Dennis Kelleher, CEO and president of Better Markets – "Report from the US"

As Martin Wolf just discussed, we are at a cross roads due to slow or not growth

- I want to talk about the enormous pressure **that** is putting on financial reform, regulations and legislators
    - And, about the financial reform debate and some of the key facts missing from that debate
        - While I will mostly focus on what is happening in the United States, much of what I'll talk about is broadly applicable to the discussion of finance and reform everywhere including here in the EU.

But, **first**, <u>I want to say that it is an honor to be here at a Finance Watch conference.</u> Let me compliment the European Parliament and the other founders for having the wisdom and foresight to create and support it.

- Better Markets has worked with Finance Watch almost from the very beginning and know them well.
- Not everyone may know it, but Brussels and all of Europe are very fortunate to have Finance Watch.
    - There is nothing wrong with the bank lobby pushing their self-interest and agenda, but it is imperative that you also get the benefit of a genuinely independent voice.
        - A voice that provides substantive, professional expertise focused solely on the public interest.
            - That's what Finance Watch does and that's what Better Markets does also.

When politics and/or public policy are overwhelmingly dominated by just one side, the outcomes are simply not likely to be optimal or desirable.

- For too many years – and even today – too much of the discussion about banks, banking, finance, jobs, and growth are dominated by the biggest, richest, most politically well-connected banks with the most bank lobbyists, allies and campaign contributions.
    - <u>Economic might has too often overcome public interest right.</u>

While they almost always dress their self interest in public interest clothes, bank lobbyists are ultimately and always advocating for policies that help their bottom line and bonuses.

- While it is no doubt that good public policy at times overlaps with the banks' self-interest, the bank lobby will always have this inherent conflict of interest.
- Regrettably, that self-interest and that conflict of interest are too often overlooked, ignored or falsely presented or denied.
    - Unfortunately, that too often results in their voice being over-weighted, indeed prioritized, too often at the expense of genuinely independent voices and those without such conflicts of interest.

<u>Don't get me wrong. I'm **not** saying that the private sector or the banks acting in their self-interest is a bad thing.</u>

- Like everyone else, banks and their lobbyists are entitled to advocate for their self-interest and, when it comes to banking and finance, their input is often helpful, indeed, **<u>indispensable</u>**.

- However, regardless of how the bank lobby describes or presents itself and its issues, it must be seen for what it is: private sector firms arguing for their self-interest to be reflected in public policy to help their bottom lines, business lines and, ultimately, their bonuses.

That kind of a one-sided debate – one that is dominated by the bank lobby -- is good for no one, not even the biggest banks themselves, although they don't see it that way or agree with me.

- Why is a more open, public, robust, inclusive debate in even the banks self-interest?
    - Because outcomes from a largely one-sided process lack legitimacy and are, at best, fragile and unsustainable, regardless of appearances, beliefs and short-term gains.

In addition to lacking a balanced discussion, another key problem with the current debate is that too often -- when talking about banks, banking and finance -- facts, context and history are ignored, wished away or spun away.

- I refer to this as the fog-machine where massive amounts of money and words are **used more to conceal than reveal**.

So, let me mention a few **facts** that too often go unmentioned and reference just a few key issues we are all struggling with.

First, the financial crash of 2008 was the worst global financial crash since the Great Crash of 1929.

- Only massive and ultimately unlimited bailouts – amounting to trillions of dollars -- by governments and taxpayers in the US and elsewhere prevented a collapse of the global financial system.
    - Those bailouts prevented many, many more banks from going bankrupt, including Morgan Stanley, Goldman Sachs, Citigroup and Bank of America and most of the other too-big-to-fail banks.
        - But for those bailouts, those banks would likely be mere shells of themselves today **if they existed at all**.

Although that was prevented, the crash and crisis still caused the worst economy since the Great Depression of the 1930s.

- In fact, it almost caused a second Great Depression. It is astonishing to this day how often these basic facts are simply never mentioned and entirely absent from the discussion.
    - That is extremely dangerous because, without those facts, there is no context for the work and need for financial reform and stability
        - Those facts are critical for people to understand what you are doing and why
            - And, what is at stake in the financial reform debate

Second, given those facts, no one should be surprised that the cost of crisis has been and continues to be very severe, broad, deep and long-lasting.

- After all, think of how long the damage lasted after the financial crash of 1929. That crash and its aftermath is the regrettable benchmark for our circumstances today.

    - Better Markets did **a study – in September of 2012 -- of the cost just to the US of the 2008 crisis**. It showed that the financial crash and economic catastrophe it caused is going to be **more than $12.8 trillion dollars**. (The study is available on our website: www.bettermarkets.com)

That study was conservative and measured just lost GDP to the US based on government projections available in 2012.

- The data since then makes clear that the ultimate cost of the crisis, again just to the US, will be much more than that and certainly in the tens of trillions of dollars.

