GOP Win in November Is First Step to Killing Dodd-Frank

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American Banker

February 8, 2016

If the gods have tired of punishing banks and consequently American businesses, workers and millions of the discouraged who've left the labor force, the industry will have its first real shot in 2017 at rolling back or outright repeal of the Dodd-Frank Act — a powerful damper on economic growth.

But first, voters face a stark choice in this year's presidential campaign: unshackle banks and help accelerate growth, or continue to indulge in the vilification of banks while tightening the regulatory screws even more.

The last presidential race without an incumbent, in 2008, came at the height of the financial crisis. Both parties demanded financial reform, though few Republicans — in the Senate only three Republicans, all from three states — backed Dodd-Frank. In 2012 neither Republicans nor certainly the banking industry made a cogent case for the harm Dodd-Frank was doing and the need for its repeal.

Today however, the environment is different. Financial markets are calmer and calls for regulatory relief growing. But the November election is crucial if banks ever want to see the law repealed. The two leading Democratic candidates — Hillary Clinton and Bernie Sanders — are keen to tighten the screws rather than loosen them. For a repeal, there must be a Republican in the White House.

Three developments are necessary to put an end to Dodd-Frank once and for all.

Victory for the GOP

Both of the leading Democrat presidential contenders want to keep Washington's boot on banks' throats.

The worst outcome for banks would be the election of Democratic candidate Bernie Sanders, an avowed socialist. Sanders decries Wall Street's business model as "fraud." At the Jan. 17 Democratic debate, he declared that Wall Street CEOs "destroyed our economy" and "were crooks." He promises to break up big banks, to separate investment and commercial banking, a financial-transactions tax, free tuition paid for by dastardly Wall Street, and Dodd-Frank on steroids.

But Hillary Clinton, the putative "moderate" frontrunner, isn't much better. In a December op-ed for the *New York Times*, she vowed to "rein in Wall Street" with risk fees on large banks, taxes on high-frequency trading, extending financial-crimes' statute of limitations to 10 years, penalizing management personally when firms are fined, bolstering the Volcker rule, reinstating derivative-trading restrictions and treating carried interest as regular income.

In contrast, the three leading Republican presidential contenders — Donald Trump, Ted Cruz and Marco Rubio — have each pledged to repeal Dodd-Frank. Cruz in particular rails against banking policy under the reform law, saying Dodd-Frank is wiping out small banks and authoring legislation last year to abolish the Consumer Financial Protection Bureau.

Consensus on Dodd-Frank's Negative Effect

A Republican president committed to repeal, however, is not sufficient.

Nobel laureate Milton Friedman famously observed that achieving reform required more than simply electing "the right people," that it was critical to "establish a political climate of opinion which will make it politically profitable for the wrong people to do the right thing." Indeed, if the political climate didn't support it, Friedman asserted, even the right officeholders wouldn't do "the right thing" because if they did they would "shortly be out of office."

Therefore, to expand support for repeal banks need to continue to build the case of Dodd-Frank's horrific effects. In particular because it requires 60 votes to do most anything, in the Senate at least a handful of Democrats must find it politically advantageous to go along with repeal.

The financial industry must hone its message to Joe Sixpack and Sally Soccermom that Dodd-Frank is one of the principal reasons the economy is stuck in the doldrums, and that it stifles growth and financial services for underserved customers and politically out-of-favor businesses. The

November 62.4% civilian labor-force participationrate was the second lowest since 1978 (the lowest was in August.) With the exception of the years during the financial crisis, the rate at which new businesses formed was lower in 2013 than in any year since 1977.

Voters must be forcefully reminded a vibrant banking industry providing payments and capital is vital for robust job and wealth creation. Under Dodd-Frank, new bank formation has essentially ceased. There was only one new commercial bank and a single new savings bank charter from 2011 through 2014, whereas in the 15 years before Dodd-Frank's 2010 passage, an average of 140 new commercial bank and 15 new savings bank charters were issued per year.

An Improved Reputation for Banks

And the last conditions necessary for Dodd-Frank's repeal are to debunk the false narrative that Wall Street "crooks" caused the crisis, and for financial institutions to improve their public reputations.

Much of the public despises Wall Street and still believes progressives' narrative that greedy banking buccaneers caused the financial crisis. In his book "Hidden in Plain Sight", the American Enterprise Institute's Peter Wallison makes the case that the critical factor was government housing finance policy's systematically weakening mortgage credit standards, without which the crisis wouldn't have happened. Dodd-Frank didn't address Washington's outsized role in housing finance.

Financial institutions continue to kiss the rings of their Washington overlords, rather than making an affirmative case to the public for the good they do. Going forward demonized banks must bolster their reputations, not with regulators, but with the public.

Dodd-Frank is a millstone around the necks of the economy and morally-good banks. Tucking into a fetal position is not a winning strategy for repeal. Banks enable retirees to earn a return on their savings and provide capital for expanding businesses. Those noble efforts need to be better understood by voters. It's time to make the case.

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