MORNING CONSULT

Trump Shows Deregulatory Hand by Meeting With Former Cato Chief

Ryan Rainey

November 28, 2016

A financial expert with self-described “radical” views on regulations, who has called for the elimination of deposit insurance and the Federal Reserve Bank, appears to be advising the incoming Trump administration. The transition team’s consultation with John Allison, who met with President-elect Donald Trump on Monday, signals that Trump is serious about his campaign pledge to give the financial services industry the range of deregulations they crave.

The former head of the libertarian Cato Institute met with Trump in New York after reports emerged that he is being considered for the top job at the Treasury Department. Other candidates for that position include Rep. Jeb Hensarling of Texas and Steve Mnuchin, a hedge fund manager who managed Trump’s campaign finance operation. Trump also has tapped other deregulatory hawks such as Alex Pollock of the R Street Institute to assist his transition effort.

In a 2014 **journal article** that Allison wrote while leading Cato, Allison proposed eliminating both the Fed and federal deposit insurance entirely, as well backing as the U.S. dollar with a market standard like gold.

Allison described the proposal as “pretty radical.” But he justified it by saying the Fed exacerbates economic bubbles, and the banking sector would be better served without it. And if the Fed has to stay, he said, banks should abide by simple capital requirements in exchange for fewer regulations.

“I would raise capital standards and let markets discipline banks,” Allison wrote. “Those reforms — not more regulation — would reduce volatility, incentivize rational risk-taking, and thereby create better economic growth.”

An even less restrictive view of capital requirements has become a key GOP policy plank. In July, Allison testified in favor of Hensarling’s Financial CHOICE Act, applauding its provision to give banks widespread regulatory relief if they hold sufficient capital. Hensarling’s proposal envisions a 10 percent leverage ratio requirement. In his paper, Allison floated a 15 percent to 20 percent capital ratio.

In his prepared testimony, Allison slammed the “regulatory quagmire” that the 2010 Dodd-Frank Act created and that financial institutions “cannot survive with the stifling cost of Dodd-Frank and higher capital.”

Allison said that regulators understand this, but aren’t willing to say so.

“Why have they not insisted on more capital already? Because they know the regulatory cost/capital equation implied in Dodd-Frank will not work,” Allison said. “They have chosen more regulation over more capital because that is their job and expands their perceived importance.”

Before Allison was at Cato, he worked as the chairman and CEO of BB&T Corp. from 1989 to 2008 — a period that saw the bank grow from $4.5 billion to $152 billion in assets, according to Cato.

Hensarling, a kindred spirit of Allison’s on regulatory issues, has also been floated as a possible Treasury secretary.

Nominating Hensarling or Allison instead of Mnuchin would be a risky move because their aggressive approach to deregulation could conflict with Trump’s other priorities in immigration or health care. Trump has indicated financial deregulation is more of a second-tier issue that could be tackled after the first 100 days of his administration.

“Having a very aggressive Treasury secretary is not necessarily what you want when your priorities lay elsewhere,” said Brandon Barford, a partner at the Washington-based consultancy Beacon Policy Advisors LLC.

Barford also predicted that most of the officials who fill in the nominated positions under Treasury secretary will be “standard-issue Republicans,” regardless of who leads the department.