Emerging Leaders Insights
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Four years of Dodd-Frank damage

By Peter J. Wallison

When the Dodd-Frank Wall Street Reform and Consumer Protection Act took effect on July 21, 2010, it immediately caused a sharp partisan division. This staggeringly large legislation—2,300 pages—passed the House without a single Republican vote and received only three GOP votes in the Senate.

Republicans saw the bill as ObamaCare for the financial system, a vast and unnecessary expansion of the regulatory state.

Four years later, Dodd-Frank's pernicious effects have shown that the law's critics were, if anything, too kind. Dodd-Frank has already overwhelmed the regulatory system, stifled the financial industry and impaired economic growth.

According to the law firm Davis, Polk & Wardell's progress report, Dodd-Frank is severely taxing the regulatory agencies that are supposed to implement it. As of July 18, only 208 of the 398 regulations required by the act have been finalized, and more than 45 percent of congressional deadlines have been missed.

The effect on the economy has been worse. A 2013 Federal Reserve Bank of Dallas study showed that the GDP recovery from the recession that ended in 2009 has been the slowest on record, 11 percent below the average for recoveries since 1960.

There is always a trade-off between regulation and economic growth, but Dodd-Frank—by far the most intrusive and costly financial regulation since the New Deal—placed few if any limitations on regulatory power. Written broadly and leaving regulators to fill in the details, the act has often left regulators in doubt about what Congress meant. Even after regulations have been finalized, interpreting them can be a trial. For example, the regulations implementing the inconsistent Volcker Rule, which prohibited banks and their affiliates from trading securities for their own account, took more than three years to write, but key provisions are still unclear.

These uncertainties, costs and restrictions have sapped the willingness or ability of the financial industry to take the prudent risks that economic growth requires. With many more regulations still to come, Dodd-Frank is likely to be an economic drag for many years.

None of this was necessary. The administration and Congress acted hastily. The Treasury Department sent draft legislation to Congress only a few months after taking office in 2009, and the law—spurred by a promise from then-Rep. Barney Frank for a "new New Deal"—passed a year later. The left's view had been settled: the crisis would be blamed on Wall Street greed and insufficient regulation. The act set out to implement that worldview by subjecting American finance to unprecedented government control.

It is now clear, however, that government housing policies—implemented primarily by Fannie Mae and Freddie Mac—forced a reduction in mortgage underwriting standards, which was the real cause of the crisis. The goal was to foster affordable housing for low-income and minority borrowers, but these loosened standards inevitably spread to the wider market, building an enormous housing bubble between 1997 and 2007.

By 2008 roughly 58 percent of all U.S. mortgages—32 million loans—were subprime or otherwise low quality. Of these 32 million loans, 76 percent were on the books of government agencies, primarily Fannie and Freddie, showing incontrovertibly where the demand for these loans originated. When the housing bubble burst, mortgage defaults soared to unprecedented levels. Although the left's narrative placed all blame on the private sector, these numbers show that private firms were responsible for less than a quarter of the problem.

Yet Dodd-Frank said nothing about government housing policies and ignored Fannie and Freddie. It focused on placing additional restrictions on financial firms, often for no apparent purpose other than to extend government control. For example, all bank holding companies with consolidated assets of more than $50 billion were automatically designated as systemically important financial institutions, although a bank of that size would not bring down the multitrillion-dollar U.S. financial system.

The Volcker Rule was inserted in the act, even though there is no evidence that banks trading securities for their own account had anything to do with the financial crisis.

Even the Constitution's checks and balances did not impede the left's objectives. To block Congress from limiting the Consumer Financial Protection Bureau's activities, Dodd-Frank set up the agency to be funded directly by the Federal Reserve. This is a clear evasion of the constitutional structure in which Congress appropriates funds for executive-branch operations.

Dodd-Frank also created the Financial Stability Oversight Council, consisting of the leaders of all federal financial regulators and headed by the Treasury secretary. FSOC has the extraordinary power to designate certain nonbank financial firms as systemically important financial institutions (SIFIs) if, in the judgment of the council, the firm's "material financial distress" would cause financial "instability." By definition, then, SIFI designation means a nonbank financial institution is "too big to fail." Although we are currently saddled (thanks to past government policies) with several enormous banks that may be too big to fail, the act gave the FSOC the power to create more too-big-to-fail institutions in other industries.

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The SIFI process is underway, with AIG, Prudential Financial and GE Capital already designated. These firms are now subject to bank like regulation by the Fed—though the central bank has given no hint of what this regulation will ultimately entail.

