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Public Frustration Still Fuels Banking Debate

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Nearly seven years after the financial crisis, the uncomfortable truth for the banking industry is that populist anger remains alive and well.

Public skepticism of large financial institutions has permeated the debate on Capitol Hill and around Washington, defining the contours of the fight over regulatory policy.

Bank advisors have long noted that even with loyal clients, they feel the public angst from customers who sometimes go as far as encouraging them to switch banks.

And now, the issue is increasingly seeping into the campaign trail, with presidential contenders on both sides of the aisle bashing the biggest banks.

“When you have everybody from Bernie Sanders to Ted Cruz criticizing Wall Street, that tells you that the polls are telling them this is a serious issue that the American people care about,” said Dennis Kelleher, head of the consumer advocacy group Better Markets.

The populist sentiment about Wall Street and its ties to individual candidates is particularly ripe during the primaries, especially on the GOP side, where there are 16 candidates. Even Republican frontrunner Donald Trump, while not criticizing banks, has run what some argue is a populist campaign resonating with blue-collar voters.

“In a field that large, you have to differentiate yourself, and it becomes very easy to have a battle between the outsiders and the establishment,” said Brian Gardner, an analyst at Keefe, Bruyette & Woods.

But the specter of Wall Street also haunts Democratic presidential frontrunner Hillary Clinton. Several liberal groups wrote to her last month expressing concern about two former State Department aides who used to work for Goldman Sachs and Morgan Stanley.

Still, while populist concern about Wall Street may be bipartisan, conservatives and progressives often come at the issue with different perspectives.

Republicans are often focused on quashing “crony capitalism” and additional bailouts, while Democrats tend to speak more to the vast power the largest banks have amassed in spite of the financial crisis and the impact on consumers. That can make consensus-building difficult.

“Populism comes in different strains, and because the parties generally view causation differently, they view responses differently,” said Gardner.

So far, though some prominent Republicans and Democrats have come together to introduce legislation that would target big banks, those efforts have failed to gain steam since the passage of Dodd-Frank Act.

“It’s intensified the political rhetoric, but since the legislative process is effectively broken, it hasn’t had a tangible impact from a lawmaking perspective,” said Isaac Boltansky, a policy analyst with Compass Point Research & Trading.

In some ways, ongoing anger on both sides of the aisle makes legislation even more difficult to come by. Even regulatory relief measures for community banks, which most lawmakers say they support, have so far failed to make it over the goal line.

“This is a situation where if [the anger] had come and gone, you would have already seen modest changes to Dodd-Frank, what I would call a smoothing of the edges,” said Mark Calabria, director of financial regulation studies at the Cato Institute.

“Rather than providing energy and cover for legislation, it’s really had the opposite effect.”

Some also question whether — beyond the lip service paid by presidential candidates and politicians to “reining in Wall Street” — the issue is a top priority for most voters, one that will determine their support or opposition.

“I think there’s the same amount of frustration and anger, but it’s dissipated in the hierarchy of voter concerns,” said Brandon Barford, a partner at Beacon Policy Advisors, pointing to issues like income inequality, immigration and jobs that may take precedent.

Still, polls suggest that voters are worried about who’s overseeing the biggest banks. Two-thirds of likely voters say government should be doing more to oversee financial institutions, according to a recent poll sponsored by the Center for Responsible Lending and Americans for Financial Reform.

That figure has held steady over the past three years.

There’s the ongoing feeling, for example, that regulators and law enforcement agencies haven’t done enough to punish bankers who broke the law leading up to the crisis.

“There’s a frustration over what’s perceived to be a lack of government response both on the policy front and the lack of criminal punishment for bankers,” Gardner said. “It continues to fuel a populist strain in the country and doesn’t seem to be subsiding anytime soon.”

On the regulatory front, there’s some sense that anger from some outspoken lawmakers, including Sen. Elizabeth Warren, D-Mass., has pushed regulators to act more aggressively — or perhaps given them cover to do so. Warren has been vocal in urging the Department of Justice and the Securities and Exchange Commission to be tougher on the biggest banks.

Some also have suggested that an unsuccessful bill by Sens. Sherrod Brown, D-Ohio, and David Vitter, R-La., in 2013 to raise capital standards may have helped encourage regulators to toughen their own rule, which was finalized last year.

Others note that perhaps the biggest impact of public outrage has been at the voting booth. Though the financial crisis and the passage of the Troubled Asset Relief Program occurred during the Bush administration, many voters blame the Obama administration for not being tougher on banks when it took power in 2009.

“To me, the populism has translated itself in terms of electoral changes [rather] than in policy changes,” said Calabria.

Still, electoral challenges cut across party lines. Kelleher pointed to former Majority Leader Eric Cantor’s loss in the Virginia primary last summer — a historic upset — which he said was at least partially due to frustration over Wall Street.

“The crooks up on Wall Street and some of the big banks — I’m pro-business, I’m just talking about the crooks — they didn’t go to jail, they are on Eric’s Rolodex,” said Rep. David Brat, R-Va., Cantor’s primary opponent at the time, before going on to win the general election.

“Cantor lost in no small measure because he forgot that voters want their own interests represented,” Kelleher concluded in a June 2014 memo with Democratic pollster Anna Greenberg. “Ignoring voters’ anger with Wall Street — and its protectors in Washington — comes at incumbents’ own peril.”