced they do so not just at their own peril, but at our nation's.
>
> "So, I want everybody here to hear my words: We will not go back to the days of reckless behavior and unchecked excess that was at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses. Those on Wall Street cannot resume taking risks without regard for consequences, and expect that next time, American taxpayers will be there to break their fall.
>
> "And that's why we need strong rules of the road to guard against the kind of systemic risks that we've seen. And we have a responsibility to write and enforce these rules to protect consumers of financial products, to protect taxpayers, and to protect our economy as a whole."

He again invited the financial industry to join him in a constructive effort to update the financial system for the 21st century and encouraged them not to wait; indeed, he invited them to lead:

> "Restoring a willingness to take responsibility—even when it's hard to do—is at the heart of what we must do. Here on Wall Street, you have a responsibility. The reforms

> I've laid out will pass and these changes will become law. But one of the most important ways to rebuild the system stronger than it was before is to rebuild trust stronger than before—and you don't have to wait for a new law to do that. You don't have to wait to use plain language in your dealings with consumers. You don't have to wait for legislation to put the 2009 bonuses of your senior executives up for a shareholder vote. You don't have to wait for a law to overhaul your pay system so that folks are rewarded for long-term performance instead of short-term gains."

But he also made it clear that, with or without them, reform was coming. Consumers, taxpayers, the financial system and the economy were the priorities, and they were going to be protected. He reminded his Wall Street audience that:

> "Many of the firms that are now returning to prosperity owe a debt to the American people. They were not the cause of this crisis, and yet American taxpayers, through their government, had to take extraordinary action to stabilize the financial industry. They shouldered the burden of the bailout and they are still bearing the burden of the fallout—in lost jobs and lost homes and lost opportunities."

"Many of the firms that are now returning to prosperity owe a debt to the American people."

– President Obama

He then drove home the point, saying, "It is neither right nor responsible after you've recovered with the help of your government to shirk your obligation to the goal of wider recovery, a more stable system, and a more broadly shared prosperity." He again asked Wall Street to embrace serious financial reform, not resist it. He then asked everyone to join him in passing a bill that year. At the time, although realistic, he was clearly very optimistic at the prospect of good-faith industry cooperation.

In fact, it took three more months just to get a bill with common sense reforms that responded to the most obvious problems exposed by the financial crash passed by the House. That's because the industry was engaged in all out warfare to kill any bill or financial reform.

President Obama used his weekly address to the nation in mid-December to remind Americans that the financial crash and the Great Recession was mostly

> "due to the irresponsibility of large financial institutions on Wall Street that gambled on risky loans and complex financial products, seeking short-term profits and big bonuses with little regard for long-term consequences. It was, as some have put it, risk management without the management. And their actions, in the absence of strong oversight, intensified the cycle of bubble-and-bust and led to a financial crisis that threatened to bring down the entire economy. It was a disaster that could have been avoided if we'd had clearer rules of the road for Wall Street and actually enforced them."[13]

> “We can’t afford to let the same phony arguments and bad habits of Washington kill financial reform and leave American consumers and our economy vulnerable to another meltdown.” *– President Obama*

That was why, he said, his “commonsense reforms” and the just-passed House bill were so important. However, the fight for reform was brutal: Wall Street’s biggest firms unleashed all of their power, influence, connections and money to fight reform. Simply put, as evidenced by its army of lobbyists, Wall Street was not going to accept any limitations on its ability to do whatever it wanted in the unbridled pursuit of profits and bonuses, no matter how dangerous to consumers, taxpayers, Main Street families, the financial system or the economy.

Given that, the President decided to let the American people know what was happening in the back rooms in Washington. He told them that:

> “Just last week, Republican leaders in the House summoned more than 100 key lobbyists for the financial industry to a ‘pep rally,’ and urged them to redouble their efforts to block meaningful financial reform. Not that they needed the encouragement. These industry lobbyists ha[d] already spent more than $300 million on lobbying [just that] year.
>
> “The special interests and their agents in Congress claim that reforms like the Consumer Financial Protection Agency will stifle consumer choice and that updated rules and oversight will frustrate innovation in the financial markets. But Americans don’t choose to be victimized by mysterious fees, changing terms, and pages and pages of fine print. And while innovation should be encouraged, risky schemes that threaten our entire economy should not.
>
> “We can’t afford to let the same phony arguments and bad habits of Washington kill financial reform and leave American consumers and our economy vulnerable to another meltdown.”

He praised the leadership of Congressman Barney Frank and the House of Representatives for nonetheless passing a very strong, comprehensive financial reform bill as Senator Chris Dodd and his colleagues in the Senate continued working hard on their own package of reforms. Progress was slow, but it was progress.

