Episode 190: "Cancel Culture Comes to Banking" with Todd Zywicki and Paul Watkins

Bill Walton (00:01):

I was a banker, Paul. I was a commercial banker, then I was an investment banker. And then I was in venture capital and private equity. And then I ran a New York stock exchange company and then I departed that world in 2010 and I've been messing around with other stuff since then. And I'm not all that current with what's been happening in the crypto world, but it seems like we've got this situation where old finance banks and so on and so forth has become completely ossified, almost a public utility. Post-Dodd-Frank, post all these banking regulations, you can't start a new bank, there's going to be no new entrance. And so anything new that's going to happen is going to have to come out of the fincen world or fintech world or something like that. And that's the uncharted territory. And it'd be interesting to sort of pose a big problem, which is how can we keep access to banking services? One way to go at it is to get regulatory relief or regime change. The other way to do is to invent new stuff.

Paul Watkins (01:12):

And the third way. The way I think of it, we frame up the problem and we try to basically convince people, this is a problem that we shouldn't just dismiss and just say, oh, it's no big deal. And then basically we take it in the direction of, what are the solutions. So Paul offers one suite of solutions, they say innovation, but the way I think about this is along the lines you were just describing, which is, I think of it in terms of the intersection with what makes the traditional conservative view open to question on this is, we're not in the world of the first best. This isn't just like, start your own bank. We're talking about here, the entanglement, this is the apotheosis, the entanglement of the regulatory state because of the opaque way in which financial services are done. The woke corporate culture and these barriers to entry. And so basically what you have then is, you can't just start a new bank and start providing this. And so this leads me to Brian Brooks type thing. To preserve liberty, should we be thinking in terms of affirmative actions by government?

Bill Walton (02:32):

Okay. Ready, set, go.

Paul Watkins (02:33):

Ready. Set. Go.

Speaker 3 (02:34):

All right. This is The Bill Walton Show, May five. Cinco de Mayo.

Speaker 4 (02:43):

Welcome to The Bill Walton Show, featuring conversations with leaders, entrepreneurs, artists, and thinkers. Fresh perspectives on money, culture, politics, and human flourishing. Interesting people. Interesting things.

Bill Walton (03:03):

Welcome to the Bill Walton Show. I'm Bill Walton. Have you ever thought about what your life may be like if you were denied access to have a bank account or a credit card or access to any kind of digital payment system? Well, it's happening and it's happening to an increasing number of people and organizations. Cancel culture has come to banking. PayPal, major credit card networks and banks have already stopped processing payments for organizations they deem hate groups. And cryptocurrencies, which I thought might be a safe haven, well, maybe not so much. Bitcoin was supposed to be a financial lifeline for the truckers in Canada, but instead, Canadian authorities ordered banks and crypto exchanges to block transactions from crypto wallets tied to the truckers. Seems like everything has now become political, including our digital money.

Bill Walton (04:05):

There's a lot to dig in here and it's a vast topic, but fortunately, today I'm joined by two real subject matter experts. Todd Zywicki, it was great to have you back, Todd. Todd's been here several times. Todd, who served as chair of the Consumer Financial Protection Bureau's Task Force on Consumer Financial Law. He's also a very major professor at George Mason's Scalia Law School. And his resume goes on for four pages. So I'm going to stop there. We'll allude to some of it during the show. And I'm really happy to have Paul Watkins join us, who's with Potomac Partners and Fusion Law Firm. He founded the Office of Innovation at the Consumer Financial Protection Bureau and served on the Digital Financial Stability Oversight Committee's Subcommittee on Digital Assets. He's also run civil enforcement for a state attorney general. Paul, glad you're here.

Paul Watkins (05:01):

Thank you.

Bill Walton (05:03):

Todd, why don't you frame this for us? You wrote an excellent piece called Cancel Culture Comes to Banking, which I stole for my intro. What was the thesis of your piece?

Todd Zywicki (05:15):

Well, this is an issue that's been building for a while now, Bill, it actually goes back to the Obama administration and something they had, which was called Operation Choke Point where the government leaned on banks using this fuzzy idea of reputational risk to force them essentially to take away financial services to industries they don't like, like payday loans in particular, and basically tried to kill the industry through the regulatory state. And what we've seen in recent years then is this is accelerated into a cancel culture comes to banking and various people have lost their bank accounts because they, as you said, were perceived as hate groups. And this really came to head this fall when Donald Trump Jr. had to cancel a speech to a group in Missouri because the bank that provided the payment services cut them off and said, we're not going to provide banking services so that you can collect payments so that people could come see Donald Trump Jr. speak.

Todd Zywicki (06:14):

And what really concerns me about it, Bill, is the way in which not just you need a bank account to live, to be able to pay bills, to be able to get a mortgage, to be anything else, but more and more we're seeing that this has become a leverage point just like social media, but even more so because the entanglement with the regulatory state. It's kind of a leverage point to control political speech, and that's what we saw in Canada.

Bill Walton (06:41):

So Paul, you've worked on this issue in all your various roles. One of the things that I'd be curious about your view is we had Jeanine [inaudible 00:06:50] on yesterday and she's suing on behalf of some interesting plaintiffs, good guys, good people, the Department of Health and Human Services, because they were encouraging Twitter to throw people off of Twitter and they did, Twitter did. Now the thing, when we get into this about it, was it WeWork or something, that cut off the Donald Trump, Jr-

Todd Zywicki ([07:13](#)):

I remember what-

Bill Walton ([07:17](#)):

Anyway. Is this companies acting on their own or are they being nudged by regulators?

