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Protecting America's Vital Early Warning System to Prevent Financial Crashes; Capital and Stress Tests: Protecting American's Homes, Jobs and Economic Growth by Ending Too Big To Fail and Taxpayer Bailouts; Noted Author, Academic, and Political Scientist Thomas Ferguson Joins Better Markets as a Senior Fellow.

Protecting America's Vital Early Warning System to Prevent Financial Crashes

As we have detailed before, the Financial Stability Oversight Council (FSOC) was created in the Dodd- Frank financial reform law due to bipartisan and industry support for a systemic regulator to prevent future surprises like the 2008 collapse of AIG. Breaking down silos and bringing together the expertise of the country's financial regulators to look for system-wide risks, the FSOC was created to be a vital early warning system to identify and guard against emerging threats to the US financial system and to ensure the regulation of nonbank systemic threats.

Today, an important Policy Brief on the FSOC was released by two senior financial experts, who make the case for a strong and, indeed, strengthened FSOC. Former banker and Treasury official Antonio Weiss and former IMF Chief Economist and MIT Professor Simon Johnson review the FSOC's legislative and operational history in "The Financial Stability Oversight Council: An Essential Role for the Evolving US Financial System."

The bottom line is that the FSOC has been very effective and is an indispensable organization in the overall post-crisis financial reform structure. As the authors conclude:

> Abandoning, undermining or curtailing the powers of the FSOC would increase the risks of another major financial crisis - on the scale of what happened in 2008 or worse.... [The] FSOC is this country's best and likely only guardian against systemic collapse. It must be preserved, protected and even strengthened. And FSOC leadership must carry out with vigor the core mandate of identifying risks to the financial stability of the United States. The American people, for whom memories of the last financial crisis remain vivid, are entitled to expect no less.

The Policy Brief is, well, brief and should be read, but it is also summarized in a Bloomberg View Op Ed entitled "Financial Regulation Calls for 20/20 Vision."

Capital and Stress Tests: Protecting American's Homes, Jobs and Economic Growth by Ending Too Big To Fail and Taxpayer Bailouts

The Peterson Institute of International Economics (PIIE) held an event to discuss an incredibly important new book about the best way to protect Main Street from Wall Street gambling and preventing another catastrophic financial crash. The book, "Banking's Final Exam: Stress Testing and Bank-Capital Reform," should be read by every financial policy maker and regulator. (If you don't have time to read the entire book, at least read the executive summary in the Introduction.) It is a data driven analysis of the current empirical literature and thinking on the crucial subjects of capital and stress testing, concluding with sensible concrete proposals.

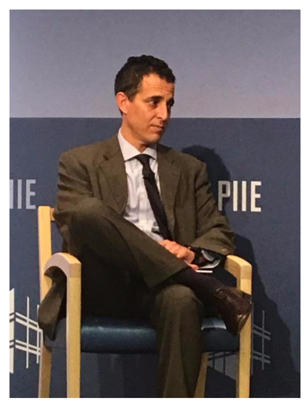
Better Markets president and CEO Dennis Kelleher had the honor of being at head table at the event with the Vice Chair of the Federal Reserve Board Stan Fischer, the Vice Chair of the FDIC Tom Hoenig, the former Vice Chair of the Fed Alan Blinder, the President of PIIE Adam Posen and the Deputy Director of Research at the IMF Giovanni Dell'Ariccia, as well as the featured speaker and author Morris Goldstein, a PIIE Senior Fellow and former Deputy Director of Research at the IMF.

The event started with Mr. Goldstein summarizing his research and findings and Mr. Hoenig and Mr. Dell'Ariccia commenting on them.

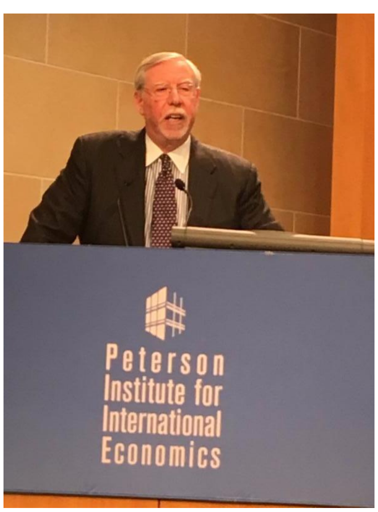
Bottom line: Mr. Goldstein's analysis demonstrates that 14% to 18% capital levels for the 8 largest U.S. systemically significant banks (and a sliding scale for smaller banks) would be appropriate with negligible impact on lending. The understated summary of the analysis is worth considering in full:

