Financing America's Growth—How Robust Capital Markets Can Help Revitalize Our Economy

Remarks by

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Introduction

Nine years ago I stood at this very spot as a speaker at the *Equities Magazine* conference. NASDAQ had just announced a deal to link up with the leading European technology and trading platform, OMX, for the price of two seats on the NASDAQ board. That sounded like a pretty good deal then—and still does today!

We were a few months into the subprime crisis and just a few months away from the Great Recession. In fact, before the financial crisis struck, the U.S. Chamber was already thinking seriously about the long-term competitiveness of U.S. capital markets. In 2005, we established an independent, bipartisan commission of experts on all aspects of the capital markets.

When I spoke at the *Equities Magazine* conference, we had just stood up our Center for Capital Markets Competitiveness, which continues to thrive today under the leadership of David Hirschmann.

In my speech, I offered three pieces of advice to lawmakers and others during that time of crisis. First, don't forget that Wall Street and Main Street are inextricably linked. They depend on each other.

Second, don't act hastily and don't act out of anger. Make reforms, but take the time to get them right. Don't focus on making changes that will prevent a crisis that already happened. Instead, focus on creating a nimble regulatory system that can identify potential problems early and deal with them quickly before they reach crisis proportions.

Third, and most importantly, I warned that our goal must not be to eliminate all risk, but to mitigate it where appropriate. No one believes that our financial system should be like the Wild West. However, we need to preserve reasonable risk taking. The equation is simple—no risk, no growth, no jobs, no prosperity. We can find the right balance.

Unfortunately, that advice went unheeded.

I offer this little history lesson not as a way to say "I told you so." Rather, I offer it to underscore the fact that there's a reason why we're stuck in this slow-motion recovery—and a big part of that reason is the poor public policy choices we made in reaction to the financial crisis and the Great Recession.

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Sure, we got some things right and made some progress. The Chamber supported TARP and the extraordinary measures taken by the Federal Reserve. There were even some portions of Dodd-Frank that we liked, such as the clearing of certain derivatives.

So those who tell you that the Chamber doesn't think that the government has a legitimate role to play in our economy don't know what they're talking about—or are playing cute with the facts. And anyone who says we oppose all regulation is equally off base—we want smart regulation.

Today our financial system is more stable, our banks are better capitalized, and we've made needed

reforms to derivatives. But Dodd-Frank, in combination with Basel III, got too much wrong—and we're paying a steep price.

One reason we're stuck in this slow-motion recovery is the poor public policy choices we made in reaction to the financial crisis and the Great Recession.

Our economic engine is sputtering. In search of financial stability, policymakers and regulators have tried to wring risk out of the economy while sacrificing growth and job creation. There's been too much focus on achieving short-term stability, when what we need is long-term stability that promotes sustainable, robust growth. Unfortunately, regulators have forgotten that you can't have any real stability without growth.

Our lawmakers have forgotten that if America's economy does not start growing faster in this turbulent and dangerous world, then we won't be able to lead militarily, diplomatically, and economically and protect our nation from harm.

And without greater economic growth, there is no way to address the real financial crisis facing this nation—not the make-believe ones you hear on the campaign trail—that is, our unsustainable entitlement programs that threaten to bankrupt the country. More robust growth, strong capital markets, and commonsense reforms to these programs are the solution to that crisis.

In fact, lawmakers and regulators have not considered growth a primary goal when regulating our capital markets. That must change—and in a big hurry.

That's one of the primary reasons we're stuck in an economy with a glass ceiling of 2% growth ... why we have the lowest worker participation rate ever recorded … and why we have less than half the number of public companies we did in 1996.

The last eight years of restrictive, punitive, redundant, and overlapping regulations have undermined our system's ability to finance the growth of companies large and small. This is especially true of our Main Street businesses. Dodd-Frank and Basel III have put a big hit on the small, midsize, and regional banks that many small businesses rely on.

