Will the Volcker Rule Work?

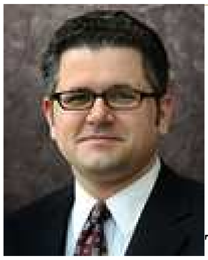
Interviewees: Douglas Elliott, Fellow, Economic Studies, Brookings Institution
Mark Calabria, Director of Financial Regulation Studies, Cato Institute
Interviewer: Roya Wolverson, Staff Writer, CFR.org

January 25, 2011

Streaming Audio

Download Audio

- MP3

The passage of the Dodd-Frank financial overhaul bill, which President Barack Obama signed into law in July, was considered a major win for Wall Street reformers. But as regulators begin to flesh out the specifics, even the bill's supporters have doubts about which reforms will actually work. One of the trickiest reforms is the so-called Volcker Rule, named after former Treasury Secretary Paul Volcker, which aims to prevent big banks from taking excessively risky bets. Douglas Elliott, a former investment banker and fellow at the Brookings Institution, says those bets will be tough for regulators to spot. "It's very hard to know when [a bank is] holding in inventory to help customers and when you're holding because you think it's going to go up in value," he says. Elliott argues that implementing the Volcker Rule will push risky bets out of carefully watched banks and into more opaque hedge funds. Likely congressional budget cuts for financial regulators will also prove challenging, he adds. The Cato Institute's Mark Calabria notes that ramping up the needed staff to implement the rule will be easier than for other parts of financial reform, since most proprietary trading is done by banks regulated by the Federal Reserve, which funds itself. "But there's a real tension of essentially promising a lot more than the regulators can actually deliver," he adds.

Weigh in on this issue by emailing CFR.org.

Terms of Use