Paul Watkins ([07:22](#)):

I think it's probably a combination. And I think we see in many instances where there's sort of a two-pronged approach where there's private pressure and there's also regulatory pressure and the two go together and sometimes it'll be formal rule making, like you can look at some of the guidance that's coming out of some of the state financial regulators that would encourage banks to take these types of actions with particular institutions. But there could be a lot of informal behind the scenes pressure when companies go in to meet with regulators. I think people don't know exactly what they're being told there. And most companies want to try to maintain good relationships with their primary regulators and those are often in large blue states. And then there's a lot of cultural pressure, could come from asset managers, could come from HR departments, could come from all sorts of groups that are fairly effective and well organized.

Todd Zywicki ([08:37](#)):

John Allison, our mutual friend, calls it regulation by raised eyebrow. And in banking, the leverage point they've used, which is very nefarious is this idea of reputational risk, which is completely subjective to the regulator. And so they're using it now, if you may recall, Biden's first nominee to the Office of Control of the Currency said that her goal was to bankrupt the fossil fuels industry, which would just be done by regulatory pressure. But what they use here is the-

Bill Walton ([09:08](#)):

Ah yes. Sarah Bloom Raskin.

Todd Zywicki ([09:10](#)):

No, not Raskin, the communist from Cornell.

Bill Walton ([09:13](#)):

That's right. Yeah.

Todd Zywicki ([09:15](#)):

If you recall. And we saw this literally the day after my column appeared in Newsweek, Bill. Mike Lindell, the MyPillow guy, had a contact from his bank and you can find the recording. It's a chilling recording of a conversation between Lindell's controller and this bank officer telling them that they're basically going to get rid of all Lindell's bank accounts, for him, for the company and for his nonprofits because of reputational risk. And that's as vague it gets, which is basically, we don't want to deal with you because you're controversial and tied to Donald Trump. Donald Trump himself lost his bank account. I don't know if most people know that, but his personal bank canceled his bank account on January 7th last year.

Todd Zywicki (10:06):

He was able to find another bank account. But where it becomes a problem, Bill, is Donald Trump Jr. Donald Trump, Mike Lindell, these guys have microphones where these problems get corrected. Somebody else will take them. But what it's about just the ordinary person who doesn't have access to these resources and is finding that they can't get a bank account, they can't get a credit card, basically, because they've been put on one of these mysterious lists that basically they're just not worth the trouble because of this "reputational" risk.

Paul Watkins (10:39):

I think one current example where you see this happening sort of in real time is with the SEC's proposed rule-making around ESG disclosure that's not targeting specific individuals, that's targeting whole industries or groups of industries that are considered to be problematic for environmental reasons. And you can see these two things working together. In fact, you just wrote a phenomenal comment that I think I'll let you talk about that really ties this together. But on the one hand you have asset managers pressuring companies saying, you need to change your business model because we think regulatory mandates are coming. On the other hand, you have the regulators saying, hey, we're going to propose some fairly radical mandates. These things work together and are designed, I think, to force companies to change their behavior. And you even cited some comments from the asset managers essentially saying, we need this rule making so that we can pressure companies.

Bill Walton (11:42):

Right. Well, yeah. They commented, BlackRock weighed in saying, we want this because we want the leverage. I think what you've written, or both of you have written that the regulatory regime is the laws or the rules are very murky and they're very discretionary. There's no black and white tests about do this and you're okay, and you don't do this, you're not okay. And what's happening is the activist, ESG, which is for everybody who doesn't know Environmental, Social, and Governance, which really gets at the heart of what you need to think about with what they're trying to do with companies. And the E piece is the climate change piece. And the SEC's got this proposal out that they're going to have all this climate policy or climate change disclosure that they're requiring. And it's a way to get at the climate change agenda without being ... Since they can't pass legislation, they're going to do it through the Securities and Exchange Commission, which is an entirely upside down world, as far as I'm concerned.

Paul Watkins (12:47):

Well, here's the thing, Bill, is that those of us who are basically on the free market side, for a long time thought about-

Bill Walton (12:53):

I think all three of us are right here.

Paul Watkins (12:55):

Yeah. Right. Yeah. Right. Exactly. Especially financial services.

Bill Walton (12:58):

They're more.

Paul Watkins (12:59):

But we thought about the world in binary terms. You've got public and you've got private. And we're concerned about public pressure, laws, formal regulations, that sort of thing. We basically said private activity is private activity. But what we're seeing now is in the regulatory state, that is much more of a gray area and in financial services is especially the case because it's so murky because so much of it is behind closed doors and the like. And I think, my view is we need to have a more nuanced way of thinking about this, which is banking is pretty close to a public utility. And this is the thing with banking is, you've got this very murky process. It's very political. It's done through supervision, for example, which is very rare in this world.

Paul Watkins (13:46):

And the big thing with banking is there are huge barriers to entry. And in order to enter the industry, basically you've got to play by these same regulatory rules. So it may be that when you're talking about, should somebody have to bake a wedding cake for a same sex marriage, that is awfully private, a private activity, which is to say, anybody else can start a bakery. It's not like, well, you don't like our rules start a bank, because you have to be a bank in order to get access to the payment system. So you can't just start a bank without government permission. And so at what point are we really closer to thinking of this as being more like a public utility, more like something we want to think about through terms of a lens of government activity and Janine Unez, who you mentioned, of course, was my lawyer for my lawsuit as well. That's what they're pressing on them in their suit, which is when the government is behind the scenes leaning on private actors and has the ability to threaten them, to bring actions against them, to raise costs on them. Is it really private activity at that point or is it something we need to be thinking about as being really this entanglement of public and private that maybe needs some different ways of thinking about it than how we thought about it in the past?

Bill Walton (15:05):

Well, the thing that strikes me as that, this is not the banking system. I started out as a baby banker in the seventies, and I think there were like 15 or 16,000 commercial banks in the country and that's been shrinking every year ever since. And I thought, what do we have now, three or 4,000? But even then almost all the assets are held by the top 10 banks. And because of a lot of what happened with Dodd-Frank in 2008. When did that pass, 2008, 2009?

