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A Growing Economy Needs Regional Bank De-Regulation

By Michael W. Thompson

2/14/2018 -- Following the shock of the recent Great Recession, Congress took actions to "save us" from such future threats. The Dodd-Frank Wall Street Reform and Consumer Protection Act were supposed to prevent another recession by imposing greater regulations on our banks. These bills were to stop a few big banks from having overwhelming impact on our economy. In theory, this approach made sense but reality, and years of experience, require changes in these laws.

The economic recovery over the past seven or eight years has been historically weak. This indicates that these new regulations are not the road to take for serious economic recovery.

The current economic boom that we've seen since the presidential election, needs to be undergirded with a serious review and revision of laws and regulations that will hinder long term strength in our economy. And one area that needs review and reform is in some of the bank regulations.

The current regulatory system determines bank risk to our economy only on size of these institutions. It has been decided by Congress that banks with assets of $50 billion or more are a threat to the overall financial system.

Taking a look at the economy today and the need to take actions to encourage long-term growth, the $50 billion figure definition of a bank with too much power may not be the right measurement. Former Congressman Barney Frank, co-author of the Dodd-Frank Reform, has made an important point when he said, "all numbers are arbitrary, and in the rush, $50 billion seemed like a much bigger number."

Regional Banks have been hobbled by this new regulatory system and yet these banks were not the cause of the Great Recession. Banks here in Virginia such as Capital One, SunTrust, PNC and others that are the backbone to our small business sector are being held to the same regulations as large Wall Street banks such as JPMorgan Chase. The risk from these regional banks is significantly lower than the Big Boys which are complex, mega-banks.

The unintended consequences of lumping regional banks in with large national mega-banks that that the regional ones don't have the resources to comply with these burdensome regulations so they are forced to spend more time and money on regulation compliance and less on traditional banking activities, specifically commercial and consumer lending that is part of a growing and stable economy.

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Small businesses rely on regional banks, not only for making deposits, but for loans and other banking services. These businesses cannot grow to their full potential when regional banks are no longer the business partners they used to be when they could focus on providing needed capital for our smaller and family owned businesses.

According the Small Business Administration, 99.5 percent of businesses in Virginia are small businesses, employing 47% of the workforce. Before the Great Recession, Virginia had an unemployment rate of 3.5 percent, yet as of November 2017, the unemployment rate has not reached the prerecession rate and the state GDP rate is growing slower than the national GDP.

In fact, recent bank data shows Virginia has been missing out on nearly $18 billion in annual GDP growth due to the improperly calibrated regulations on regional banks under Dodd-Frank.

With so much of Virginia's economy connected to the success of small businesses, it is important the regional banks doing business in our state see some regulatory relief. If proper regulations are in place, Virginians will see their businesses grow, which will create jobs and ultimately help communities across the state prosper. With strong, consistent commercial lending available from regional banks, more businesses can open and grow — helping the unemployment rate decrease and diversifying our economy.

Congress should make changes to Dodd-Frank to help our smaller Virginia businesses get access the capital they need. These changes could lighten the burden that Dodd-Frank places on our regional banks. These regional banks could then focus more of their time and resources on serving their customers, leading to more money flowing into our economy and strengthening our Main Streets. Tax cuts will be a huge boost to our economy but long-term growth requires careful banking regulation reform. The sooner that is tackled by our elected leaders, the better.

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Michael Thompson is President of the Thomas Jefferson Institute. This column reflects his views and not necessarily those of the Institute. A version of this column first ran in the Fredericksburg Free Lance Star.