President Obama emphasized the importance of passing

> “real reform that restores free and fair markets in which recklessness and greed are thwarted; and hard work, responsibility, and competition are rewarded – reform that works for businesses, investors, and consumers alike. That’s how we’ll keep our economy and our institutions strong. That’s how we’ll restore a sense of responsibility and accountability to both Wall Street and Washington. And that’s how we’ll safeguard everything the American people are working so hard to build – a broad-based recovery; lasting prosperity; and a renewed American Dream.”

Former U.S. President Barack Obama (R) and former Economic Recovery Advisory Board Chairman Paul Volcker meet in the Oval Office at the White House on March 13, 2009, in Washington, D.C. (Photo by Mark Wilson/Getty Images)

Expanding and Pushing the Reform Agenda

While the well-funded forces of Wall Street's opposition continued their scorched-earth tactics to kill any meaningful reform, many supporters of reform continued to argue that the administration needed to do more to effectively protect the American people. They made persuasive arguments, and on January 21, 2010, the President endorsed two additional reforms that were not included in the House bill.[14]

One was a measure that, very importantly, would prevent further consolidation in the financial sector, but the most prominent and high-profile provision was to ban proprietary trading. Proprietary trading is when taxpayer-backed banks basically use depositors' money to make highly leveraged, high-risk bets that primarily boost their bonuses with little if any commercial or social value.

> Rather than focusing on a backyard, community or business pool, Wall Street was single-mindedly focused on their bonus pool.

This was the idea of Paul Volcker, the former Chairman of the Federal Reserve who was then the head of the Economic Recovery Advisory Board. This ban was called the "Volcker Rule."

Unfortunately for the American people, proprietary trading on Wall Street was incredibly lucrative and killing or gutting the ban was and remains a top priority of Wall Street's biggest banks and their many Washington lobbyists, allies and purchased advocates. However, it was a critical reform because it addressed a core problem in the banking and financial industry: a culture of swing-for-the-fences for the "big score" rather than focusing on traditional banking activities that Main Street families and businesses need. Put differently, rather than focusing on a backyard, community or business pool, Wall Street was single-mindedly focused on their bonus pool. That's what the fight over proprietary trading was all about.

Making matters worse, proprietary trading poses a fundamental moral hazard of "heads I win; tails taxpayers lose." In addition to using the unfair public subsidies from insured deposits, among other things, proprietary trading privatizes gains and socializes losses, which creates irresistible, upside down incentives.

As President Obama put it that day:

> "We should no longer allow banks to stray too far from their central mission of serving their customers. In recent years, too many financial firms have put taxpayer money at risk by operating hedge funds and private equity funds and making riskier investments to reap a quick reward. And these firms have taken these risks while benefiting from special financial privileges that are reserved only for banks.
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> "Our government provides deposit insurance and other safeguards and guarantees to firms that operate banks. We do so because a stable and reliable banking system promotes sustained growth, and because we learned how dangerous the failure of that system can be during the Great Depression.
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> "But these privileges were not created to bestow banks operating hedge funds or private equity funds with an unfair advantage. When banks benefit from the safety net that taxpayers provide–which includes lower-cost capital–it is not appropriate for them to turn around and use that cheap money to trade for profit. And that is especially true when this kind of trading often puts banks in direct conflict with their customers' interests.
>
> "The fact is, these kinds of trading operations can create enormous and costly risks, endangering the entire bank if things go wrong. We simply cannot accept a system in which hedge funds or private equity firms inside banks can place huge, risky bets that are subsidized by taxpayers and that could pose a conflict of interest. And we cannot accept a system in which shareholders make money on these operations if the bank wins but taxpayers' foot the bill if the bank loses."

"When banks benefit from the safety net that taxpayers provide—which includes lower-cost capital—it is not appropriate for them to turn around and use that cheap money to trade for profit."

– President Obama

He believed that these reforms were common sense and would benefit not only taxpayers and the American people, but also the banks and bankers themselves and the banking system as a whole.

The President concluded his remarks on that day by, again, inviting leaders of the financial industry to work with the administration and Congress on financial reform:

> "[M]y message to leaders of the financial industry is to work with us, and not against us, on needed reforms. I welcome constructive input from folks in the financial sector. But what we've seen so far, in recent weeks, is an army of industry lobbyists from Wall Street descending on Capitol Hill to try and block basic and common-sense rules of the road that would protect our economy and the American people.
>
> "So if these folks want a fight, it's a fight I'm ready to have. And my resolve is only strengthened when I see a return to old practices at some of the very firms fighting reform; and when I see soaring profits and obscene bonuses at some of the very firms claiming that they can't lend more to small business, they can't keep credit card rates low, they can't pay a fee to refund taxpayers for the bailout without passing on the cost to shareholders or customers—that's the claims they're making. It's exactly this kind of irresponsibility that makes clear reform is necessary."