Paul Watkins (15:35):

2009, 10.

Todd Zywicki (15:35):

Yeah.

Bill Walton (15:36):

I think as you pointed out, we've seen 44 new banks in 12 years. And it used to be, banks would pop up all the time. They were free market. People say, gee, we need to start a bank to bank this kind of industry or this kind of customer. We're not seeing that. And so the regulators have got their arms around a very finite group of banks and that interdependency, you can't really tell them apart.

Todd Zywicki (16:01):

Yeah. And I think that's why it's particularly concerning that we're in this moment where there is a lot of innovation in financial services, but there's been a push to get all of that innovation into the banking sector. So for example, we have this rise of stable points, which could disrupt payments. Key focus to the presidential working group, make these things all banks. Rule making just out of the CFPV last week said, we're going to start supervising fintechs like banks. So there's this alignment between the incumbents and the regulators to kill the challengers that is antithetical to the political message that we're hearing. We're hearing a message that's about reducing market concentration, that's about empowering individuals, that's about financial inclusion, but the actions are doing exactly the opposite. Which, on one hand is discouraging, but I also think presents an opportunity for better policy.

Bill Walton (17:08):

This is The Bill Walton Show, and I'm talking with Todd Zywicki and Paul Watkins. And we're about to answer a question I want to ask, which is, how many ordinary Americans need to worry about this course of hand of government cutting us off from our bank accounts or from credit?

Todd Zywicki (17:27):

Well, here's the thing, Bill, is it always starts with the Nazis, but it never ends with the Nazis. Which is, as people say, well, surely banks don't have to provide bank accounts for Nazis, which is what we heard 15 years ago. And they said, surely colleges don't have to allow Nazis to speak on their campus. And pretty soon George Will is getting canceled for being politically incorrect. And so what we've seen is very rapidly there's been this slippery slope from these very dramatic things to all of a sudden you've got guys like Mike Lindell or the Canadian truckers. And think about how this plays out, think if we had had cancel culture in the way that Trudeau brought the hammer down on the anti-vaccine mandate protestors in Canada. Think about if we have that in the sixties, Martin Luther King and the Southern Christian Leadership Conference, they broke the law.

Todd Zywicki (18:18):

Their whole model was, we're going to break the law by trespassing, which is what the truckers did in Canada. And think if the rule had been at the time, Martin Luther King can get bail, but he can't access his bank account to actually post bail. Which is, we're going to give you bail, but if you can't get any money, you can't post bail. And then nobody's allowed to contribute money to you to post bail. Nobody's allowed to contribute to the SCLC, to further their conspiracy to break the law through trespassing or marching over the Selma Bridge or sitting at a Woolworth's lunch counter. That's what they did to the Canadian truckers is they said, you are breaking the law by trespassing, and we're going to freeze all of your assets. You may get bail, but you can't access your money. And ordinary citizens who want to exercise their constitutional rights could very easily find themselves in the crosshairs just like those ordinary people in Canada and even the people who are donating to those [inaudible 00:19:19]

Bill Walton (19:18):

Well, that's the point I wanted to make. It's not just the beneficiaries, the money, it's the donors themselves. You've got a free market for deciding what you want to support or not support. They decided they want to send some money to support the truckers and the Canadian government grabbed it.

Todd Zywicki (19:37):

And they went after the, originally GoFund me and they eventually went after the replacement Give, Send, Go, I think it was. And they told them that they were going to freeze the assets that they had. And they ended up having basically having to refund it as well. So they really did choke off all of the efforts for people to want to be able to support them as well so that people are actually engaging in it simply because they said it was furthering a criminal conspiracy based on these very flimsy sort of arguments that look an awful lot like the American Civil Rights Movement to me.

Bill Walton (20:12):

How many people do you think understand this?

Todd Zywicki (20:16):

Well, Bill, here's what's terrifying, which is two thirds, in a poll, two thirds of Democrats approved of what Trudeau did by freezing the assets of the truckers. Did they understand that? My concern is yes, they did and they understood that this is a new tool to stifle dissent and to attack their opponents. And I think a lot of other people were asleep at switch. They told me, I was overly concerned when I've been sort of saying, this is coming, this is coming. And then a lot of people saw what happened in Canada. They said, "Wow, Zywicki, you are right. I didn't realize this was as big a threat as it is." And let's be clear, they could do that right now in the United States. They used the emergency authority in Canada, but they could do that right now. Maybe Paul would disagree with me, but I think the power of the regulatory state in this country, they could do that right now to American citizens under very flimsy, but an unreviewable type system like they did with Operation Choke Hold.

Bill Walton (21:31):

So when we have the Secretary of the Treasury giving speeches about how the treasury needs to be concerned about environmental justice, we've got the Federal Reserve Bank of San Francisco writing papers on everything and monetary policy ought to be aimed at the green agenda. When we've got candidates for the Federal Reserve who say, we ought to cut off banking services to anybody involved in fossil fuels. That list grows and grows and grows. And so if they can't get it through the legislature, they're going to get it through the banks.

Todd Zywicki (22:08):

Absolutely. Every person who gets banned on Twitter, because they're supposedly engaged in hate speech or disinformation, every single one of those people are candidates to lose their bank account to put it simply, in my view, the way that the government regulation operates here.

Bill Walton (22:25):

Well, the phone conversation with the banker and Mike Lindell's chief financial officer really was chilling. It was just very kind of, well, we're really just not all that happy. And we'd like you to move your business someplace else. They didn't show up with the door with guns and stuff like that. It was just kind of this nudge, but it was a very firm nudge. So what happens if I don't do it this week? Well, then we're going to ratchet it up.