"At the heart of the banking industry's opposition to much higher capital requirements is the assertion that higher bank capital requirements will depress bank lending and thereby reduce output and employment in the economy. This assertion is increasingly at odds with the empirical evidence - as well as with the appraisals of senior bank supervisors. ...Better capitalized banks lend more, not less, than weakly capitalized ones. One recent impressive study, which looked at 105 large banks from advanced economies over the 1994-2012 period, finds that after holding other factors constant, a 1%-point increase in the equity to total assets ratio (i.e., the leverage ratio) is associated with a 0.6% increase in total lending growth. With this empirical finding, a key pillar of the case against much higher capital requirements is taken away."

Thus, the evidence proves - again -- that increasing levels of capital has little if any effect on increased lending costs and, therefore, lending and economic growth. However, even if capital requirements were not raised to a more appropriate level, they certainly shouldn't be reduced and cannot be without making the financial system more fragile and, therefore, the likelihood of crashes and bailouts more likely.



As National Economic Council Chairman Gary Cohn stated in 2016 when he was serving as President of Goldman Sachs, it cannot be denied that US banks and financial institutions are much stronger and more stable today as a direct result of financial protection rules, including but not limited to increased capital and stress testing. Moreover, those financial firms are in a much better position to support the real economy and the evidence proves that they are doing so, with lending increasing at more than twice the rate of economic growth in 2016.



Thus, while seeking to promote economic growth and jobs is a laudable goal and social imperative, subpar performance is not related to lending, bank profitability or financial protection rules. Put differently, the problem with subpar economic and job growth is not a credit supply problem. It is a demand problem due to a lack of creditworthy borrowers and consumers creating demand. That is directly due to the broad and deep economic costs that the 2008 financial crash inflicted on tens of millions of Americans families, many of whom are still suffering today from un- and underemployment, wage stagnation, underwater or nonexistent home equity, decimated savings, crushing student loan debt, among so many other costs.

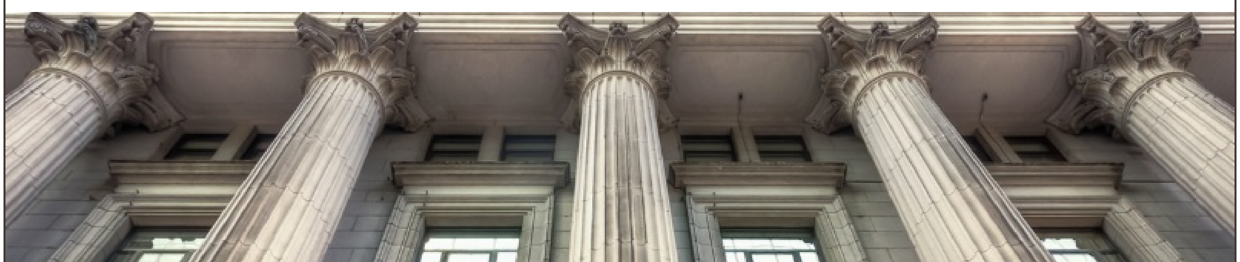
Mr. Goldstein's new book shows how we can best prevent another financial crash and economic catastrophe, avoiding those costs in the future. Read it!

Noted Author, Academic, and Political Scientist Thomas Ferguson Joins Better Markets as a Senior Fellow.

With decades of deep experience and insights, Dr. Ferguson will bring a wealth of knowledge as a Senior Fellow to Better Markets' work promoting the public interest in the Washington financial policy making process. Dr. Ferguson's expertise will also help refocus finance to supporting the real economy, jobs, wages and broad-based prosperity and away from high risk, dangerous get-quick-rich schemes and predatory business practice.

Dr. Ferguson recognizes that Better Markets' fight for the public interest in the political, policy and rule making process is vital to preventing future catastrophic financial crashes and protecting consumers, investors and all hardworking Americans. Making markets work for America's families and not just enriching Wall Street financiers is essential to combating income and wealth inequality as well as wage stagnation and low economic and job growth and Dr. Ferguson will be a key member of the Better Markets' team working on those issues.

Dr. Ferguson currently serves as Director of Research Projects at the Institute for New Economic Thinking and is Professor Emeritus at the University of Massachusetts, Boston and a Senior Fellow at the Roosevelt Institute. He has authored or coauthored several books and his articles have appeared in many scholarly journals, including the Quarterly Journal of Economics, International Organization, International Studies Quarterly, and the Journal of Economic History.



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