    - That is almost assuredly true for the EU also.

And, remember, those costs continue to increase and they aren't just the obvious costs.

- For example, the unprecedented unconventional monetary policy actions of the US Federal Reserve Bank and, more recently, the ECB's actions have been and continue to be a response to the economic calamity caused by the financial crash of 2008.

    - Almost no one puts those actions in context or mentions that they are a direct result from the financial crash.

        - Whether you agree or disagree with these actions, no one should forget that they are the ongoing response to the crash of 2008.

And, let's not forget, those numbers, however large, almost unfathomably large, are just numbers.

- They can never reflect the human suffering of the tens of millions of our neighbors who lost their jobs, homes, savings and so much more.

A **third** fact: when people talk about financial regulation or financial stability, too often the discussion has been re-directed to focus on the bank lobby complaints about the **costs of regulation to them** -- without mentioning the costs inflicted on everyone else by the crash and economic crisis.

As a result of this grossly incomplete and, I would say, misleading discussion, the banks and their allies are always arguing that regulations and laws should be subject to what they call "cost benefit analysis or tests."

- That sounds nice, but in reality that becomes an "industry-cost only analysis" which fails to take the public interest and costs to the public into account. It's an argument designed to cripple reform, regardless of how innocently it is packaged.

    - Better Markets did a **study** analyzing this tactic entitled **"Setting the Record Straight on Cost Benefit Analysis and Financial Reform."** It is also available on our website: www.bettermarkets.com. That study focuses on the mis-use of cost-benefit analysis at the SEC, but it is broadly applicable to this argument in any context.

    - Interestingly, there is a good argument to be made that there are no actual **additional incremental costs** as a result of financial reform and financial stability.

        - The real issues are who pays those costs and when, as well as whether those costs will be visible and acknowledged or not.

- Put differently, those costs can by paid by the too-big-to-fail banks and their clients **before** the next crash to **prevent** the next crash or by the people of the world who will again be forced to pay for the clean up **after** then next crash – like last time.

Fourth, going back to the facts that are not mentioned in the discussion, there is only 1 industry in the world that threatens the global financial system, the world’s economy and the standard of living of the people of the world: global finance. No other.

- And, within that global financial industry, it is only a **tiny** number of so-called “banks” that pose the threat and that are the focus of most regulation.
    - And, let’s be honest: these sprawling, gigantic, global financial firms are not really “banks” as typically understood.
        - They are really global trading and investment firms.
            - Those are the so-called “banks” we refer as “too-big-to-fail,” which really means too big, too complex, too interconnected, too opaque, too leveraged and/or too under-capitalized.

No one mentions it, but in the US there are about 6,500 banks, but only 29 have more than $100 billion in assets and only 4 have more than $1 trillion in assets (under the big-bank favorable US accounting rules, which allow netting for derivatives).

- Looking globally, the Financial Stability Board (FSB) has identified just 30 global systemically important financial institutions, so called “G-SIBs,” as of November 2014, last year.
    - It is part of the bank lobby strategy to talk about all of finance and banking as if it was synonymous with this very small number of too-big-to-fail financial firms.
        - But don’t be fooled: they are big, powerful, influential and they dominate the debate, but the threats are posed by **very, very** few in number and that should be made clear in the debate.

Fifth, the so-called choice between economic growth/jobs and financial reform/stability is a demonstrably false choice used as a weapon by the industry not only to defeat reform, **but to also divide countries and regulators.**

- We all hear it endlessly: the **claims** that regulation, reform and stability will “cost” so much that it will prevent banks from lending and, therefore, slow growth and job creation or they say things like it’ll hurt “liquidity.”

That is not true and the **evidence does not** support those self-interested **claims** by the too-big-to-fail financial firms, their lobbyists and allies.

- ***BTW***, isn’t it telling how often the bank lobby makes claims that they don’t provide facts, evidence or data to support?
        - Even when they are in the best position to provide that information, which often they **uniquely possess**?

            - And, remember, if such evidence exists and if it supports their claims, they are also **uniquely incentivized** to provide it – after all, it would likely win the argument for them

    - Therefore, industry should always be required to provide proof and data to support their claims

        - Then those claims -- and the supposedly supporting data -- must be subjected to rigorous, independent and, ideally, public scrutiny and analysis

    - If sufficiently robust data is not provided to enable independent confirmation of their claims, then the presumption must be that there is no supporting data or that the data does not support their claims

        - Unsupported claims, selective disclosure or purchased "studies" based on undisclosed or incompletely disclosed data must be disregarded as unreliable as would be the case in any other context

Regarding their claims about regulation interfering with growth and jobs, history demonstrates just the opposite:

- After the Great Crash of 1929 and the Great Depression, banking and the broader financial industry was subjected to the heaviest financial regulation in the history of the world. The bank lobby at the time said it was going to kill growth, jobs and, indeed, free markets and capitalism

    - But what really happened?