Todd Zywicki (22:53):

We're going to put you on the, what do you call it, the bad boy list. Yeah.

Bill Walton (23:00):

Yeah. I think that's what they call it.

Todd Zywicki (23:03):

We're going to allow you to close your bank account because if we have to close it for you, then you're going to have a lot of trouble.

Bill Walton (23:08):

Do banks circulate lists of, isn't there a list, a watch list for people whose bank accounts have been closed and don't they share that with each other?

Todd Zywicki (23:18):

I'm still trying to figure out what exactly that bank officer meant by this, by the bad boy list.

Bill Walton (23:23):

The bad boy list.

Todd Zywicki (23:24):

A bad boy list. But there appears to be some list and nobody's quite sure what it is, but we know that there are people who've said they've lost their bank accounts and have been unable to get another bank account anywhere else.

Bill Walton (23:38):

So what do we do about it?

Paul Watkins (23:40):

Well, I think we try to accelerate innovation in this space. We're at this, I think, pretty exciting historical moment where traditionally trust has been centralized. We've trusted an institution because they have a big name on a building, because they have a name on a stadium, because they're examined or insured by a federal agency, a state agency that you trust. But there are other methods of trust, and I think blockchain is showing that. When you have essentially everyone looking at the same spreadsheet, seeing how value has been transferred, confirming that it's been transferred accurately, you don't need a lot of those intermediaries. And this is a significant threat financially to the incumbents, but it also removes the need for the same type of regulatory apparatus that we've had so far. And so I think there's a real opportunity here to accelerate that transition and empower the individual to act as they want.

Todd Zywicki (24:52):

And, and I agree with Paul, that the importance of innovation of sort of getting around the banking system. But what we found in Canada, and what I think we see in this country, is the very fact that we can look at that, my view is an opportunity for freedom is exactly why the left is coming after it. As Paul said, they're already trying to push all this stuff, sweep all this stuff into the banking system, their system, basically on their tax compliance or regulatory compliance or some other type thing. And so my concern is, there will be an effort to always stay one step ahead, but my concern is that they see that as well. And so one idea I've talked about, as I said earlier, I think it's time to recognize these aren't really just purely private businesses.

Todd Zywicki (25:39):

You can't just start another bank. But when Brian Brooks was the Control of the Currency in the Trump administration, the last regulation he issued was something called Fair Access to Financial Services rule. And that basically said that banks can only take into account traditional matters of financial risk in deciding whether to provide banking services to a company or an individual or whatever the case may be. Now I understand that is an increase in government power, and I understand that comes with a lot of risk of unintended consequences, but this is happening. A lot of people say, well, what happens when the left gets power. Come on, Bill, let's be serious. The left is doing this already. We've already given the examples. They're already doing this. They're not waiting around for legal authorization.

Todd Zywicki (26:33):

And so I think it's time to start thinking about the potential of something like that, that would require banks-

Bill Walton (26:39):

Well, you got to get that through Congress.

Todd Zywicki (26:42):

Well, he issued as the rule making, as the Control of the Currency that basically says, this is proper banking practice is that you don't take into account things like people's political views in deciding whether you give them financial-

Bill Walton (26:53):

Let me push on that. When I was a baby banker, we had something called the three C's of credit. Maybe it was four, but I only remember three. And there was credit, which was your cash flow. And then there was collateral, which is the assets you could put up to support a loan. And the third one was character. And it used to be in the old days of banking actually knew who you lent money to, and you would assess their character and decide whether that's a good place to loan money or not. Isn't this character piece of slippery slope though, even for objective measures of who gets credit and who doesn't? You could say, disinformation, we've got a new minister of disinformation. I heard her on the radio this morning and she thinks everything Republicans say is disinformation. And when the parents complain about CRT training in schools, teaching in school, they say, well, that's disinformation. So how do we get, how do you really make credit objective, I guess is my ... Can you do it that way?

Todd Zywicki (27:56):

Well, sure. And that was, as you said, character was a double-edged sword back in the day, which is, character, you want to have somebody who has good character, but what that meant in the old days often was the bank manager would approve a loan to his golfing buddy or his Kiwanis Club buddy, but not to a minority or a woman or whatever the case may be. And so the way we addressed that was through credit score, objective measures of financial risk was basically what came out of ECOA, was that you should look at objective measures of financial risk, not whether somebody's got a good handicap and you like to play around the golf with them. And that was a huge impact on democratizing credit and rationalizing it and promoting financial exclusion. And so while obviously character matters, we need to not turn it into something where it's just the arbitrary.

Bill Walton (28:54):

I agree. I'm just thinking about different ways you could drive loopholes into it. But it seems promising though, if we've got this completely ossified system of traditional banking to look at the digital world, what would that look like? How do you set something up that's free from the regulatory regime?

Paul Watkins (29:17):

Yeah. So I think you've hit on the key question, which is how do you regulate this? And I think we've already discussed that there's sort of a progressive incumbent alliance to regulate everything like a bank. So the alternative has to be regulate things at the state level as much as possible. We already have state chartered banks. They're federally supervised by either the FDIC or the Federal Reserve in most cases with some exceptions, but there are new charters. There's one in Wyoming called Special Purpose Depository Institution, not supervised at the federal level. There are also other types of state licenses, such as money transmission that are not supervised at the federal level. And so these types of license structures, particularly if states were to act in concert and say, we want to create some sort of zone of innovation where we will accelerate innovation for our citizens. You just take even very red states, you get 20 states together. You've got a market of a hundred million people. That's plenty large enough to invest in. There could be a lot of innovation that would be great for consumers and would indirectly also solve this problem.

