It’s About Time: The Case For Reinstating Glass-Steagall

By Kirstin Erickson

***Resolved: The United States Federal Government should substantially reform its banking, finance, and/or monetary policy.***

In the years leading up to the Great Depression, banks often performed two functions: they would provide commercial banking for consumers (what most of us use banks for) and making high-risk investments in buying stocks. When the stock market crashed, the commercial side of banks did as well, harming millions of American citizens who had nothing to do with the risky investments. To help restore the public’s faith in the banking system, the Glass-Steagall Act was passed, which forced banks to perform only one of these functions to protect against a crisis in one part of the financial system from spreading to another. For a long time, the legislation worked, and the economy thrived. But banks began complaining about overregulation, and Glass-Steagall was repealed in 1999. Many believe that this was one of the factors that caused or exacerbated the 2008 recession. The Affirmative philosophy is that we need to learn from the past. Without this bill, we’ve already had two financial crises. If banks want to make risky investments, that’s fine. But the American people should not be at risk if they don’t want to be involved. Reinstating Glass-Steagall would protect consumers and the economy far better than the Status Quo.

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If we don’t learn from the past, we are doomed to repeat it. After the Great Depression, Congress enacted legislation to separate risky investment banking, for the high-flyers on Wall Street, from retail, or commercial, banking, for us ordinary folks with our checking and savings accounts. Keeping these activities separated worked great, until Congress repealed it… and another crash followed 10 years later. Please learn from the past and join my partner and me as we gain the comparative advantages of affirming that: The United States Federal Government should substantially reform its banking, finance, and/or monetary policy.

OBSERVATION 1. DEFINITIONS.

Substantial

Merriam Webster Online Dict. copyright 2019 <https://www.merriam-webster.com/dictionary/substantial>

"important, essential"

Policy

Merriam Webster Online Dict copyright 2019 <https://www.merriam-webster.com/dictionary/policy>

"a high-level overall plan embracing the general goals and acceptable procedures especially of a governmental body"

Banking

Farlex Financial Dictionary, copywright 2009. "Banking." <https://financial-dictionary.thefreedictionary.com/Banking>

The network of institutions and laws that provide a great variety of financial services.

OBSERVATION 2. INHERENCY, or the Status Quo.

Fact 1: Glass-Steagall. The Glass-Steagall Act was a Banking Policy enacted after the 1929 stock market crash

Stacy Mitchell 2010. (co-director of the Institute for Local Self-Relianc (ILSR), and directs its Independent Business Initiative, which partners with a wide range of allies to implement policies that counter concentrated power and strengthen local economies.) October 26, 2010. “Glass-Steagall Act & the Volcker Rule.” The Institute for Local Self-Reliance (ILSR empowers local communities through programs, policies, and initiatives) <https://ilsr.org/rule/glass-steagall-act-the-volcker-rule/>

The Banking Act of 1933, more commonly known as the Glass-Steagall Act, was one of the pivotal banking reform laws adopted in the aftermath of the 1929 stock market crash. A Congressional investigation into the causes of the crash concluded that reckless and sometimes fraudulent underwriting of securities and risky loans by commercial banks had fed a huge and unsustainable credit bubble, which led to a devastating bust that destroyed the economy, brought down banks, and imposed heavily losses on ordinary depositors and investors. Between 1929 and 1933, more than 4,000 U. S. banks closed, wiping out the savings of depositors. To prevent another crash, lawmakers decided that commercial banking had to be strictly regulated, backed by deposit insurance, and separated from the risky and speculative business of underwriting and trading in securities.

