

Democrats, Too, Are Need to Overhaul Dodd-Frank

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The Dodd-Frank Act is a jobs and business killer. Both candidate Trump and now his presidential transition team have promised to "dismantle" it. But success will depend on how President-elect Trump and congressional Republicans frame the issue of financial regulatory reform for the public.

Whether Republicans can gut Dodd-Frank and rein in regulatory absolutism matters enormously for the banking industry, economic growth, and the welfare of Joe Sixpack and Sally Soccer-Mom. But Washington pundits disagree about the best approach and prospects for overhauling regulation of the financial system in 2017.

One thing that is clear is a successful reform effort will need to include both Republicans and Democrats driving the train.

Legislative tactics and regulatory appointments will matter in turning the regulatory tides to banks' favor.

But it will also be paramount for Trump to use his bully pulpit to make the case — over the heads of his critics in Congress and the media — directly to the American people that oppressive financial regulation is hurting the economy and that overhauling Dodd-Frank, while bringing financial regulators to heel, is a pro-jobs and pro-growth reform.

The economy is in the doldrums. The November seasonally-adjusted labor-force-participation rate of 62.7% hovered near a four-decade low. Real household median income has fallen through much of the last decade.

Voters aren't much interested in capital levels, the Federal Reserve's stress tests, interchange price controls, debit routing, the Consumer Financial

Protection Bureau being funded by the Fed rather than Congress, or the CFPB regulating out of existence products it doesn't like. They want better economic prospects for their families.

The great economist Milton Friedman famously said that to enact reform it is vital "to establish a political climate of opinion which will make it politically profitable for the wrong people to do the right thing." He added, "Unless it is politically profitable for the wrong people to do the right thing, the right people will not do the right thing either."

In pitching reform to the American people, Republicans need to make a big-picture, positive, and intuitive argument that small-business owners, blue-collar workers, and both the unemployed and underemployed will understand and support. Dodd-Frank's straitjacket forces banks to prioritize the wishes of regulators over those of customers and shareholders, and stifles growth.

Democrats' 2018 electoral landscape is daunting, making them susceptible to pressure — as Friedman put it — to do the right thing. They will be defending 25 Senate seats (two are occupied by independents who caucus with Democrats.) The Democrats will be playing defense in 10 states that Trump carried. Trump carried West Virginia by 42 points, North Dakota by 36, Montana by 21, and Indiana and Missouri by 19 each.

The Democrats up for reelection in those states — Joe Manchin, Heidi Heitkamp, Jon Tester, Joe Donnelly and Claire McCaskill — could be particularly receptive to joining Republicans in curbing regulatory excess. If the climate of opinion is changed, Democrats from solid blue states too could feel pressure to dismantle Dodd-Frank.

Populists on the left and right rail against banks, in spite of the fact that a healthy and innovative banking sector is vital for economic growth. Rolling back Dodd-Frank must be branded as pro-jobs and pro-growth, not as pro-bank or pro-Wall Street.

Unshackling the financial services industry in 2017 and thereby turbocharging economic growth is achievable if reform-minded Republicans properly frame the issue and aggressively make their case to voters, forcing enough Democrats to join them and make it so.

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