That relentless opposition from Wall Street's "army of industry lobbyists" to protect those "obscene bonuses" is why it took two more months for the Senate Banking Committee to debate a financial reform bill. On the eve of that debate, which was almost two years to the day of the collapse of investment bank Bear Stearns, which was only "bought" by JP Morgan Chase after it required taxpayers to assume losses from $30 billion of its riskiest assets,[15] the President said:[16]

> **"The Republican leader in the House reportedly met with a top executive of one of America's largest banks and made thwarting reform a key part of his party's pitch for campaign contributions."**
>
> *– President Obama*

> "Unsurprisingly, [the reform] proposal has been a source of contention with financial firms who like things just the way they are. In fact, the Republican leader in the House reportedly met with a top executive of one of America's largest banks and made thwarting reform a key part of his party's pitch for campaign contributions. And this week, the allies of banks and consumer finance companies launched a multimillion-dollar ad campaign to fight against the proposal. You might call this 'air support' for the army of lobbyists already arm-twisting members of the committee to reject these reforms and block this consumer agency. Perhaps that's why, after months of working with Democrats, Republicans walked away from this proposal. I regret that and urge them to reconsider."

Unfortunately, those Republicans did not reconsider, but Senator Dodd and his Democratic colleagues continued to fight for reform. And, the administration continued to reach across the aisle and continued to work with anyone willing to work on financial reform, as the President remarked before a meeting with the bipartisan congressional leadership in April 2010.[17]

A week later, he again emphasized the desire to pass a bipartisan bill, but he also made it clear what he was not willing to do:[18]

"Some on Wall Street forgot that behind every dollar traded or leveraged, there is a family looking to buy a house, pay for an education, open a business, or save for retirement."
– President Obama

"Some in the industry are not happy with the prospect of these reforms. We've seen the usual army of lobbyists dispatched up on Capitol Hill. They have found some willing allies on the other side of the aisle in Congress who have been trying to carve out a lot of exceptions and special loopholes so that folks on Wall Street can keep making these risky bets without any oversight.

"I hope that we can pass a bipartisan bill. Bipartisanship cannot mean simply allowing lobbyist-driven loopholes that put American taxpayers at risk. That would not be real reform.

"So in the coming weeks, every member of Congress is going to have to make a decision: Are they going to side with the special interests and the status quo, or are they going to side with the American people? And anyone who opposes this reform is going to be leaving taxpayers on the hook if a crisis like the one that we've just seen ever happens again. And I consider that unacceptable."

The President was looking for common ground, for bipartisanship, as well as strong, effective reforms that would demand accountability from, and genuine change on, Wall Street. He was not willing to trade one for the other.

As the Senate was debating its financial reform bill, President Obama returned[19] to Cooper Union College in New York City in late April 2010 to again detail the provisions of financial reform and why they were so important and necessary.[20] And, he discussed the formidable obstacles that continued to thwart progress. He began by reiterating that he strongly:

"believe[s] in the power of the free market. I believe in a strong financial sector that helps people to raise capital and get loans and invest their savings.

"But a free market was never meant to be a free license to take whatever you can get, however you can get it. That is what happened too often in the years leading up to the crisis.

"Some on Wall Street forgot that behind every dollar traded or leveraged, there is a family looking to buy a house, pay for an education, open a business, or save for retirement. What happens here has real consequences across our country."

That is why the President felt so strongly that the country needed to enact a set of updated, common-sense rules to ensure accountability on Wall Street and to protect consumers in the financial system. Before he detailed those proposals, he—again—directly addressed the financial industry, many of whom were in the audience because Cooper Union is only a few blocks from Wall Street:

> "Both bills [then before Congress] represent significant improvement on the flawed rules we have in place today, despite the furious efforts of industry lobbyists to shape them to their special interests. I am sure that many of those lobbyists work for some of you. But I am here today because I want to urge you to join us, instead of fighting us in this effort. I am here because I believe that these reforms are, in the end, not only in the best interest of our country, but in the best interest of our financial sector."

The President emphasized that "a vote for reform is a vote to put a stop to taxpayer-funded bailouts." He talked about safeguarding the financial system against crises, which would "also make our system stronger and more competitive by instilling confidence here at home and across the globe."