Fact 2: Glass-Steagall separated investment and retail banking

Kimberly Amadeo 2018. (U.S. Economy expert for The Balance and president of WorldMoneyWatch.com. 20 years senior-level corporate experience in economic analysis and business strategy. M.S. in Management from the Sloan School of Business at M.I.T.) September 22, 2018. “Glass Steagall Act of 1933, Its Purpose and Repeal.” The Balance (a personal finance website that provide clear, practical advice on managing your money) <https://www.thebalance.com/glass-steagall-act-definition-purpose-and-repeal-3305850>

The Glass-Steagall Act is a 1933 law that separated investment banking from retail banking. Investment banks organized the initial sales of stocks, called an initial public offering. They facilitated mergers and acquisitions. Many of them operated their own hedge funds. Retail banks took deposits, managed checking accounts, and made loans. By separating the two, retail banks were prohibited from using depositors' funds for risky investments.

Fact 3: Glass-Steagall was repealed in 1999

Kimberly Amadeo 2018. (U.S. Economy expert for The Balance and president of WorldMoneyWatch.com. 20 years senior-level corporate experience in economic analysis and business strategy. M.S. in Management from the Sloan School of Business at M.I.T.) September 22, 2018. “Glass Steagall Act of 1933, Its Purpose and Repeal.” The Balance (a personal finance website that provide clear, practical advice on managing your money) <https://www.thebalance.com/glass-steagall-act-definition-purpose-and-repeal-3305850>

During the Reagan administration, the banking industry complained the act restricted them too much. They said they couldn't compete with foreign financial firms that could offer higher returns. The U.S. banks could only invest in low-risk securities. They wanted to increase the return while lowering the overall risk for their customers by diversifying their business. Citigroup had begun merger talks with Travelers Insurance in anticipation of Glass-Steagall. In 1998, it announced the successful merger under a new company called Citigroup. Its move was audacious, given that it was technically illegal. But banks had been taking advantage of loopholes in Glass-Steagall. On November 12, 1999, President Clinton signed the Financial Services Modernization Act that repealed Glass-Steagall.

OBSEVATION 3. THE HARMS.

Harm 1: Economy harmed

A. The Link: Too-big-to-fail banks are bigger than before the ‘08 crisis. The economy’s at grave risk without Glass-Steagall

Richard Eskow 2015. (Senior Advisor for Health & Economic Justice at Social Security Works; former consultant, public policy advisor, and senior executive in the US and more than 20 foreign countries) November 16, 2015. “5 Reasons Why Glass-Steagall Matters.” The Huffington Post (ellipses in original) <https://www.huffpost.com/entry/yes-glass-steagall-matter_b_8579520>

Too-big-to-fail banks are bigger, riskier, and more ungovernable than ever

America’s largest banking institutions are even larger now than they were before the 2008 financial crisis. The nation’s six largest banks issue more than two-thirds of all credit cards and more than a third of all mortgages. They control 95 percent of all derivatives and hold more than 40 percent of all US bank deposits. Simon Johnson, former chief economist for the International Monetary Fund, points out that Glass-Steagall is needed as part of a broad effort to make these banks “simpler and more transparent.” Johnson also observes that:

In the run-up to the 2008 crisis, the largest US banks had around 4 percent equity relative to their assets. This was not enough to withstand the storm ... Now, under the most generous possible calculation, the surviving megabanks have on average about 5 percent equity ... that is, they are 95 percent financed with debt.   
As Johnson makes clear, these banks continue to pose a grave risk to the economy.

B. The Impact: Economic meltdown and trillions of taxpayer dollars

Dennis Kelleher 2018 (president and CEO of Better Markets, a Washington-based independent, nonpartisan, nonprofit organization that promotes the public interest in financial reform, financial markets and the economy) 1 Aug 2018 “BankThink ‘Too big to fail’ is alive and kicking” <https://www.americanbanker.com/opinion/too-big-to-fail-is-alive-and-kicking>

“Too big to fail” financial firms, those that would crash the entire financial system and global economy if they failed, were at the core of causing and spreading the financial crash of 2008. That was the worst meltdown since the Great Crash of 1929 and caused the worst economy since the Great Depression of the 1930s. A second Great Depression was only avoided due to unprecedented and incredibly costly government and taxpayer bailouts for those “too big to fail” global financial giants like JP Morgan Chase, Citigroup, Bank of America, Goldman Sachs, Morgan Stanley and many others. While most people think of the $700 billion Troubled Asset Relief Program when they think of bailouts, that was only the tip of the bailout iceberg, which [totaled in the trillions](https://www.gpo.gov/fdsys/pkg/CHRG-112shrg64832/pdf/CHRG-112shrg64832.pdf).