Bill Walton (30:39):

So the reason you want to aggregate the states is you want a big enough market to be able to get to scale.

Paul Watkins (30:44):

Yeah, exactly. I think maybe you could do this in a large state, like Texas or something like that, but you couldn't do it in one of the smaller states. But you get a group of states together, you have a significant payments network, you have a significant banking network, and that's sort of a bulwark that you can use for economic growth, and then also incidentally for this.

Bill Walton (31:11):

It's a federalism solution to this, where you got the experiment at different states. And of course, the blue states won't experiment and they won't let these innovations happen. Florida will, Texas probably will. Tennessee probably will. All of a sudden they've got thriving, alternative financial services organizations. It's going to put a lot of pressure on the other states to do something like that.

Paul Watkins (31:35):

That's exactly right. And I think it addresses what is one of the weaknesses of Todd's solution, which is if we can only do this administratively at the federal level, then it gets flipped every time power changes. I'm not saying anything that's new to you, I recognize, so there has to be something else that's a little bit more durable and a little bit more permanent so that people can make investments and kind of build their life with a little bit more certainty.

Todd Zywicki (32:07):

Yeah. I agree, which is we need to promote this as well and try to keep it out of the regulatory system. And this is what's so dangerous about this. And I want to emphasize something Paul mentioned earlier. The problem here is that you have the combination of progressive regulators, woke sort of progressive leftists, activists Leaning on everybody else. And then you have the big banks. The big banks and the incumbent banks want to stifle innovation. They want to prevent entry. And a good example was about 10 years ago, Walmart wanted to get a banking charter, which would've been an amazing thing. Walmart ended up not getting a banking charter. Why? Because the incumbent banks stifled them, they stomp on them, they kept them from getting it. But it turns out, Walmart has been able to provide some financial services, money transfers, other sorts of things. And everywhere Walmart has entered, they've totally transformed those industries such as money transfers, where the entry of Walmart dramatically reduced what Western Union, for example, can charge for business service fee.

Bill Walton (33:18):

Walmart did not get it done.

Todd Zywicki (33:20):

They were not able to get a bank account to offer checking accounts.

Bill Walton (33:23):

And that didn't happen.

Todd Zywicki (33:24):

Right. So they were able to offer sort of money transmitting and other non-bank services. But yeah, it doesn't do much, but it illustrates the potential.

Bill Walton (33:33):

Fast forward, you got Jamie Diamond at JP Morgan trashing, or Chase, is it JP Morgan Chase now?

Todd Zywicki (33:40):

Yeah, JP Morgan Chase.

Bill Walton (33:42):

Trashes cryptocurrency like every time you hear him speak.

Paul Watkins (33:47):

Yeah.

Bill Walton (33:47):

You think he's talking his book?

Paul Watkins (33:50):

Yeah, that's right. And I think the bank strategy has been, let's try to slow down innovation until we can catch up and then also push-

Bill Walton (34:00):

And then it won't be innovation.

Todd Zywicki (34:00):

Yeah, that's right.

Paul Watkins (34:02):

That's right. And my favorite example, I like Todd's example. My favorite example is, if you look at the notes from a meeting that the largest banks in the country had with Janet Yellen on December 8th of last year, December 8th of last year, largest banks, Secretary of Treasury, you don't get to talk to the Secretary of Treasury very often, so maybe you have one point that you want-

Bill Walton (34:21):

Janet and I have dinner regularly.

Paul Watkins (34:21):

Right. So Treasury is clear from the notes, they want to talk about build back better and their legislative priority. There is only one issue that is brought up besides that, that is the regulation of stable coins. The number one economic issue for the largest banks in the country.

Bill Walton (34:41):

Explain for the uninitiated. What's a stable coin?

Paul Watkins (34:44):

A stable coin is a cryptocurrency that's designed to hold a stable value. It can enable very efficient transactions that would eliminate the need for intermediaries that currently charge a lot of fees.

Bill Walton (35:00):

Were the books kept for that?

Paul Watkins (35:03):

I'm sorry.

Bill Walton (35:04):

You've got a ledger that monitors or keeps track of how much is there. So you can't create new currency. Is that the way this works?

Paul Watkins (35:15):

So, it depends a lot on the particular cryptocurrency. So for some stable coins they have, if it's a stable coin, that's backed by dollars, if it's designed to mimic the dollar, then there are dollars held in an account. And that's audited often by a third party or other stable coins that have been accused of basically making this up, so there's a wide-

Bill Walton (35:38):

Then we've got the trust factor. The trust factor is a big deal. I remember I was at Continental Bank when I started my career and it was really charming because on the foot of LaSalle Street, right in front of the Board of Trade, you had the Federal Reserve Bank on this side of the street and had these pillars and edifice and stuff. This was the Federal Reserve Bank. Right across the street, you had Continental Bank with the same pillars, the same edifice, the same marble. I guess they had some negotiation where one was Corinthian and one was ionic or something like that. They weren't exactly, but the whole point was the bank was projecting that it was going to be there forever. How do we create trust with our money?

Paul Watkins (36:24):

Well, if you take Bitcoin, for example, the trust is created by everyone being able to see the ledger and see what transactions have occurred and see that they've occurred according to the agreed upon process, which in Bitcoin is something called proof of work.

Bill Walton (36:44):

And this is all open architecture? We can all see it?

Paul Watkins (36:45):

Yes, you can. We don't have a computer in front of us right now, but you could look up the hundred Bitcoin addresses with the largest holdings in Bitcoin. And you can see that, and you can click on an address and you can see money going in and out. You don't necessarily know who's behind that. And there might be another address behind it and so forth, but you can see these transactions. And transactions on the Bitcoin blockchain are verified according to something called proof of work. And it's very difficult to trick because it would require somebody essentially having 51% of the validation power on the Bitcoin network, which is not feasible to achieve.