Corporate treasurers now find bank regulations harming their ability to raise capital—and they see the situation getting worse over the next three years. One-third of some 300 corporate finance executives surveyed recently by the Chamber said they have had to increase prices for customers because of new compliance costs from Dodd-Frank and Basel III. Almost 20% said they delayed or canceled planned investments.

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Our capital markets team recently arranged a meeting of corporate treasurers with the Federal Reserve of New York so that those officials could hear directly from our members. We intend to do more of these meetings in the future.

The zeal to eliminate risk means markets have been hobbled and can no longer serve as an engine that drives a growing economy and a rising standard of living.

We need a financial system that fosters growth-enhancing innovation and allows for legitimate risk.

Today I want to talk about how we can right the ship and get back on course to reach a goal we should all seek: the best regulated and most transparent, competitive, and liquid capital markets in the world … markets that can finance America's growth and provide countless opportunities for our citizens.

The Right Vision

First, it starts by laying out a vision of what we want our capital markets to be and to achieve. We need a system that fosters growth-enhancing innovation and allows for legitimate risk.

It would support diverse products and services from an array of capital providers and investors. It would offer ample access to affordable credit and ensure liquidity for businesses' daily operations.

Its regulators would have clearly defined responsibilities, enforce the rules smartly, be held accountable, and coordinate well with other agencies. Imagine being a midsize bank or financial firm with multiple regulators giving you different guidance or instructions. It would make you want to see a psychiatrist.

Regulators would understand the markets they

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are regulating and not pick winners and losers among sources or types of capital.

They would make certain that our system is coordinated, complementary, and compatible with the world's other major economies.

They would enforce rules impartially and consistently. They would focus on rooting out the genuine bad actors and stopping them before they do damage.

They would ensure that honest market participants know the rules of the road and have a level playing field.

Policymakers would understand that our system thrives on entrepreneurial risk and regulatory certainty. That's how new ideas take life, new products are brought to market, new technologies are invented, and new jobs are created. Doing all of this takes capital.

Yes, our financial institutions will be betting on some ideas that are not sure things. There's the risk that they may not pan out, may lose money, or could even fail.

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The Right Policies

What policies must we support to achieve this kind of system?

The Chamber has already made proposals to reform the SEC to make it an operationally stronger and more effective agency.

We've released a plan to reform the Financial Stability Oversight Council to make it more transparent.

Checks and balances need to be applied to the Consumer Financial Protection Bureau just as they are to any other agency. The Bureau's large budget is not subject to congressional approval, and too much power is vested in its director, who answers to no one.

We think a bipartisan, five-person commission would provide more balance and accountability in the Bureau's management than a single, powerful director. And we believe additional oversight by Congress would be an appropriate check on the Bureau's extensive powers.

And we've proposed changes for self-regulatory organizations, such as the Public Company Accounting Oversight Board, to make them more accountable.

Checks and balances need to be applied to the Consumer Financial Protection Bureau just as they are to any other agency.

We have also proposed due process reforms in SEC legal proceedings to restore the right to a jury trial. Using only administrative

law judges in the most complex enforcement cases essentially stacks the deck against companies that should have the option of a jury trial.

Some of our suggestions have been acted on and others ignored—for now.

Banking regulators cannot be immune from transparency and due process. Too often rules are decided in the backrooms of Washington or Basel.

In the near future, the Chamber is going to release an action plan to reform the Federal Reserve in its role as a regulator to make it a more transparent and accountable regulatory agency. Let there be no confusion—an independent Fed is necessary to develop stable monetary policy devoid of political interference in order for markets to operate efficiently and spur economic growth. And we will support that independence.

However, the Federal Reserve has been charged with new sweeping regulatory powers and work streams under Dodd-Frank, Basel III, and the G-20 mandates. Its growing regulatory powers demand greater scrutiny. Stay tuned …

Banking regulators cannot be immune from transparency and due process.