Harm 2: Fraud & Corruption

Without Glass-Steagall, the mix of customer banking with investment banking, leads to fraud and corruption

Richard Eskow 2015. (Senior Advisor for Health & Economic Justice at Social Security Works. Richard is a former consultant, public policy advisor, and senior executive in the US and more than 20 foreign countries. He is also a freelance writer and the host of The Zero Hour, a weekly radio and TV program.) November 16, 2015. “5 Reasons Why Glass-Steagall Matters.” The Huffington Post <https://www.huffpost.com/entry/yes-glass-steagall-matter_b_8579520>, (brackets added) (“C Suite” refers to the highest levels of management: Chief Executive Officer (CEO), Chief Financial Officer (CFO), etc)

The traditional practice of what Sen. Elizabeth Warren calls “boring” banking - opening savings accounts, reviewing loans, and providing other customer services - has largely been supplanted by high-risk gambling and the aggressive hustling of dubious investments to unwary clients. The level of fraud unearthed since the 2008 crisis is nothing short of breathtaking. (The fact that no senior banking executive has gone to prison for that fraud is, if anything, even more breathtaking.) How did that happen? Citigroup’s [former CEO John] Reed wrote that the repeal of Glass-Steagall led to the “very serious” problem of “mixing incompatible cultures” - which, he said, “makes the entire banking industry more fragile.” He discussed the relationship-based, sociable culture of traditional banking, emphasizing its incompatibility with the risk-seeking, “short termist” mentality of investment bankers who seek “immediate rewards.” Reed makes a very important point - although he’s being overly kind about it. Yes, traditional bankers tend to be risk-averse and customer-focused. That’s very different from the high-stakes gambling mentality of investment banking. But what Reed fails to note - or is too polite to mention - is the extent to which today’s culture of investment banking is predicated on outright fraud. That’s reflected in polling of the banking community itself, as well as in the industry’s appalling record of documented illegality. It is this mentality, which is present in banks from the “C” suite on down, which has given rise to Wall Street’s tsunami of misdeeds.

OBSERVATION 4. THE PLAN.

1. Mandate: Congress will pass and the president will sign the 21st Century Glass-Steagall Act, bill introduced in Congress in 2017 but never enacted.
2. Funding is General Federal Revenues. Plan is purely legislative with no change in the federal budget.
3. Timeline: Plan takes effect 30 days after an affirmative ballot, and banks will be given one year to decide whether they will specialize in commercial or investment banking.
4. Enforcement through existing agencies that currently oversee banking regulations.
5. All Affirmative speeches may clarify.

OBSERVATION 5. THE ADVANTAGES.

Advantage 1: Reduced risk of another crash

Glass-Steagall would separate financial sectors to decrease risk of another financial system crash

Prof. Ganesh Sitaraman 2018. (Professor of Law at Vanderbilt Law School.) June 16, 2018. “The case for Glass-Steagall Act, the Depression-era law we need today.” The Guardian <https://www.theguardian.com/commentisfree/2018/jun/16/case-glass-steagall-act-ganesh-sitaraman>

The second premise is that we should break up big financial institutions by separating their functions, rather than by capping their size (though it is not necessarily inconsistent to support both – and some proponents of Glass-Steagall do). There are many reasons to desire a financial sector that is fractured by function. Separation means government guarantees won’t cross-subsidize risky business lines. It can help reduce the risk of contagion – of a business infected with bad bets taking down the entire financial system. It will also make firms smaller (though it would still be possible to become large within a single business line). Together these factors make the financial system less susceptible to systemic risk.

