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White House candidates put bank reform on back burner

Reliance on Wall Street for funding mutes debate on financial regulation.

By Richard Blackden - 21 Oct 2012

Two weeks after Lehman Brothers filed for bankruptcy, John McCain, the Republican who was challenging Barack Obama for The White House, suspended his presidential campaign. He was returning to Washington, he said, to help tackle “the historic crisis in our financial system.”

At the time, McCain’s gesture was dramatic evidence that the unravelling of America’s largest banks in the autumn of 2008 was defining an election that saw Obama become president. Fast forward four years, and Wall Street bankers are enjoying a far lower profile in this election campaign, even though polls show that the prospects for the economy remain the central concern of US voters.

McCain’s misguided decision to suspend his campaign did him few favours on Wall Street. The Republican senator secured $9.7m (£6m) in donations from the securities industry compared with the $16.2m it handed to Obama, according to the Center for Responsive Politics. This time is different. The president has secured about $4.1m, while Mitt Romney, his Republican challenger, has received $11.6m.

Sheila Bair, the former head of the Federal Deposit Insurance Corporation, one of the country’s biggest financial regulators, claims the reliance of the candidates on Wall Street for funding has helped mute the debate during this campaign about Wall Street banks, their regulation and role in the economy. “What you gain in votes by talking about the issues, you lose in money,” argues Bair. “These are also complicated issues, that are sometimes deliberately overcomplicated.”

Given Romney founded private equity firm Bain Capital in 1984 and then ran it for the next 15 years, the direction Wall Street’s cash is moving in is not a huge surprise. But until a month ago, it looked as good a bet as buying a bond backed by sub-prime mortgages.

A strong performance in the first presidential debate on October 3 revived Romney’s bid and, with the final debate this evening and the election 15 days away, most national opinion polls are struggling to separate the two candidates.

With the race tightening, Wall Street is now paying closer attention to what a Romney presidency might mean for the industry. The former governor of Massachusetts barely mentions Wall Street on the election stump given there is little political benefit in doing so. But his manifesto declares he will repeal Dodd-Frank, the sweeping piece of financial reform legislation Congress and The White House agreed in 2010.

The Republican has so far offered little detail about what he will put in place of Dodd-Frank.

Although Romney's improved showing in the polls is generating some excitement on Wall Street, analysts caution that overhauling the financial system will not be a priority for a Romney government.

"Romney will have a major fiscal situation to deal with straight away," says Mark Calabria, a director at the Cato Institute and former adviser to the Senate Banking Committee. "Dodd-Frank will be in the top ten priorities but I wouldn't put it in the top five."

Should Obama hold off Romney's surge, he will face pressure from Democrats to finish the implementation of Dodd-Frank.

The regulators tasked with turning the act's broad ambitions into workable rules have so far missed 63pc of deadlines. According to a report this month from law firm David-Polk, 34pc of the rules have yet to be finalised.

These include some of the central pieces of the act, including the Volcker Rule, which prohibits banks from gambling with their own money, and the rules to make trading in the $648 trillion derivatives market more transparent by moving it onto exchanges.

Banks have lobbied hard to dilute both aims, with the Volcker Rule alone receiving 18,000 critiques.

While acknowledging industry lobbyng, Bair says The White House should carry some of the blame for the current situation.

"How long it has taken to implement Dodd-Frank has left it vulnerable," she says. "First and foremost they need to get the rules done."

The irony, says analysts, is that even if Romney prevails few on Wall Street want complete reform of Dodd-Frank.

Banks including JP Morgan have complained loudly about the cost of the uncertainty created by unfinished rules.

If Romney did eventually try to repeal it, he would face strong resistance from Democrats in Congress.

“We don’t need to go through another two-year legislative battle over this,” admits Bair.

Bankers and traders on Wall Street will be paying close attention as results come in on November 6. However, four years on from an election defined by the financial crisis, the 2012 version is unlikely to provide complete clarity on the new rules whoever wins.