He said that he believed that enacting those reforms would "help ensure that our financial system—and our economy—continues to be the envy of the world." That's because those reforms were "designed to respect legitimate activities but prevent reckless risk taking." After again detailing the industry's unrelenting lobbying efforts to kill reform, he concluded that day by observing:

"I believe that these reforms are, in the end, not only in the best interest of our country, but in the best interest of our financial sector."

– President Obama

> "In the end, our system only works—our markets are only free—when there are basic safeguards that prevent abuse, that check excess, that ensure that it is more profitable to play by the rules than to game the system. And that is what these reforms are designed to achieve: no more, no less. Because that is how we will ensure that our economy works for consumers, that it works for investors, that it works for financial institutions — that it works for all of us."

Shortly thereafter, he praised the Senate when the filibuster on moving to the bill was dropped and members on both sides of the aisle agreed to allow debate.[21] This began a vigorous debate with amendments from both sides.

A few short weeks later, Senate Democrats and a handful of Republicans voted to break the filibuster and allow a final debate and vote on financial reform. As the President noted at the time:

> "Over the last year, the financial industry has repeatedly tried to end this reform with hordes of lobbyists and millions of dollars in ads. And when they couldn't kill it, they tried to water it down with special interest loopholes and carve-outs aimed at undermining real change. Today, I think it's fair to say that these efforts have failed."[22]

Former U.S. President Barack Obama signs the Dodd-Frank Wall Street Reform and Consumer Protection Act at the Ronald Reagan Building July 21, 2010 ,in Washington, D.C. (Photo by Win McNamee/Getty Images)

The President also remarked, again, that, "Our goal is not to punish the banks, but to protect the larger economy and the American people from the kind of upheavals that we've seen in the past few years." Most importantly, he reiterated that, "Because of financial reform, the American people will never again be asked to foot the bill for Wall Street's mistakes. There will be no more taxpayer-funded bailouts—period."

Winning the Fight

Finally—after a mere 19 months—ten years ago today, the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. At that time, he reviewed the pain and suffering of the American people from what became known as the Great Recession and the reckless misconduct on Wall Street that caused it.[23]

Then, after thanking those who worked so hard to make this bill a reality—notably Chris Dodd and Barney Frank—he understatedly commented that "passing this bill was no easy task." But, after all of that hard work and relentless opposition, the bill, remarkably, reflected all of the goals he had set for it just weeks after he was sworn into office.

But he wanted to put financial reform in perspective, noting again that "the financial industry is central to our nation's ability to grow, to prosper, to compete and to innovate. There are a lot of banks that understand and fulfill this vital role, and there are a whole lot of bankers who want to do right—and do right—by their customers." That's why, he said, that "this reform will help foster innovation, not hamper it. It is designed to make sure that everybody follows the same set of rules, so that firms compete on price and quality, not on tricks and not on traps."

Implementing the Financial Reform Law

Many people think when a law is finally passed, that is the end of it and that change spontaneously happens thereafter. That could not be further from the reality.

The financial reform law, like most laws, was not self-executing. Like the financial industry and financial system, the law was big, complex and long. It required numerous financial regulatory agencies to consider, propose, finalize, implement, interpret and ultimately enforce hundreds of rules. Getting that substantially done took the last six years of President Obama's administration.

Unfortunately, the financial industry viewed this as an opportunity to win in the regulatory process what it had lost in the legislative process. In fact, one of Wall Street's most powerful Washington lobbyists remarked when the bill was passed that it was merely "half time."[24] Thus, Wall Street shifted its army of lawyers and lobbyists from the Congressional arena to the financial regulatory agencies and the courts.

It was a battle almost every day at one agency or another or in one court or another. And, of course, Wall Street continued to use its allies in Congress to attack the law relentlessly. A fortune was spent on advertising, lobbying and campaign contributions to erase the memory of what happened before the 2008 crash (widespread recklessness by financial firms), who was responsible for it (Wall Street's biggest banks and other financial firms), and why the financial reform law was so important to the American people (to protect them from another $20 trillion crisis).

The law was only bad for business if the business model depended on recklessness that threatened the economy or irresponsibility that threatened working families.

That's why President Obama used the occasion of the fifth anniversary of the law, five years ago today, to remind people of the importance of the law and its achievements.[25] The first was in preventing the 2008 financial crash from spiraling into a second Great Depression. The second was igniting an economic recovery that, by then, had created 13 million new jobs.

As he detailed a year later, when the economy had added 15 million new jobs and corporate profits were up again, the toughest financial reform since the Great Depression was not hurting the banks or the economy.[26] Quite the opposite. It had laid the foundation for a stable financial system that protected consumers and supported growth in the real economy, helping families and communities dig out of the hole that the financial crash put them in.