In addition to issues involving the Fed, we have important matters before Congress and the administration. One critical issue is stopping the Department of Labor's fiduciary rule. The Chamber has sued to stop it dead in its tracks. The DOL's intentions are good, but it simply didn't get the rule right. If it's allowed to go forward, up to 9 million small business

owners could stop providing retirement benefits to their employees.

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Also on our agenda is stopping the CFPB's efforts to eliminate pre-dispute arbitration clauses, which would be one of the biggest gifts to the trial bar in many years. Companies offer their customers arbitration programs because they are a more effective way to resolve disputes than litigation—especially class action litigation.

But arbitration is under assault in every corner of our economy. Whether it's student loans, credit cards, mortgages, the DOL's fiduciary rule, and even the FCC's new privacy proposal, trial lawyers are aggressively pushing their class action agenda.

Outsourcing enforcement to the plaintiffs' bar is bad for businesses and bad for their customers. It would result in an avalanche of new lawsuits that will clog our legal system and generate millions of dollars for the trial bar, while delivering pennies to the clients it rounds up.

Regulators also need to review the Volcker Rule, Basel III, and money market fund regulations to determine how the combinations of those rules impact the economy. If needed, those rules should be reformed.

For its part, Congress should pass more legislation like the Jobs Act to help American businesses get the private and public capital they need.

The SEC should continue its work to eliminate conflict of interest in proxy advisory firms. It can start by having ISS and Glass Lewis disclose when paying clients—many of whom are unions and public pension funds—are pushing shareholder proposals or director slates.

And FSOC should create designation off-ramps for those being targeted as systemically important financial institutions. It should provide companies an opportunity to "de-risk" before they are deemed to be a systemic problem.

Congress and banking regulators need to take action and address policies such as the Basel III and the Dodd-Frank thresholds that treat regional and midsize banks like systemically risky institutions—which they aren't.

They should also examine the thresholds for non-bank firms like insurance companies. In fact, MetLife was designated a systemically important financial institution, challenged the ruling in court, and won!

The Financial Stability Oversight Council should create designation off-ramps for those being targeted as systemically important financial institutions.

Regulations should not be used in a passive-aggressive way to force businesses and banks to break themselves up.

The bottom line is that the primary goal of financial regulation must not be stability alone—growth must be a top priority.

Defending America’s Financial System and Institutions

Implementing this pro-growth agenda will be a difficult task in the current political environment. Today, financial institutions have become a favorite punching bag on the campaign trail, on the Hill, in the administration, and from the politicians on the left and the right. It seems like the financial services industry has been blamed for everything from income inequality to the common cold.

If we’re to believe some of the rhetoric on the Hill and on the campaign trail, our capital markets are little more than a system of tricks and traps. To hear them tell it, banks and financial services providers are bad actors that need to be shut down, broken up, or regulated into submission.

In May, with Sen. Elizabeth Warren leading the way, a coalition of politicians, unions, and community groups launched an effort called “Take On Wall Street.” It’s pushing a hodgepodge of misguided and punitive measures that would, among other things, impose a financial transaction tax, break up the big banks, and turn the Post Office into a bank.

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These measures would do nothing to strengthen our capital markets or improve their stability. Breaking up our global banks would hobble the ability of American businesses to compete globally. Business costs would go up, and financing

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opportunities would dry up even more than they already have. Our companies would have to go to Chinese banks for capital support and services.

Dramatically hiking a financial transaction tax was President Hoover's solution to the Great Depression. It didn't work then, and a new tax won't work now.

I know a thing or two about the Post Office. I worked there in a senior capacity for a number of years. Having it launch a banking operation is as dumb an idea as I have heard in Washington, a town full of dumb ideas.

And let's be clear—Sen. Warren and her allies don't have a reform agenda … they have a big government agenda. They want to centralize all decision making in Washington, D.C. They mistakenly think they can make better decisions than the American people who rely on our financial system for a secure retirement; a car, home, and student loans; or to start a business and achieve their dreams.