Advantage 2: Depositors protected

A reinstatement of Glass-Steagall would protect against banks’ abuse and future financial crises

Carrie Hunt 2018.*(executive vice president of government affairs and general counsel of the National Association of Federally Insured Credit Unions. J.D. from* William and Mary School of Law.*) September 11, 2018. “*Updated Glass-Steagall would make banks put people before profits.” The Hill <https://thehill.com/opinion/finance/406101-new-age-glass-steagall-would-make-banks-put-people-over-profits>

A 21st-century Glass-Steagall Act would promote a more competitive marketplace and a safer and more sound financial system. Building a firewall between investment and commercial banking would ensure these two segments of banking stay mutually exclusive. It would also ensure Wall Street banks can no longer gamble with American consumers’ personal savings on the trading floor. As is the nature of economic cycles, ups and downs are constant, but some downs are worse than others. “Too big to fail” institutions, coupled with excessive, unbridled risk-taking, will have a catastrophic impact on the American economy and wreak havoc on consumers’ financial well-being. A new policy approach to Glass-Steagall, however, could help mitigate the damages incurred by American consumers. A 21st-century Glass-Steagall would: protect consumers against future financial crises; ensure traditional depositories can continue to thrive in a stable financial marketplace; and reduce the competitive inequalities and moral hazard that arises when large banks take risks on consumer deposits to generate profits.

2A Evidence: Reinstate Glass-Steagall

OPENING QUOTES / PHILOSOPHY

Banks shouldn’t be able to gamble with our deposits

Matt Killorin 2018. (contributor for The Simple Dollar) November 2, 2018. “The Glass-Steagall Act, Explained.” The Simple Dollar (TSD has been featured in some of the world’s largest publications, including Inc., Forbes, Business Insider, and TIME.) <https://www.thesimpledollar.com/the-glass-steagall-act-explained/>

Many Americans feel banks are too big, and shouldn’t be able to gamble with our deposits. In other words, when the babbling brook of commercial banking — where ordinary consumers park their savings and where small businesses get loans — merges with the whitewater rapids of investment banking, the failure risk will, at the very least, exacerbate an economic downturn, and at worst actually cause one.

Now is the time to reinstate Glass-Steagall

*James Rickards 2012. (hedge fund manager in New York City*) August 27, 2012. “Repeal of Glass-Steagall Caused the Financial Crisis.” US News <https://www.usnews.com/opinion/blogs/economic-intelligence/2012/08/27/repeal-of-glass-steagall-caused-the-financial-crisis>

Now, when memories are fresh, is the time to reinstate Glass-Steagall to prevent a third cycle of fraud on customers. Without the separation of banking and underwriting, it's just a matter of time before banks repeat their well-honed practice of originating garbage loans and stuffing them down customers' throats. Congress had the answer in 1933. Congress lost its way in 1999. Now is the chance to get back to the garden.

INHERENCY / BACKGROUND

Glass-Steagall was passed to prevent another bank failure like the Great Depression

Kimberly Amadeo 2018. (U.S. Economy expert for The Balance and president of WorldMoneyWatch.com. She has 20 years senior-level corporate experience in economic analysis and business strategy. M.S. in Management from the Sloan School of Business at M.I.T.) September 22, 2018. “Glass Steagall Act of 1933, Its Purpose and Repeal.” The Balance (a personal finance website) <https://www.thebalance.com/glass-steagall-act-definition-purpose-and-repeal-3305850>

Glass-Steagall sought to permanently end bank runs and the dangerous bank practices that created them. Congress passed Glass-Steagall to reform a system that allowed the failure of 4,000 banks during the Great Depression. It had debated the bill during 1932. It redirected bank funds from fueling stock speculation to building industrial capacity.

Simple explanation of Glass-Steagall

Matt Killorin 2018. (contributor for The Simple Dollar) November 2, 2018. “The Glass-Steagall Act, Explained.” The Simple Dollar (TSD has been featured in some of the world’s largest publications, including Inc., Forbes, Business Insider, and TIME.) <https://www.thesimpledollar.com/the-glass-steagall-act-explained/>

Glass-Steagall refers to four sections of the Banking Act of 1933, which were set to remedy the absolute power of the financial sector by creating a firewall between commercial and investment banking. Until the 1970s, Glass-Steagall was pretty much the law of the land. In theory, by taking Wall Street out of the equation, banks couldn’t invest in securities with their own assets, cutting down on conflicts of interest.