As President Obama said then, "this law is working" and so was America. As predicted, the banks and the banking industry were also doing very well. That proved the industry attacks that the law was bad for business were totally wrong. In fact, the law was only bad for business if the business model depended on recklessness that threatened the economy or irresponsibility that threatened working families.

But the attacks from fierce lobbying campaigns, special interests and Wall Street's allies in Congress didn't stop. They continued to try to weaken or kill reform any way possible, including hiding rollbacks of key protections in unrelated bills and blocking the financial cops on the beat from being properly funded and doing their jobs.

The most dangerous and unreasonable risks in the financial system had been significantly reduced.

It was so bad that President Obama had to repeatedly state that, as long as he was President, he was going to do whatever was necessary to protect consumers and the entire economy from the irresponsibility that led to the Great Recession in the first place. And, that if any bill came to his desk that tried "to unravel the new rules on Wall Street, [he would] veto it."

Fortunately, he never had to do that. Friends of financial reform in Congress, like Speaker Nancy Pelosi and Congresswoman Maxine Waters in the House and Senators Sherrod Brown and Elizabeth Warren, among others, fought those efforts and mostly won. Financial regulators throughout his administration, from the Treasury Department to the Commodities Futures Trading Commission and the Federal Reserve, worked valiantly to turn the law into sensible rules that worked.[27]

The Law Was a Success

The result was that, by the time President Obama left office in January 2017—six years after passing the financial reform law—the law was largely implemented, and the evidence overwhelmingly demonstrated that its three overriding goals were being achieved.

First, the most dangerous and unreasonable risks in the financial system had been significantly reduced, making a financial crash and taxpayer bailouts much less likely, due to rules which:

- increased capital and liquidity,
- regulated derivatives,
- required stress tests, living wills and liquidation authority,
- reduced short-term funding and counterparty exposure,
- protected investors,
- attacked predatory conduct,
- prohibited proprietary trading,
- regulated systemically significant banks and nonbanks,
- among other reforms.

Photo by Andrew Harrer/Bloomberg via Getty Images

Second, the administration had created one of the most successful agencies in the history of the country dedicated exclusively to protecting financial consumers, the Consumer Financial Protection Bureau or CFPB.

As Senator Warren and President Obama told the American people in July 2016, five years after the CFPB was launched, it had become an effective cop on the Wall Street beat very quickly.[28] In fact, by the time the President left office, it had returned almost $12 billion to more than 27 million ripped-off consumers.[29] Think about how extraordinary that was considering it had only existed for several years.

One of the most successful agencies in the history of the country dedicated exclusively to protecting financial consumers, the Consumer Financial Protection Bureau or CFPB.

It was catching and stopping truly shocking abuses. For example, almost $3 billion was returned to consumers for credit card abuses, including deceptive marketing, unfair billings, discrimination, illegal debt collection and widespread illegal practices. About $700 million was returned for violation of mortgage lending rules and deceptive lending practices—$100 million alone was due to mortgage discrimination and another $100 million was for mortgage upcharging, kickbacks and other illegal practices.

That was still just the tip of the iceberg, as $100 million was returned to consumers from payday lenders for a wide variety of predatory practices and more than $100 million was returned for egregious violations of debt collection protections. There were also widespread abuses in the student lending markets, and the CFPB recovered $500 million from for-profit colleges and illegal loan servicing practices.

The law was well on the way to preventing crashes and bailouts, protecting consumers and investors, and getting banks to support the real economy, jobs and growth.

Third, the law had another, incredibly important purpose that is almost never mentioned: to ensure that the financial sector served its social purpose, justified its social costs and earned its taxpayer backing. The law and the rules were meant to refocus the largest, most dangerous banks back to traditional banking activities and away from high-risk trading, which too often is little more than socially useless gambling designed to enrich a few thousand financiers and executives.

Getting banks back into banking was a key objective of the law. After all, that's why they are backed by taxpayers and governments in the first place.

This was especially important at the biggest, most dangerous Wall Street banks. It is important to remember that these financial protection rules are focused primarily on the handful of uniquely dangerous financial institutions in the U.S. and the world which have carved out a special exemption from the fundamental rule of capitalism that failure leads to bankruptcy. At the time, there were almost 7,000 banks in the U.S., but only about 40 had $50 billion or more in assets. That is less than 0.5 percent of all banks.[30] That's where these rules were focused.

