Newsmax

House Subcommittee Looks at Bank Competitiveness

By Robert Feinberg
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On March 5, the House Financial Services Committee's Subcommittee on Oversight and Investigations, chaired by Patrick McHenry, R-N.C., held a hearing titled "The Growth of Financial Regulation and its Impact on International Competitiveness."

One of the most prominent themes of hearings by this committee reflects a change in the lobbying strategy of the banking lobby. After a brief period of contrition following the 2008 episode of the ongoing financial crisis, the industry switched to a strategy based on presenting itself as the victim of the crisis and warning of dire consequences to job creators and others who depend on credit if the regulations pending under the Dodd-Frank and agreements by the G-20 nations are implemented.

In his opening statement, McHenry gave full scope to argument that for more than a century America has enjoyed domination of international trade and finance and unparalleled prosperity and freedom thanks to the strength of its financial institutions, but now this dominance is threatened by the "cumulative impact" of regulations under Dodd-Frank, the Basel Capital Accords and other regulations. "Cumulative impact" is a favorite term JPMorgan Chase CEO Jamie Dimon uses when he complains about regulation.

The ranking Democrat on the Subcommittee, Al Green, D-Texas, responded that during the 2008 episode, the largest banks had stopped lending to each other until the government stepped in with extraordinary assistance. Green suggested that the best way for the United States to lead would be to implement the regulations. Thus, the lines were drawn once again, although in fact, despite what the ranking Democrat says at any given hearing, some Democrats have leaned toward the industry's agenda.

Witnesses included three subject experts and Alon Hillel-Tuon, co-founder and CEO of RocketHub, a representative of the crowdfunding community that McHenry added as another example of job creators losing their competitive edge due to regulations that enthusiasts view as overly restrictive compared with those of other countries.

Among the other witnesses, two represented right-of-center think tanks and the third fills the spot allotted to the Democrats. Louise Bennetts, associate director of Financial Regulation Studies at the Cato Institute, warned that the U.S. regulators could be going too far in looking inward, in an effort to protect against external shocks and to serve interest groups harmed by the crisis, thereby risking its dominance of international banking. She complained that if U.S. authorities require, as the Federal Reserve proposes, foreign banks to hold capital to bank their operations in the United States, foreign regulators might retaliate against U.S. banks. She struggles with the notion that capital buffers are needed in order to rein in the appetite of bankers to take on ever-more risk, counting on the government to come to the rescue yet again.

Peter Wallison, a fellow in Financial Studies at the American Enterprise Institute, challenged the notion that the scale of the 2008 episode means that the failure of any large financial institution can threaten the entire financial system.

Michael Barr, who served in the Obama Treasury before returning to the University of Michigan Law School faculty, listed an extensive array of measures that are supposed to limit the damage from future crises. In a recent discussion with me, he took an admittedly optimistic view of the ability of the authorities to do in the future what they have failed serially to do in the past.

My view is that the enactors of Dodd-Frank took for granted that the industry would be chastened by the near-death experience, but evidently they were wrong.

(Archived video, the staff memorandum and witness statements can be found **here**.)