Todd Zywicki (37:32):

And I think stable coins, correct me if I'm wrong, Paul, but stable coins is the potential existential threat to the incumbent banking system. Because the problem with Bitcoin in some of these other currencies is that one of the key aspects of money is they hold their value. Even in an inflationary environment, they have some stable value to some extent. The problem with Bitcoin, for example, is it fluctuates so much that people don't really want to hold it as a currency, if they need to convert it into liquid funds, number one. And then number two, you still have to convert it into dollars to be able to buy a gallon of milk. And I think the logic of stable coin is that it essentially becomes like a dollar, it's a stable value so that you can switch out of more speculative, unstable assets.

Bill Walton (38:18):

You've got to buy dollars with it in order to buy by-

Todd Zywicki (38:21):

The idea is it'll eventually stabilize-

Bill Walton (38:27):

[inaudible 00:38:27] I can't pay for it now with a stable coin.

Paul Watkins (38:32):

I don't know if you can at Safeway. There are places where you can pay for things with Bitcoin. There are places where you can use other crypto currency.

Todd Zywicki (38:41):

But eventually stable coin's the most plausible thing to become more mainstream as opposed to, Safeway's never going to take Bitcoin because the value fluctuates too much, but they might actually take, stable coin might evolve as a-

Paul Watkins (38:53):

Well, I don't know. I wouldn't say that Safeway never take Bitcoin. I think they might.

Bill Walton (39:01):

That's the thing about the new, you just don't know until you, but I have a friend who's a gold bug. Serious. He thinks everything ought to be backed by gold. I don't think most people realize that the dollar is of Fiat currency. It's really not backed by anything. And it's backed by "trust". And he sent me a book about fiat currencies back all the way through the Egyptians. And essentially when governments took their money and they took it away from gold or being backed by other sorts of hard assets, some people, something that thought would hold its value, eventually the currency collapsed. And so I'm thinking about the micro issue we're talking about here is our personal financial security. I'm also really worried about the dollar and our 30 trillion of debt and rising rapidly causing us to lose our status of the world reserve currency. We could see, I don't know, we can envision what happens. Would the stable coin then be a haven we could look to?

Paul Watkins (40:09):

So I think there are a couple different approaches.

Bill Walton (40:10):

That was about nine questions, I think, but it's something I'm-

Paul Watkins (40:14):

Yeah. I think those were probably the most legitimate of the concerns expressed in the last administration for why they did not get behind innovation in the way that they should have. That was a major, major missed opportunity in the Trump administration.

Bill Walton (40:32):

People losing faith in the dollar.

Paul Watkins (40:33):

And when you listen to the president talk about it, he was worried about the security of the dollar. However, something like a stable coin, if the US had moved quickly in that moment and said, yes, we're going to provide clarity. You can launch stable coins, you can back them with a dollar. You have to be honest, if you're dishonest, we'll sue you and a whole bunch of people sue you, so don't be dishonest. If we'd done something like that, I think that would've probably increased the demand for dollars because you would've had this very easy to use global currency that was backed by dollars. So I think that would've been a huge positive. Now, something like Bitcoin, that's not tied to the dollar, could that long term be a threat? Maybe, but it's better to incorporate that. If we're the country that incorporates that system into our financial infrastructure first, that's only going to be a win. If we wait, we're going to be worse off than if we move more quickly.

Bill Walton (41:28):

Well, I said, this is a vast topic. It is. Because I'm also wondering about central bank digital currencies.

Todd Zywicki (41:35):

Oh okay. This is one I-

Bill Walton (41:41):

We've got 80 countries now. I think Zimbabwe's got theirs going.

Todd Zywicki (41:44):

And so I was aware of cancel culture and banking and leaning on the banking system. I have only recently had my eyes awakened to the danger of central bank digital currency. And this is a big deal. It's a big deal first because I don't like the reasons why they want it, which is it basically comes down to, it'll be easier to manipulate the money supply. It'll be easier to do these crazy negative interest rate type things we've seen in other places because otherwise people just hoard dollars, and so it really opens up a vast range for-

Bill Walton (42:22):

Who wants to give a quick primer on CBDG.

Todd Zywicki (42:29):

The government would basically just-

Bill Walton (42:31):

Federal reserve.

Todd Zywicki (42:32):

Federal reserve. Or why don't you explain it, Paul? You could probably explain what CBDG, what it is.

Paul Watkins (42:36):

So it's a digital currency, like the cryptocurrencies that you're familiar with that are issued by the central bank. So you have a liability with the central bank, so it holds the digital currency and it likely circumvents the existing banking system.

Bill Walton (42:52):

Yeah. So what happens to JP Morgan Chase? If you're banking with the Federal Reserve?

Paul Watkins (42:58):

I think that's one reason why there's some alignment here between the big banks.

Todd Zywicki (43:02):

Yeah, there's just some digital-

Paul Watkins (43:03):

They don't want that.

Todd Zywicki (43:04):

Debits and credits that don't ever really get converted into pure dollars. So you can't take money out of the bank and hold it at your house or carry it around your wallet.

Bill Walton (43:15):

Right, right.

Paul Watkins (43:15):

That doesn't exist anymore. It's just digital debits and credits. And here's what's so dangerous about it, Bill. I just became aware of this. What opened my eyes to it was listening to a Joe Rogan podcast with [foreign language 00:43:29] and he was talking about the other thing they can do with it is they can program it for anything they want to program it for. They could say, you've exceeded your allotment of hamburgers this month. You've exceeded your use of gasoline and that's bad for the environment. They could say, you can't buy a plane ticket to go to a certain city because there's a conference going on that weekend that we think you want to attend that's going to promote disinformation about this, that or the other. That is all plausible, because now they're tracking every dollar that goes into your account and out of your account through these processes and that is very scary. I did not realize that.