The bottom line is that strong, robust, effective markets require equally strong, robust, and effective rules that:

- require transparency, oversight and accountability,
- establish a level playing field,
- enable competition,
- enforce a baseline of fair dealing,
- police market participants,
- engender investor and consumer confidence,
- reduce income and wealth inequality, and
- ultimately lead to a balanced financial system that fuels the productive economy and raises the standard of living of everyone.

Those were President Obama's goals for financial reform from the beginning of his administration and they were largely implemented by the time he left office. It wasn't perfect and it wasn't all completed, but the law was well on the way to preventing crashes and bailouts, protecting consumers and investors, and getting banks to support the real economy, jobs and growth.

Financial Reform and the Pandemic

Unfortunately, the financial reform law has been under relentless attack since President Obama left office more than three years ago. It is as if those in government don't remember the crash of 2008 or the causes. Some seem to think that the country can return to the little-to-no regulation or enforcement era, culture and mindset that prevailed in the years leading up to the 2008 crash. Some even act like they can get rid of the most sensible regulations yet not invite another, maybe worse crash.

The result has been legislative and regulatory changes that have weakened the law, but its core provisions have remained, and it continues to be effective. It is still promoting financial stability; it is still preventing taxpayer bailouts; it is still protecting consumers and investors.

That doesn't mean there hasn't been damage done. There has been.[31] But, not only is it still working despite the damage, it is one of the key reasons the current pandemic-caused crisis has not spiraled into a financial crash like 2008. Indeed, the pandemic health crisis that required an economic shutdown has been a live, real-time stress test for the financial reform law and financial reform more broadly.

So far, that law and those rules have worked to prevent the economic crisis from becoming a banking crisis. As a result, the banks this time are strong enough to support the economy, rather than failing, requiring taxpayer bailouts, and being a drain on the economy as they were in 2008.[32]

So far, that law and those rules have worked to prevent the economic crisis from becoming a banking crisis. As a result, the banks this time are strong enough to support the economy, rather than failing, requiring taxpayer bailouts, and being a drain on the economy as they were in 2008.

That is a remarkable achievement given that the pandemic health crisis required a synchronized, global economic shutdown which has led to Great Depression-levels of unemployment and economic contraction. This is far beyond anything experienced during the Great Recession of 2007-2010. In fact, it is far beyond anything anyone imagined when drafting, passing and implementing the law.

Of course, that was the point of the financial reform law. The administration and Congress were humble enough to know that they could not see the future or predict how the next crash might happen. What they were trying to do was create as much resiliency in the banking and financial sector so that the next crisis—in whatever form it took—would not lead to a crash of the banking and financial systems, making an economic crisis much worse than it otherwise would be.

That is exactly what has happened, at least so far.

The banks have much more capital and liquidity than ever before. They are less interconnected and much less dependent on short-term financing. They have been subjected to annual stress tests to make sure they could withstand all sorts of dire economic downturns. Their derivatives activities have mostly been brought into the light of regulation and require margin and clearing.

They have been forced to create resolution plans, so-called "living wills," and reorganize themselves so that they might be able to be orderly resolved in bankruptcy if they run into trouble.

In short, they have been made much, much stronger and much, much less a threat to the financial system, the economy and all Americans. As a result, Wall Streets' giagantic banks are currently a source of strength and support for the economy.

Like in 2008, no one can see the future, and no one can predict how the current economic crisis will unfold. But, for now, this real-time stress test has proved that the law signed ten years ago—and the rules implementing it—are working as intended and protecting the country.

Apendix

President Obama's Statements on Financial Reform During His Administration

02/25/2009 – Remarks by the President after Regulatory Reform Meeting

03/18/2009 – Remarks of the President Upon Departure

04/14/2009 – Excerpts From the President's Remarks: A New Foundation

04/23/2009 – Remarks by the President After Meeting with Representatives of the Credit Card Industry

05/14/2009 – Remarks by the President in Rio Rancho Town Hall on Credit Card Reform

06/17/2009 – Remarks of the President on Regulatory Reform

09/14/2009 – Remarks by the President on Financial Rescue and Reform at Federal Hall

12/12/2009 – Weekly Address: President Obama Applauds Important Step Forward on Financial Reform

01/21/2010 – Remarks by the President on Financial Reform

03/20/2010 – Weekly Address: President Obama Urges Action on Financial Reform

04/14/2010 – Remarks by the President before Meeting with Bipartisan Congressional Leadership to Discuss Financial Reform

04/16/2020 – Remarks by the President at a Meeting with the President's Economic Recovery Advisory Board

04/22/2010 – President Obama on Wall Street Reform at Cooper Union College in New York City

05/04/2010 – Remarks by the President to the Business Council

05/20/2010 – Remarks by the President on Wall Street Reform

06/25/2010 – Remarks by the President on Wall Street Reform

07/21/2010 – Remarks by the President at Signing of Dodd-Frank Wall Street Reform and Consumer Protection Act

05/25/2011 – Remarks by the President to Parliament in London, United Kingdom

07/25/2015 – Weekly Address: Wall Street Reform is Working

07/23/2016 – Weekly Address: Protecting the Progress We've Made with Wall Street Reform

Endnotes

[1] Remarks of Barack Obama at Ten Years of Dodd-Frank Event (Jul. 21, 2020), available at https://bettermarkets.com/resources/transcription-former-president-obamas-welcoming-remarks-ten-years-after-dodd-frank-event.