        - About 70 years of growth and prosperity. And, not only for the broader economy, but also for the finance industry which flourished as well. Sure, there were ups and downs, but nothing like the Crash of 1929 or the Great Depression.

            - That all changed after **de-regulation** of the financial industry, which began around 1980 and peaked in 2000, when the industry was almost entirely de-regulated or subject to, at most, light touch regulation combined with virtually no enforcement of the law or regulations

                - **The result?** In just a little more than 7 years after full **de-regulation** the world suffered the worst financial crash since 1929 and the worst economy since the Great Depression

                    - Thus, about 70 years of growth without crashes and only 7 years of de-regulation caused the biggest crash since 1929 and an economic catastrophe we are all still suffering from

                    - Financial regulation is often referred to as a "job killer," but the facts show that de-regulation is the real job killer and one of historic proportions

                    - This is proof that regulation is good for growth and jobs and that the crash and crisis was caused by too little, not too much, regulation

In addition to being historically false, the entire **growth vs. stability debate** has been framed by **a series of false choices and false tradeoffs** pushed by the too-big-to-fail banks and their lobbyists and accepted **uncritically** as true by far too many people

- These false choices have been detailed by Bob Jenkins, a decades-long industry professional, a former member of the Bank of England's Financial Policy Committee, and now a Senior Fellow at Better Markets.

- His short **speech, "A Debate Framed by Fallacies,"** should be read and re-read by everyone involved in this phony but very damaging debate falsely framed as having to choose between financial safety and economic growth.

    - He also destroys the industry's arguments that "governments must choose between domestic financial stability and the competitiveness of their financial centers."

        - This speech can also be found at our website.

<u>**Sixth**</u>, <u>de-regulation is never truthfully and clearly labeled.</u>

- It hides and masquerades as "reform" or "jobs" or "economic growth" or a "technical correction."
    - In fact, the legitimate and very important growth and jobs agenda has been shamelessly **hijacked** by the self-interest of the bank lobby and is being used to conceal their de-regulation agenda.

- Just one recent example in the US was a bill in the House of Representatives, H.R. 37, <u>falsely titled "Promoting Job Creation and Reducing Small Business Burdens Act</u>."

    - In reality, it was just a re-packaging of 11 de-regulation bills from last year, all straight from Wall Street's wish list.

Isn't it telling that the bank lobby doesn't often -- if ever -- say that a law, rule or regulation is bad because it'll hurt revenues or bonuses?

- Isn't it odd that they never mention what is most important to them?

    - <u>That's because they hide what is most important to **them** behind what is most important to **you**</u>

The industry knows you desperately **want** jobs and growth – and that the people of the EU desperately **need** it.

- The industry also knows that an accusation that something might reduce jobs or growth powerfully resonates with the people of the EU, the US and everywhere

    - And, it knows that such claims, however unfounded and unsupported, too often get media attention and repetition without scrutiny

        - Thus, sadly, jobs and growth have become a weapon the industry routinely uses to try to get its way.

            - It is imperative that all such claims be met with caution, skepticism, scrutiny and a demand for robust supporting data

Let me end by saying, it must be remembered that sustainable, durable and real economic growth and jobs will come from ending the finance-driven boom and bust economic cycles.

- Financial stability, transparency, clear rules, oversight, accountability and the rule of law applied to banks and bankers like everyone else is **the necessary foundation for achieving that.**
    - That’s not just because financial crashes are devastating job killers.
        - It’s also because that is the only way to get banks back into the business of banking and traditional lending that supports the real economy rather than high risk trading and investments that threaten jobs and growth.

Transparency and a level playing field is not only good for financial stability, but it will also will cause other firms to enter the markets, provide more services at lower costs and boost the real economy.

- Just because a too-big-to-fail firm might not provide a service doesn’t mean it won’t be provided.
    - In fact, it is likely to increase entry by other firms that aren’t a systemic threat.

Thus, if done right, financial reform and stability will result in

- more competition,
- greater industry diversification,
- lower prices,
- more jobs, and
- economic growth
    - with much greater safety for the system as a whole.

However, these actions must be done publicly and transparently with full disclosure to and full access by all stakeholders.

- Financial reform must be maximally inclusive because only that will enable public oversight and accountability, which will build public confidence.
    - Being transparent and inclusive shows you have nothing to hide and are being responsive to the public’s needs and wants.
        - Otherwise, public faith in elected officials, public institutions and regulators will continue to decline.

Thus, it’s not only jobs, growth and financial stability that are at stake in this debate and the policy choices that are made, but the trust and confidence of the public, voters and taxpayers.

There’s lots more to talk about, like trade and securitization, but I have run out of time.

- Please go to our website for more information and especially to read Bob Jenkins insightful remarks on the false choice between growth and stability.

Thank you for your attention.