

Death by a thousand regs

It's not like banks didn't know this was coming. Still, all the stories about the one-year anniversary of the passage of the Dodd-Frank Act have made it abundantly clear that an onslaught of new rules and regulations has begun. Many of the 3,000 new Federal Register pages written so far to implement pieces of the law have dealt with the more arcane areas of financial services not directly related to traditional banking. But that will soon change.

An excess of regulation gradually sucks the life out of any business, but especially small businesses. This is becoming increasingly obvious in banking. As a state bankers association leader observed recently, "We're fearful of regulatory-driven consolidation; fearful of having very few, or no, de novo banks created."

Several months ago we wrote about "The size trap"—the tendency of small institutions to disrespect large institutions and the large to dismiss the small—and the dangers of doing that. A community banker said it very well, "What makes this country great is the ability of small to grow into large."

But in the space of just a few months, we find ourselves wondering if in fact that ability will last much longer if current trends are not reversed.

The real threat to the future of a thriving and diverse banking industry, we said earlier, is the swelling tide of government involvement. That threat hits hardest at the smaller end of the scale. Common sense tells you that. Anecdotes confirm it. As more rules and regulations are imposed, the impact becomes far greater for community banks, despite intentions to "carve out" the small.

Calvin Coolidge famously said in 1925, "The chief business of the American people is business." Soon that may no longer be the case. The chief business of America will be government. This trend becomes palpably clear as one moves around in the nation's capital, where vast complexes of government offices are rivaled only by the offices housing the myriad organizations existing to analyze, deal with, and parry the government's ever-widening reach.

This Orwellian sprawl is not evident in all levels of government. Some states and cities have developed a good balance between the scope of the government and the governed. In our nation's capital, however, government has become polarized and the rhetoric poisonous. Public statements to the contrary, the attitude of more than a few in government is that business can't be trusted. It must be kept in its place and controlled by laws and rules to protect the people. What this overlooks is that to a great extent business is the people. Business is not a collection of special interest groups, it is what Americans do—what we have been doing since the days when most of us worked on small farms.

In truth, we have the government we want to have, until we decide we don't. Bankers alone can't control that, but increasingly they are determined to assert as much control as possible over their industry's destiny. Being politically active is no longer optional. For community bankers it is essential. •

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