Explanation of traditional (retail) banking vs. investment banking

Prateek Agarwal 2019. (studied Economics at the University of Southern California; after graduation, worked in strategy and marketing in the Healthcare and Luxury Fashion industry and now specializes in Strategy and Content Marketing.) April 12, 2019. “The Glass-Steagall Act.”) <https://www.intelligenteconomist.com/glass-steagall-act/>

The Glass-Steagall Act (1933) separated depository institutions aka retail banks from investment banks and limited securities, activities, and affiliations within commercial banks and securities firms. A retail bank’s primary function is to accept deposits and make loans. On the other hand, investment banks plan IPOs, help with mergers and acquisitions and even operate hedge funds.

Glass-Steagall repeal led to “Too Big To Fail” banks

Kimberly Amadeo 2018. (U.S. Economy expert for The Balance and president of WorldMoneyWatch.com. 20 years senior-level corporate experience in economic analysis and business strategy. M.S. in Management from the Sloan School of Business at M.I.T.) September 22, 2018. “Glass Steagall Act of 1933, Its Purpose and Repeal.” The Balance (a personal finance website that provide clear, practical advice on managing your money) <https://www.thebalance.com/glass-steagall-act-definition-purpose-and-repeal-3305850>

The repeal of Glass-Steagall consolidated investment and retail banks through financial holding companies. The Federal Reserve supervised the new entities. For that reason, few banks took advantage of the Glass-Steagall repeal. Most Wall Street banks did not want the additional supervision and capital requirements. Those that did became too big to fail. This required their bailout in 2008-2009 to avoid another depression.

A/T Volcker Rule has solved

Loopholes and gray areas in the Volcker Rule lead to the 21st Century Glass-Steagall Act

*Devan Goldstein 2017. (staff writer at NerdWallet, a personal finance website)* May 02, 2017. “The Glass-Steagall Act: What It Is and Why It Matters.” Nasdaq (The Nasdaq Stock Market is an American stock exchange. It is the second-largest stock exchange in the world by market capitalization) <https://www.nasdaq.com/article/the-glass-steagall-act-what-it-is-and-why-it-matters-cm783523>

Potential issues with Volcker, including loopholes and gray areas that may impede enforcement, led to the introduction of the 21st Century Glass-Steagall Act . Four U.S. senators introduced the bill in summer 2015 seeking to revive the broader banking law.

Dodd-Frank and the Volcker Rule are not enough

Akshat Tewary 2015. (attorney practicing in New Jersey, a Financial Industry Regulatory Authority arbitrator and President of Occupy the SEC, a nonprofit advocating for financial reform.) December 11, 2015.” A New Glass-Steagall Would Be Too Good for Banks to Pass Up.” American Banker <https://www.americanbanker.com/opinion/a-new-glass-steagall-would-be-too-good-for-banks-to-pass-up>

Dodd-Frank has proven not up to the challenge. Any honest observer would admit that the "too big to fail" problem persists. Bank size has actually increased since 2008, with the six biggest banks lording over a combined $10 trillion in assets. In comparison, the entire U.S. GDP is only $17 trillion. And many of Dodd-Frank's provisions have been gutted both at the regulatory and legislative levels. For instance, the Volcker Rule was initially conceived by former Fed Chairman Paul Volcker as a three-page approximation of Glass-Steagall. But by the time the regulators adopted the final version of the rule, it was hundreds of pages long and riddled with loopholes, exceptions, exemptions and other legal gobbledygook. Similarly, bank-friendly legislators effectively repealed Dodd-Frank's swaps pushout rule — which would have greatly reduced banks' exposures to the most risky derivatives — by hijacking the congressional budget approval process at the eleventh hour in December 2014.