[2] *See*, e.g., Better Markets TEN YEARS OF DODD-FRANK & FINANCIAL REFORM: OBAMA SUCCESSES, TRUMP ROLLBACKS AND FUTURE CHALLENGES (Jul. 21, 2020), available at https://bettermarkets.com/sites/default/files/images/BetterMarkets_DoddFrankReport.pdf

[3] *See* James Andrew Felkerson, Levy Economics Institute of Bard College, A Detailed Look at the Fed's Crisis Response by Funding Facility and Recipient 4 (Public Policy Brief No. 123 2012), available at https://www.econstor.eu/bitstream/10419/121982/1/689983247.pdf.

[4] For details on the cost of the crisis, see Better Markets' Report: THE COST OF THE CRISIS: $20 TRILLION AND COUNTING, which was released on July 21, 2015, the fifth anniversary of the Dodd-Frank Act, available at: https://bettermarkets.com/sites/default/files/Better%20Markets%20-%20Cost%20of%20the%20Crisis.pdf

[5] *See* Remarks by the President after Regulatory Reform Meeting (Feb. 25, 2009), available at https://obamawhitehouse.archives.gov/the-press-office/remarks-president-after-regulatory-reform-meeting

[6] Ibid.

[7] *See* Remarks of the President Upon Departure (Mar. 18, 2009) available at https://obamawhitehouse.archives.gov/the-press-office/remarks-president-upon-departure

[8] A.I.G., an insurance giant that played a key role in sparking the 2008 financial crisis, become the subject of widespread criticism when it moved forward with planned executive bonuses after accepting a $170 billion taxpayer funded bailout. *See*, Edmund L. Andrews and Peter Baker, *A.I.G. Planning Huge Bonuses After $170 Billion Bailout*, N.Y. TIMES (Mar. 14, 2009), available at https://www.nytimes.com/2009/03/15/business/15AIG.html

[9] This is best epitomized by the Wall Street acronym "IBGYBG" for "I be gone; you be gone." That meant, don't care about the product or the deal because by the time it blows up the Wall Streeter would have pocketed his or her gains and been long gone leading to a "so who cares" attitude. *See*, e.g., Eric Dash, *What's Really Wrong With Wall Street Pay*, N.Y. TIMES (Sept. 18, 2009), available at https://economix.blogs.nytimes.com/2009/09/18/whats-really-wrong-with-wall-street-pay/

[10] It is noteworthy that, when asked about the timing of the AIG bonuses, President Obama refreshingly said: "Well, look, rather than going into sort of the details of finding it out, ultimately ***I'm responsible, I'm the President of the United States***. We've got a big mess that we're having to clean up. Nobody here drafted those contracts. Nobody here was responsible for supervising AIG and allowing themselves to put the economy at risk by some of the outrageous behavior that they were engaged in. ***We are responsible, though. The buck stops with me.*** And my goal is to make sure that we never put ourselves in this kind of position again." Remarks of the President Upon Departure" (Mar. 18, 2009) (emphasis added), available at https://obamawhitehouse.archives.gov/the-press-office/remarks-president-upon-departure

[11] *See* Remarks of the President on Regulatory Reform (June 17, 2009), available at https://obamawhitehouse.archives.gov/the-press-office/remarks-president-regulatory-reform. *See also* Department of the Treasury, FINANCIAL REGULATORY REFORM: A NEW FOUNDATION (June 17, 2009), available at https://www.treasury.gov/initiatives/wsr/Documents/FinalReport_web.pdf

[12] *See* Remarks by the President on Financial Rescue and Reform at Federal Hall (Sept. 14, 2009), available at https://obamawhitehouse.archives.gov/the-press-office/remarks-president-financial-rescue-and-reform-federal-hall

[13] *See* Weekly Address: President Obama Applauds Important Step Forward on Financial Reform (Dec. 12, 2009), available at https://obamawhitehouse.archives.gov/the-press-office/weekly-address-president-obama-applauds-important-step-forward-financial-reform

