[Should the US ease regulation on its big banks? No.]() (Lisa Donner, Financial Times)

Pressure is building to water down the Dodd-Frank reforms that Congress passed after the near-disintegration of the financial system in 2008, writes Lisa Donner. President Donald Trump's regulatory appointees have signalled plans to reduce capital ratios, revisit measures banning risky trading with taxpayer-backed funds, and reduce consumer protections. And the US Senate will soon take up a new bill on the subject.

There's little sound policy basis for this deregulation, but there is a clear explanation. The financial services industry pumped a record $2bn of campaign contributions into the political system in the two years leading up to the 2016 elections. And the flood of cash has continued, with a particular focus on senators whose votes will be decisive.

The influence that money buys is creating a massive shift away from the moderate reforms made in and around Dodd-Frank, which were making the system safer and helping consumers and investors keep billions of dollars each year that an already profitable industry would otherwise siphon off.

The Senate bill up for consideration, S. 2155, would not only wipe out living will and stress test requirements for banks with $50bn to $100bn assets, it also allows those between $100bn and $250bn (25 of the 38 largest US banks) to escape more careful supervision. Other sections of the bill strip away consumer protection: for example, one would make it easier for sellers of mobile homes to steer purchasers into more expensive loans.

US watchdogs have also laid a course for deregulation. The Fed wants to loosen rules capping leverage for the largest Wall Street banks and water down rules that aim to fence off taxpayer-backed funds from proprietary trading. The Department of Labor is undoing a rule requiring those who give advice on retirement savings to put their clients' best interests first. And Mr Trump's head of the Consumer Financial Protection Bureau is halting enforcement cases and delaying regulations in a bid to dismantle the agency from within.

There is no fundamental trade-off between sound regulation of the financial system and shared prosperity. Quite the opposite. Even as tighter bank capital and liquidity requirements were phased in after the crisis, bank credit to the private sector has surged to new heights as a percentage of global output.

US loan growth in recent years has exceeded historical averages. Credit to non-financial corporations has also reached record levels as a share of US GDP. As for that Fed study on the link between capital increases and lending rates, it is highly unlikely that banks pass on the full cost of increased capital requirements to their customers. And even if they did, a 7 basis-point increase in lending rates has a trivial impact that is dwarfed by the effects of monetary policy and ordinary economic fluctuations. Compare that to the pain of a financial crisis, which the same study found entailed tens of trillions in long-term costs.

If large banks are not forced to hold more capital against potential losses, the public would likely find itself on the hook again if one — or several of them — ran into trouble. Not only does that expose taxpayers to huge potential losses, it encourages a repeat of the irresponsible gambling that led to previous crises. The financial services lobby may say they oppose tighter rules because of the potential harm to the economy, but their real concern is bank profitability. Increased capital requirements lower the return on equity and, by extension, the bonuses linked to it. The desire of a small number of very wealthy people to become still richer should not drive public policy.

After a crisis of the magnitude we experienced 10 years ago, the burden of proof should fall heavily on those who would hack away at reforms that have started to make the financial system more stable and fair.

Disinterested observers overwhelmingly agree that the changes made with Dodd-Frank have made the system more stable and given consumers and borrowers some much-needed protection. Lawmakers and regulators must not let industry lobbying, political spending and inside influence imperil the welfare of everybody else.

Lisa Donner is executive director of Americans for Financial Reform. AFR policy director Marcus Stanley contributed to her piece.

(This piece appeared as a counterpoint to an article by Hal Scott, professor of international financial systems at Harvard Law School and director of the Committee on Capital Markets Regulation.)