Sen. Warren and her friends aren't looking out for them; they are looking to gather more power for themselves so that they can run the entire economy from Washington.

What their proposals would do is help trap us in this anemic economy, strangle small businesses

and Main Street, and destroy our ability to finance America's economic growth.

The financial industry is far from perfect, but much of today's rhetoric is ill-informed or just plain wrong.

This year the Chamber is leading a major effort to defend financial institutions against these reckless and unfair attacks. And unlike the critics, we're not looking to pick winners and losers. We're not looking to tip the scales in favor of one institution over another or one product over another. We're about competition … competition that lowers costs, better serves consumers, and helps grow our economy.

With facts and passion, we're underscoring the tremendously positive role that our capital markets play in growth, jobs, individual opportunity, and economic security.

We're exposing those who are beating up on the system to score political points. We're fighting attacks on the American business community's right to participate in the political process and exercise our right to free speech. We're also combating regulatory overreach, fighting punitive taxes, and stopping enforcement practices that are little more than extortion.

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To place all the ills of the economy at the doorstep of our financial industry is not only fundamentally wrong and unfair, but it could lead to policy outcomes that would do great damage to American families, savers, retirees, and businesses.

The next administration, regardless of party, must flatly reject the no-growth agenda we're hearing from politicians and Wall Street critics.

Our financial services industry isn't a problem to be solved, limited, and controlled—it's a key ingredient to boosting the economy.

Nothing I've proposed today—nothing—would stand in the way of a vigorous ongoing effort to root out genuine fraud or other criminal conduct in the financial industry. The business community and the financial services industry above all others must depend on providers and partners that operate with the highest integrity.

Conclusion

I began today talking about the terrible toll that poor regulation of our capital markets has taken on economic growth. The next administration, regardless of party, must flatly reject the no-growth agenda we're hearing from politicians and Wall Street critics.

The Chamber is going to ensure that the government focuses on economic growth. We flatly reject the idea that 1%–2% growth is the "new normal." It's anything but normal—and it's entirely unacceptable. Those in Washington who believe the best we can do now is divvy up a shrinking economic pie have got it all wrong. They are aiming way too low.

And most dangerous of all, they are ignoring

the real crisis—entitlements. These programs, along with interest on the debt, accounted for 58% of all federal spending in 2000; account for 78% today; and, without reform, will consume 98% in 2026. That will leave very little money to run the government.

We need to raise our sights. With the right public policy decisions, our economy can do much, much better.

To hear candidates talk about expanding these programs, instead of reforming them, is the height of irresponsibility and the real financial fraud facing this country. For the sake of our elderly, those with disabilities, and those who depend on these programs, we must make prudent changes to preserve them for future generations and to ensure the fiscal stability and health of our economy.

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In fact, if we want opportunities for our children and grandchildren ... if we want to put millions of unemployed or marginally employed people back to work full time … if we want to compete and win and lead the world … we must have stronger growth.

Growth won't solve all our problems, but we can't solve any of them without it.

Our country needs a dynamic private sector if it's ever going to pull itself out of the mud of this lackluster recovery. We can't do it without a smartly regulated financial system.

Without opportunity, without entrepreneurs, and without markets—we can kiss growth and jobs goodbye.

In the haste to promote stability, we've made some bad policy choices. That's OK. We have done it before and come back stronger.

But the vilification of this industry and its hundreds of thousands of workers … and the fantasy plans that play to the worst impulses of populism … must stop now. When politicians and others attack our capital markets, they are really attacking the very foundation on which a growing and prosperous economy is built. They are attacking free enterprise and our economic freedoms. They are attacking our country's ability to innovate, expand, and lead the world.

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Let's check partisanship at the door so that we can come up with real solutions and allow America's job creators to get to work. Yes, America's economic engine has been sputtering because we cut off the fuel supply. Let's fill up the tank and put the pedal to the metal and get this economy growing again.

Thank you very much.

U.S. CHAMBER OF COMMERCE

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