[14] *See* Remarks by the President on Financial Reform (Jan. 21, 2010), available at https://obamawhitehouse.archives.gov/the-press-office/remarks-president-financial-reform

[15] *See*, Roddy Boyd, *How the Bear Stearns Deal Got Done*, CNN MONEY (Mar. 17, 2008), available at https://money.cnn.com/2008/03/17/news/companies/boyd_bear.fortune/

[16] *See* Weekly Address: President Obama Urges Action on Financial Reform (Mar. 20, 2010), available at https://obamawhitehouse.archives.gov/the-press-office/weekly-address-president-obama-urges-action-financial-reform

[17] *See* Remarks by the President before Meeting with Bipartisan Congressional Leadership to Discuss Financial Reform (Apr. 14, 2010), available at https://obamawhitehouse.archives.gov/the-press-office/remarks-president-meeting-with-bipartisan-congressional-leadership-discuss-financia

[18] Remarks by the President at a Meeting with the President's Economic Recovery Advisory Board (Apr. 16, 2010), available at https://obamawhitehouse.archives.gov/the-press-office/remarks-president-a-meeting-with-presidents-economic-recovery-advisory-board

[19] Then-Senator Obama, one of two candidates running for the Democratic nomination in the 2008 presidential race, gave a speech on his economic policies on March 27, 2008 at Cooper Union, available at https://cooper.edu/about/printed-publications/summer-2008/barack-obama.

[20] *See* Text of Obama's Speech on Financial Reforms REUTERS (Apr. 22, 2010), available at https://www.reuters.com/article/us-financial-regulation-obama-text/text-of-obamas-speech-on-financial-reforms-idUSTRE63L3WK20100422

[21] *See* Remarks by the President to the Business Council (May 4, 2010), available at https://obamawhitehouse.archives.gov/the-press-office/remarks-president-business-council

[22] *See* Remarks by the President on Wall Street Reform (May 20, 2010), available at https://obamawhitehouse.archives.gov/the-press-office/remarks-president-wall-street-reform-0

[23] *See* Remarks by the President at Signing of Dodd-Frank Wall Street Reform and Consumer Protection Act (Jul. 21, 2010), available at https://obamawhitehouse.archives.gov/the-press-office/remarks-president-signing-dodd-frank-wall-street-reform-and-consumer-protection-act

[24] "'When the president signed the financial reform law, that was half-time,' says Scott Talbott of the Financial Services Roundtable, an industry trade group. 'The legislators left the field and now it's time for the regulators to take over. And we are about halfway through the third quarter of implementation of a 2,000-page law.'" Scott Horsley, *Can An Ex-Prosecutor Make The SEC Tougher On Wall Street?* NPR (Jan. 24, 2013), available at https://www.npr.org/sections/thetwo-way/2013/01/24/170182625/can-an-ex-prosecutor-make-the-sec-tougher-on-wall-street

[25] *See* Weekly Address: Wall Street Reform is Working (Jul. 25, 2015), available at https://obamawhitehouse.archives.gov/the-press-office/2015/07/25/weekly-address-wall-street-reform-working

[26] *See* Remarks of President Barack Obama and Senator Elizabeth Warren as Prepared for Delivery (Jul. 23, 2016), available at https://obamawhitehouse.archives.gov/the-press-office/2016/07/23/weekly-address-protecting-progress-weve-made-wall-street-reform

[27] *See*, e.g., Better Markets TEN YEARS OF DODD-FRANK & FINANCIAL REFORM: OBAMA SUCCESSES,

TRUMP ROLLBACKS AND FUTURE CHALLENGES (Jul. 21, 2020), available at https://bettermarkets.com/sites/default/files/images/BetterMarkets_DoddFrankReport.pdf

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[30] *See*, FDIC, QUARTERLY BANKING PROFILE: THIRD QUARTER 2010, https://www7.fdic.gov/qbp/2010sep/qbp.pdf; BETTER MARKETS, UPDATED FACT SHEET: EVERYTHING YOU NEED TO KNOW ABOUT THE $50 BILLION THRESHOLD (2018), https://bettermarkets.com/sites/default/files/Fact%20Sheet%20%2450B%20Updated%20Long%20Version%20FINAL.pdf

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[32] *See*, Dennis Kelleher and Tim Clark, Better Markets, No Financial Crash Yet Thanks to Dodd-Frank

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Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street and make our financial system work for all Americans again. Better Markets works to restore layers of protection between hardworking Americans on Main Street and Wall Street's riskiest activities. We work with allies–including many in finance–to promote pro-market, pro-business and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans' jobs, savings, retirements and more.

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