Bill Walton (44:14):

We end up with China's China's social credit system.

Paul Watkins (44:17):

It is pretty much the final step for China's social credit system, potentially.

Bill Walton (44:22):

Does China have that yet? I know they're working on a digital currency.

Todd Zywicki (44:26):

Yeah. Look, I don't have, there are people that say China's doing that and China says, it's not. I'm not in a position.

Bill Walton (44:32):

Nobody knows what China's really, you all might have a little more.

Paul Watkins (44:36):

I'm just like anyone else looking at the credibility of the two speakers and deciding who you want to believe. But this is, I think, I agree with Todd that this is a very significant threat. And it's also concerning that this is clearly the direction that the current administration wants to go. If you look at the executive order that they did on digital assets, it requested approximately, I can't remember the exact number, but it's 19 or 20 reports from different agencies. About a dozen of those reports are about how to regulate private cryptocurrencies more. About half a dozen are about how to promote a central bank, digital currency. And then one report from the Department of Commerce is about how maybe this innovation could do something positive.

Todd Zywicki (45:20):

And remember, this is what they did with Operation Choke Point, which is, they said, I've mentioned payday lenders, but they also said, we're going to go after bank accounts for firearms dealers. We're going to go after bank accounts for people who sell certain materials, pornography, hate material may have been on that list. We're going to go after people who sell ammunition, people who sell fireworks, all these sorts. They already had a hit list of companies. It's a lot easier with central bank digital currency to just say, no more, you can't spend money on firearms. We're not taking away your second amendment rights. You still have a right to buy guns, you just can't get access to the funds to buy a gun, for example.

Bill Walton (46:02):

So you all were at the Consumer Financial Protection Bureau. You were on one of the advisory committees, is that right? And you worked there for a while? This

Paul Watkins (46:11):

I did. Yes.

Bill Walton (46:13):

So what was it like to be inside an Elizabeth Warren creation?

Paul Watkins (46:18):

Well, they designed it to have a lot of discretion.

Bill Walton (46:22):

With no oversight.

Paul Watkins (46:23):

On one hand-

Bill Walton (46:24):

Where I'm going with this though is, how's it changed since you all left and it's now in the hands of the Bidenites?

Paul Watkins (46:32):

What's been really discouraging to me, and I knew I was going to disagree with this administration on a lot of things, but I was actually encouraged when one of their primary talking points was reducing market concentration. And I may disagree with emphasis they put on it, I may think that other areas should be emphasized, but that is something that I think is really important that we should all share. We want to have a competitive marketplace where anybody can start a company and build it up and compete with the big guys. We all want that. And maybe we need a little bit more antitrust. What has been discouraging to me is to see how the effect of their regulatory strategy has been to lock in the incumbents and to impose the same regulatory burdens on new entrants, as the incumbents who have different products. We haven't regulated fintechs like banks for a decade. And I don't think there's been a problem with that. So there's no reason to start doing it now, except that you allow the incumbents to keep their lower cost of capital, because they're a bank and because they have deposits and also impose their regulatory costs on their competitors, which is a net loss for the consumer and for the American public, and so I've been very discouraged to see them go that direction.

Todd Zywicki (47:56):

Yeah. They have unleashed the full power of the administrative state and all of its lawlessness is what's going on right now. The CFPB, this new director, I'll give you an example, which is about a month or so ago. The director Rohit Chopra announced under current law, we have the Equal Credit Opportunity Act, which specifically prohibits discrimination in lending services. They announced that they're going to use UDAP, the Unfair, Deceptive, and Abusive Practices to go after anything that they perceive as discrimination. And here's what's important about it, Bill, is the way they're going to do it is they're going to use supervision, the supervisory power, no rule making that somebody could offer, notice and comment on to whether or not it was supported, not even an enforcement action where people could raise legal objections. The reason they do it through supervision is it's really hard to figure out. You can challenge a supervisor.

Bill Walton (49:00):

This is John Allison's raised eyebrow.

Todd Zywicki (49:02):

This is John Allison's raised eyebrow. And so basically what you do is you can go in there and basically, for example, really go ... So one of the dreams of the Biden administration was, and I wrote an article for Regulation magazine on this, was to retool the consumer credit bureaus and the consumer credit rating system, because on average, minorities have a lower credit score than whites, which of course, in the woke world means it's obviously discrimination. And so they were going to create a federal monopoly credit bureau system that would basically fix that. That would've been too expensive, too difficult. But now, this allows them to do it. They just go in and they say, re-engineer your algorithm so that it comes out correctly, otherwise we're going to say that you're violating UDAP because of acting in this way. And just think about the range that gives them, and they do it through supervision because that's the least transparent and at least, rule of law bound aspects of the regulatory process.

Bill Walton (50:10):

And that's in place right now?

Todd Zywicki (50:12):

They announced that about a month ago.

Bill Walton (50:15):

And with this agency, there's no oversight. Congress doesn't even get to fund it.

Todd Zywicki (50:21):

Right.

Bill Walton (50:24):

Gee.

Todd Zywicki (50:25):

And that's why it is Elizabeth Warren's dream. It's the ultimate dream of an unaccountable bureaucracy that can just run amuck on the economy and impose progressive policies.

Paul Watkins (50:39):

What's interesting to me is you look back at the initial papers that she was writing when she was advocating for this. She says, we need this new consumer focused organization because the Prudential regulators care too much about the financial success of these banks, and so there's too much alignment. We need an separate institution that can sue these institutions without worrying about their financial success. But what's happened is, they've become another regulatory body that protects the incumbents, just like the Prudential regulators did. And so it's completely antithetical to the purpose for which this agency was set up, which was supposed to be the singular independent advocate for consumers.