HARMS / SIGNIFICANCE

Economy harmed

Monopolies and concentrated markets damage the country’s economic wellbeing

Prof. Ganesh Sitaraman 2018. (Professor of Law at Vanderbilt Law School) June 16, 2018. “The case for Glass-Steagall Act, the Depression-era law we need today.” The Guardian <https://www.theguardian.com/commentisfree/2018/jun/16/case-glass-steagall-act-ganesh-sitaraman>

The case for reviving Glass-Steagall is based on two different premises. The first is a general opposition to concentrated economic and political power that is normally associated with anti-monopoly thinking. In recent months, economists and policymakers across the ideological spectrum have grown more and more convinced that concentrated markets across a variety of sectors are damaging the country’s economic wellbeing. As applied to the financial sector, these fears were ahead of their time. The 2008 crash focused attention on the ballooning size of the big banks, and solutions, like Glass-Steagall and capping the size of banks, were widely debated.

U.S. banks are already too-big-to-fail, but reinstating Glass Steagall would substantially reduce their potential impact/risk

Matt Killorin 2018. (contributor for The Simple Dollar) November 2, 2018. “The Glass-Steagall Act, Explained.” The Simple Dollar (TSD has been featured in some of the world’s largest publications, including Inc., Forbes, Business Insider, and TIME.) <https://www.thesimpledollar.com/the-glass-steagall-act-explained/>

According to the World Bank, the current gross domestic product of the United States is approximately $18 trillion. The combined total assets of the 10 largest U.S. banks, meanwhile, is approximately $11.5 trillion. While economists in favor of an updated Glass-Steagall admit it isn’t surefire protection from a financial crisis, many believe the added regulation would help mitigate the “too-big-to-fail” dilemma. “The biggest U.S. banks have become too big to manage, too big to regulate, and too big to jail,” argues Simon Johnson, former chief economist at the International Monetary Fund. “At a stroke, the proposed law would force global megabanks such as JPMorgan Chase and Bank of America to become smaller and much simpler—divorcing high-risk activities from plain-vanilla traditional banking. Their failures would no longer threaten to bring down the economy.”

Glass-Steagall’s repeal caused the 2008 financial crash, and could cause another one

Prof. Robert B. Reich 2015. (Chancellor's Professor of Public Policy at the University of California at Berkeley and Senior Fellow at the Blum Center for Developing Economies. Secretary of Labor in the Clinton administration) July 14, 2015. “Hillary Clinton’s Glass-Steagall.” Robertreich.org <https://robertreich.org/post/124114229225>

It’s a big mistake economically because the repeal of Glass-Steagall led directly to the 2008 Wall Street crash, and without it we’re in danger of another one.

If we had Glass-Steagall, either the ’08 crash wouldn’t have happened, or it would have had much smaller impact

Prof. Arthur E. Wilmarth 2018 (Professor of Law at George Washington University Law School, and Executive Director of the Law School’s Center for Law, Economics and Finance) 18 Sept 2018 “Was Glass-Steagall’s Demise Both Inevitable and Unimportant?” <http://clsbluesky.law.columbia.edu/2018/09/18/was-glass-steagalls-demise-both-inevitable-and-unimportant/>

Had Glass-Steagall remained intact, I believe the financial crisis might not have happened, and it certainly would have had a much smaller impact if it did occur. I agree with Professor Kathryn Judge’s suggestion that we should consider both “market forces” and “legal changes” in evaluating whether it was a wise policy decision to repeal Glass-Steagall (or to allow it to be undermined by federal agency rulings and court decisions).