The FSOC is now turning to asset-management firms and mutual funds, with what looks like an effort to bring large players in the capital markets and securities industry under Fed regulation. The obvious danger in subjecting the unique and innovative U.S. capital markets to banklike restrictions recently drove the House Financial Services Committee to pass a one-year moratorium on additional SIFI designations.

There is much more, but one example says it all. Several months ago J.P. Morgan Chase announced that it plans to hire 3,000 more compliance officers this year, to supplement the 7,000 brought on last year. At the same time the bank will reduce its overall head count by 5,000. Substituting employees who produce no revenue for those who do is the legacy of Dodd-Frank, and it will be with us as long as this destructive law is on the books.

Mr. Wallison is a senior fellow at the American Enterprise Institute. His book on the financial crisis, "Hidden in Plain Sight: How the Government's Housing Policies Caused the Financial Crisis and Why it Can Happen Again," will be published in January by Encounter Books. This editorial originally appeared on the Wall Street Journal website on July 20.

Emerging Leaders notes

- Make sure to sign up for the 2014 Annual Washington visit. Emerging Leaders members can attend of half-price ($250). It is a great way to begin your advocacy efforts; and

- Save the date for the October luncheons! Wednesday, Oct. 15 in Oklahoma City and Tuesday, Oct. 21 in Tulsa.

MEMBER SPOTLIGHT

Jerold Phillips

Don't wait a moment longer to meet Jerold Phillips, vice president/ CIO at Citizens Bank & Trust Co. in Armore.

While banking may consume a majority of his time -- did you know he serves as the class secretary of this year's Southwest Graduate School of Banking -- he also spends a lot of time working his small cattle operation.

If you'd like to hear intriguing stories, ask him about his days working as a process server.

You can never go wrong suggesting having lunch if you promise lasagna - his favorite food.

Each month in this section we'll highlight a member of Emerging Leaders. Would you like to be spotlighted? Do you know someone that should be spotlighted? Let us know at kristin@oba.com.

Three great tips for staying calm at work

By Siimon Reynolds

It's becoming harder than ever to stay calm and relaxed in the workplace.

Workloads are getting bigger, deadlines are getting shorter.

It's no wonder workplace stress is at an all-time high.

But part of the reason that so many people are feeling so angst ridden about their work is because they have never learned any methods to alleviate their stress.

As a mentor to executives and CEOs worldwide, I see this scenario all the time and in response have developed several powerful techniques for helping anyone to greatly reduce feelings of overwhelm, sadness and tension at work.

Let's look at several of the best techniques now.

Switch To The Game Mindset
In my experience, there are two primary mindsets people have about their work. The first is the War Mindset. Somebody with this mindset sees work as a battle and themselves as a soldier. It's hardly surprising then that they often finish their day completely exhausted and defeated by their perceived skirmishes.

The second mindset is the Game Mindset. Executives living this paradigm are just as committed to excellence as the first group, but they see themselves as competing in an exciting and entertaining game. They still try really hard, but they are eminently aware that their doing this for fun as much as money.

Time and time again I have seen people who think this way both outperform the warriors and simultaneously be more relaxed and happier.

If you're feeling a little worn out by work, consider putting a Post It note on your desk with the word 'Game' on it, so you can be reminded to keep this mindset all day long.

You'll be surprised at what a difference it makes.

Use The 'Next Right Choice' Technique
This is a highly effective method of stress reduction taught by the brilliant high performance coach, Dr Dennis Deaton.

When you are stressed at work you take two minutes to mentally visualize yourself making the right choice in that situation. So for example if you are clashing with a colleague, just before you are scheduled to have a meeting with that person you mentally see yourself as being calm, rational, and effective in your conversation with them. It's a very simple technique that can lead to virtually immediate improvements in performance and reductions in stress.

Try The Breath Release
This is one of my personal favorites. Whenever you are in a high stress situation, take a deep breath and then rapidly exhale, as you simultaneously imagine that particular stress leaving your body.

My personal belief is that mental stresses have corresponding physical components in our bodies. When we physically attempt to expel them there is almost always a dramatic improvement in how we feel.

These are three highly effective techniques for reducing your workplace stress.

Used in combination they can turn even the most stressed worker into someone who is happier, calmer and significantly more effective.

Copyright ©2014 Siimon Reynolds, All Rights Reserved. Siimon Reynolds co-founded Photon Group, which in 8 years grew to a staff of 6,000, becoming the 15th largest marketing services company in the world. Consisting of 52 companies in 14 countries. He has owned and run successful businesses for over 20 years (starting at the age of 23). He is considered a mentor to business leaders worldwide. Learn more at www.siimonreynolds.com.

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