Bauerle's Bank Notes

Trade Winds

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Ask an audience of bankers whom they would name as the Anti-Christ of bank regulation and Sen. Elizabeth Warren would surely make the short list. Architect of the Consumer Financial Protection Bureau, Warren is a polarizing figure no less than Sen. Ted Cruz. So we were interested to read recently in the New Yorker that Warren has repeatedly made common cause with Camden Fine, the head of the Independent Community Bankers of America, one of the most powerful lobbyists in Washington. In the negotiation over the Dodd Frank Act, Warren extracted from Fine a commitment not to oppose creation of the CFPB in return for the law's exempting community banks from regulation by the new agency. More recently, Fine and Warren joined forces to oppose Larry Summers' candidacy for chairman of the Federal Reserve Board of Governors, leading to Janet Yellin's selection instead.

The Fine/Warren connection illustrates the maxim that politics makes strange bedfellows. Yet it also is a reminder of the importance in the political arena of regional and community banks and all they represent. Interviewed for the New Yorker article, Barney Frank offered, "It's the smaller businesses that have natural grassroots networks: Realtors, mortgage brokers, auto dealers, community banks. They're in everybody's district and they tend to have a very extroverted corporate culture: 'Hi, how are ya, can I sell ya a car?' Extremely good on TV."

International trade agreements and their economic impact is a topic on which regional and community bankers should be vocal, but are not. The loss of millions of manufacturing jobs to low-wage overseas competitors has eroded the customer base of U.S. banks and contributed to the overemphasis on real estate lending that culminated in the crisis of 2008. As the Obama Administration promotes the Trans-Pacific Partnership, a pact among 13 nations that would transform trading patterns with that part of the world and affect 30% of all international trade, every bank in America has a vital stake in the result, as do the banks' customers.

For all the political capital the Administration is putting behind the TPP, the effort comes as many U.S. companies are reevaluating the merits of overseas investments. Ford and General Electric are "reshoring" advanced manufacturing operations. In Ford's case, the drug-cartel ridden politics of Mexico make that locale a less attractive manufacturing venue than it seemed when NAFTA debuted. GE's advanced manufacturing businesses require so few people to man then that wage rate is a small economic input compared to decades gone by. Meanwhile, PPG largely gave up on making flat glass in China because of government insistence on employing large numbers of persons made operations there uneconomical.

Reduced levels of migration to China's big cities from rural areas coupled with rising wages have blunted the cost advantage Chinese labor has enjoyed over U.S. employment. An executive recruiter friend and client recently struggled to explain to a Chinese executive that his company would have to pay $250,000 to hire a CEO for its U.S. operation. "But I supervise 6,000 employees and he or she will only supervise 250," reasoned the executive. The recruiter had to explain that 250 was better than 6,000 if the output was the same.

When so many companies are reevaluating their export-import strategies, it pays to ask "Why?" When the answer is, "Because I can do it better, faster, and at the same price in the U.S.," Congress should sit up and take notice. For bankers' tastes, Sen. Warren's opposition to TPP may be rooted in the wrong reasons, but she may be right in the end to oppose the treaty. For community and regional banks to have healthy economies to serve, U.S. manufacturing is a necessary building block. Assuring competitiveness in the face of foreign competition (and dumping) is as important to banks as it is to U.S. Steel or the local foundry company that employs 16 men and women. Manufacturing wages remain higher than service industry wages. The multiplier effect of manufacturing jobs in local and regional economies is far greater. Most important, diversification of economic activity is essential. Dependence on any one industry is never a long term strategy.

Great Britain's empire ended when it could no longer source goods from colonies like India. Germany's prospects of winning WW II ended when it could no longer acquire oil from the Caucasus, iron ore from Sweden and Norway, and agricultural commodities, wolfram and tungsten from Spain. American independence of economic and political action requires freedom from dependence on China, India or other emerging nations for vital commodities and manufactures. As the fulcrum of capital formation for American business, banks and bankers serve themselves and their constituencies well to protect and advance the competitive position of American industry. On that subject, American bankers and Sen. Warren are necessary allies.