Bill Walton (51:23):

Well, they're an advocate, but an advocate for only certain subsets of consumers. Would that be-

Paul Watkins (51:30):

One thing they do, Bill, and it's very clear and unfortunate about the CFPB is it's been under democratic rule at least. The left has come to see the consumer finance systems as a system for redistribution and wealth transfer without having to pass a law, without having the government do. They basically commandeered the private sector to redistribute the way that they want, even though over the long run, it ends up hurting the people that they intend to help.

Bill Walton (52:01):

So when the regular ordinary person that doesn't study this, his or her eyes glaze over when we talk about financial regulation. They shouldn't. We really got to pay attention. So my takeaway from this, I'd like you guys to sum up, because we're about out of time is, central bank digital currencies, we've got to fight tooth and nail. If we can, we want to get some better regulation in place to get a level playing for field allocation of credit. Would this also address this consumer financial protection ruling on the credit scoring that you were just talking about?

Todd Zywicki (52:45):

I'd have to think about that. It might.

Bill Walton (52:47):

It might.

Todd Zywicki (52:47):

Yeah.

Bill Walton ([52:48]()):

But we ought to be thinking about stable coin as a potential solution. And we ought to be encouraging states to innovate, to pioneer a Federalist solution that would create the innovation and change we want and hope that if we nurture these in the red states, that because they're going to provide better, faster, cheaper services, it'll explode into something good.

Paul Watkins ([53:14]()):

That's right. Yeah. Absolutely. Just jumping off on that last point. I think the focus and it's been a little bit concerning to me to see the debate in Congress not really go this direction, but the status quo right now is to regulate cryptocurrency and fintech at the state level. We should keep it there, coordinate the regulation at the state level, and consider some of the rules that Todd's talking about to force neutrality, but structurally provide the opportunity for solutions to develop because a politicized financial system doesn't serve consumers and we should move beyond a politicized financial system. And the left is giving that opportunity right now by perverting the purpose of the regulators and these institutions. Let's build better institutions that actually work for the folks that they're supposed to serve.

Todd Zywicki ([54:13]()):

And I think that there's a lesson in there which is conservatives need to be aware that on this and so many other things, the progressives are playing the long game. And when they figured out how to message these things, which is we just want to prevent criminal activity. We just want to, just reasonable application of anti-terrorism laws and that sort of thing, but they use that as the camel nose under the tent. And so conservatives need to be thinking, yes, there may be some reasonable things here. Obviously there's a concern of cryptocurrency and terrorism, for example, but we need to be careful in terms of addressing that concern or money laundering or whatever the case be, addressing that concern that we keep the fences and the walls high around that so it doesn't end up impacting the rest of us. And sometimes we're not foresighted enough about how far down the line the left is thinking about these sorts of things and where they want to go with it.

Bill Walton ([55:14]()):

Well, they've been at it for a hundred years, of course. They've got a long plan. This has been The Bill Walton Show. I'm here with Todd Zywicki and Paul Watkins. And I think we've had an extremely revealing conversation about our money. And I hope you all still have your mattresses because we may need them. No, not seriously. But I do think we all had a bone up on our thinking about stable coin, Bitcoin as a freedom oriented solution to this. So, anyway, guys, thanks for being here. We'll get you back and we'll continue this conversation. I'm sure these issues will continue to loom. So anyway, thanks for joining. And I hope this was helpful. As always stay tuned for what's true, what's right, and what's next.

Bill Walton ([56:02]()):

Yeah. I am very worried about our money though. I'm really worried, both macro and micro.

Paul Watkins ([56:07]()):

I read a fascinating thing. I'm going to bring up here, but I read a fascinating thing a couple weeks ago of. I think that the cockiness in the faith of the dollar may be misplaced.

Todd Zywicki ([56:20]()):

I agree.

Paul Watkins (56:21):

And I read this fascinating thing they were talking about. Well, there were two things actually. Did you see the article in the Wall Street Journal about the Russian central banker? This was about two or three weeks ago. She is brilliant. I mean, it's like Russia has the advantage that is a meritocracy in some sense. Which is, Putin is not woke and Putin is not engaging in affirmative action in terms of who he's putting in charge of financial systems. And this Russian central banker is brilliant. And they've been preparing for this since 2014 or whenever they invaded Georgia, or that last thing that they did in Russia. They knew that eventually they were going to invade Ukraine and they knew that the west was going to bring the hammer down on financial sanctions. And so they've been planning for this, it's not like we caught them off guard. And I don't know if you saw, the ruble went like this and then went like this.

Bill Walton (57:21):

It's right back up.

Paul Watkins (57:22):

It went right back up because they were planning ahead for this while we were asleep at the switch. And the second thing is, I read at the same time discussion of a possibility of China, Russia, and Iran-

Bill Walton (57:35):

Currency block.

Paul Watkins (57:35):

Currency block with a commodity backed currency. and if you can hold a D a global currency, that's backed by oil, for example, rather than the full faith and credit the United States government given now with inflation and everything else, that's an easy thing to see, like you're saying. That can unravel like that.

Bill Walton (58:00):

Yeah. Well, I've been talking about this. I think we're really playing with fire with this Ukraine thing and the ultimate victim's going to be our dollar status as the world's reserve currency.

Bill Walton (58:12):

I hope you enjoyed the conversation. Want more? Click the subscribe button or head over to the billwaltonshow.com to choose from over a hundred episodes. You can also learn more about our guests on our interesting people page. And send us your comments, we read everyone and your thoughts help us guide the show. If it's easier for you to listen, check out our podcast page and subscribe there. In return, we'll keep you informed about what's true, what's right, and what's next. Thanks for joining.