The Daily Dish

The Fewest Banks Since the Great Depression

DOUGLAS HOLTZ-EAKIN | DECEMBER 3, 2013

The great recession, over regulation, and low interest rates have all contributed to the lowest number of banks in the country since the Great Depression according to a new report from the Wall Street Journal. "The number of federally insured institutions nationwide shrank to 6,891 in the third quarter after this summer falling below 7,000 for the first time since federal regulators began keeping track in 1934, according to the Federal Deposit Insurance Corp."

The low number of banks is causing concern for the already sputtering economy, particularly on the local level. "The falloff is raising alarms among boosters of community banks, who say such lenders—which represent the vast majority of U.S. banks—are critical to the economy because they are more likely to make small-business loans."

Some positive economic news could be found on Monday however, in the US construction sector which saw "spending [rise] to its highest level in nearly 4-1/2 years in October as a rebound in public construction projects offset [a] drop in private outlays. Construction spending increased 0.8 percent to an annual rate of $908.4 billion, the highest level since May 2009," according to Reuters.

Eakinomics: Labor Market Policies

Gresham's Law: "Bad money drives out good"

Holtz-Eakin's Law: "Bad policy drives out good"

Unemployment over-insurance extends spells of unemployment, erodes skills, and lowers re-employment wages. The minimum wage does not target poverty, hurts job growth, and redistributes from the employed to the unemployed. Trade Adjustment Assistance (TAA) does not help trade, has no record of adjustment, and isn't great assistance. Nevertheless, UI extensions, minimum wage hikes, and TAA will be at the center of the policy debate over the months to come.

Why? Bad growth policy. Hobbled by anti-growth taxes, regulations, and entitlement expansions, the anemic recovery has generated far too few jobs and little real wage growth. Right now there are about 1.3 million people claiming the extended UI benefits that expire at the end of December. Proponents of an extension focus on the hardship of the expiration. But one should aim higher. If job growth was at the average of the 4 recoveries preceding the current one, it would take about 19 months to employ that group — and at income in excess of UI benefits. Raising the minimum wage will cost businesses anywhere from $5 to $15 billion — a "tax" on businesses large and small that will come out of their ability to create jobs and expand payrolls. TAA is the traditional "price" of Trade Promotion Authority, even though it does nothing to improve the labor market adjustment to trade agreements.

The politics of these labor market policies are simple. The administration wants Americans to blame companies for workers' travails — not its policies. The politics may be on their side, but Holtz-Eakin's Law is not.