# Trump's Bank Deregulation




The Consumer Financial Protection Bureau building in Washington on Oct. 31, 2023. Madalina Vasiliu/The Epoch Times

By Peter St Onge
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*Commentary*

Donald Trump wants to unchain the financial sector to flood lending into the economy. Will it boost growth? Or will it boost inflation?

The Wall Street Journal recently summed up Trump's plans to eliminate overlap, duplication, and regulations that shut out competitors and reduce lending. Specific things he wants to get rid of include the Consumer Financial Protection Bureau (CFPB), which tech pioneer Marc Andreessen characterized as "terrorizing financial institutions" with nuisance attacks.

Elon Musk also wants to get rid of CFPB, not least because it hampers the entry of his social media platform, X, into payments. The CFPB has been a lightning rod ever since Sen. Elizabeth Warren (D-Mass.) created it, both for its lefty jihads and because it's structured to be independent of oversight—meaning independent of voters.

Beyond the Consumer Financial Protection Bureau, Trump has floated combining or restructuring the main bank regulators: the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and of course the Fed.

Now, in most of finance, deregulation is great because it promotes new competition, so customers aren't held hostage by megabanks and oligopolies such as Visa and Mastercard.

But there's two big caveats, both to do with banks: moral hazard and inflation. Moral hazard is when you tell a gambler he can keep his winnings, but you'll cover his losses. That is our current banking system.

Why? Because banks have lobbied themselves permanent, on-demand bailouts. They're covered by taxpayers—the 2008 bailouts. Covered by dollar-holders—the Fed printing sweetheart loans as part of its so-called Lender of Last Resort.

And they're covered by depositors, where the FDIC uses them as human shields for banks. Gimme the bailout or Grandma gets it.

That means if you completely deregulate banks, all those bailouts push them to maximum risk—thanks to the ironclad rule in finance that more risk equals more return.

Now, in an ideal world, there are no bailouts, so banks have to convince customers they're safe by *being* safe. But you go to war with the financial system you have.

The FDIC, in particular, is a problem. In theory, it sounds great—if a bank goes under, depositors are covered. The problem is not only the moral hazard, but since Treasury Secretary Janet Yellen implicitly expanded the FDIC in the 2023 bank crashes, it's now got roughly 0.5 percent coverage—a hundred billion dollars in the FDIC kitty covering over $20 trillion of deposits.

Where does the other 99.5 percent come from? It comes from your bank account. In a so-called special assessment. You wake up one morning and your account is docked to cover some Wildcat bank in Texas.

The other issue with full-on bank deregulation is inflation. Only about one-quarter of inflation is created by the Fed—the other three-fourths comes from banks pyramiding on Fed money. That's known as fractional reserve banking.

So, if deregulation means more bank lending, it's fantastic for the economy—you get more pyramiding. But it also means Congress and the Fed have to cut spending much more. The reason is federal spending competes with private spending.

So, if bank lending is going gangbusters, Congress has to slash spending, to stop competing with the private sector and allow the Fed to sell off its $7 trillion balance sheet to soak up dollars without unsettling treasury markets.

So, what's next?

Regulation and bailouts turned American finance into an inflationary Ponzi. Deregulation could actually make it worse unless Congress radically slashes spending and reins in layer after layer of bailouts baked into our system.

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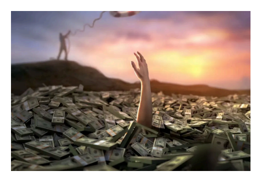

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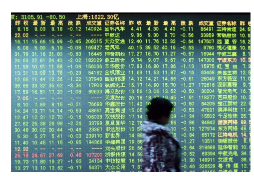

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