Background: Lack of regulation was an important cause of the bank failures of the Great Depression

Prof. Robert B. Reich 2015. (Chancellor's Professor of Public Policy at Univ. of California at Berkeley and Senior Fellow at the Blum Center for Developing Economies. Former Secretary of Labor in the Clinton administration) July 14, 2015. “Hillary Clinton’s Glass-Steagall.” <https://robertreich.org/post/124114229225>

Some background: During the Roaring Twenties, so much money could be made by speculating on shares of stock that several big Wall Street banks began selling stock along side their traditional banking services – taking in deposits and making loans. Some banks went further, lending to pools of speculators that used the money to pump up share prices. The banks sold the shares to their customers, only to have the share prices collapse when the speculators dumped them. For the banks, it was an egregious but hugely profitable conflict of interest. After the entire stock market crashed in 1929, ushering in the Great Depression, Washington needed to restore the public’s faith in the banking system. One step was for Congress to enact legislation insuring commercial deposits against bank losses. Another was to prevent the kinds of conflicts of interest that resulted in such losses, and which had fueled the boom and subsequent bust. Under the Glass-Steagall Act of 1933, banks couldn’t both gamble in the market and also take in deposits and make loans. They’d have to choose between the two.

History was repeated in the 2008 banking crisis after Glass-Steagall was repealed in 1999

Prof. Robert B. Reich 2015. (Chancellor's Professor of Public Policy at Univ. of California at Berkeley and Senior Fellow at the Blum Center for Developing Economies. Former Secretary of Labor in the Clinton administration) July 14, 2015. “Hillary Clinton’s Glass-Steagall.” <https://robertreich.org/post/124114229225>

Finally, in 1999, President Bill Clinton struck a deal with Republican Senator Phil Gramm to do exactly what Wall Street wanted, and repeal Glass-Steagall altogether. What happened next? An almost exact replay of the Roaring Twenties. Once again, banks originated fraudulent loans and sold them to their customers in the form of securities. Once again, there was a huge conflict of interest that finally resulted in a banking crisis.

A/T Other factors caused the 2008 crisis: the repeal of Glass-Steagall is still the root cause

Prof. Robert B. Reich 2015. (Chancellor's Professor of Public Policy at Univ. of California at Berkeley and Senior Fellow at the Blum Center for Developing Economies. Former Secretary of Labor in the Clinton administration) July 14, 2015. “Hillary Clinton’s Glass-Steagall.” <https://robertreich.org/post/124114229225>

To this day some Wall Street apologists argue Glass-Steagall wouldn’t have prevented the 2008 crisis because the real culprits were nonbanks like Lehman Brothers and Bear Stearns. Baloney. These nonbanks got their funding from the big banks in the form of lines of credit, mortgages, and repurchase agreements. If the big banks hadn’t provided them the money, the nonbanks wouldn’t have got into trouble. And why were the banks able to give them easy credit on bad collateral? Because Glass-Steagall was gone. Other apologists for the Street blame the crisis on unscrupulous mortgage brokers. Surely mortgage brokers do share some of the responsibility. But here again, the big banks were accessories and enablers. The mortgage brokers couldn’t have funded the mortgage loans if the banks hadn’t bought them. And the big banks couldn’t have bought them if Glass-Steagall were still in place.

Even if the Glass-Steagall repeal was not the main cause, it indirectly led to the financial crisis

Gillian B. White and Bourree Lam 2016. (White is a deputy editor of TheAtlantic.com. Lam is a former staff writer at *The Atlantic*.) August 23, 2016 “Could Reviving a Defunct Banking Rule Prevent a Future Crisis?” The Atlantic <https://www.theatlantic.com/business/archive/2016/08/glass-steagall/496856/>; quoted is **Sheila Bair (***president of Washington College and former Chairperson of the Federal Deposit Insurance Corporation (FDIC) under President George W. Bush)*

To be sure, Glass-Steagall repeal gave birth to larger, more complex institutions which were “too big to fail” given the regulatory tools available during the crisis. So, even if repeal did not drive the crisis, it certainly contributed to the need for bailouts of these behemoths.

Depositors put at risk

Banks are not working in the best interests of consumers

Carrie Hunt 2018.*(executive vice president of government affairs and general counsel of the National Association of Federally-Insured Credit Unions. J.D. from the* William and Mary School of Law.*) September 11, 2018. “*Updated Glass-Steagall would make banks put people before profits.” The Hill <https://thehill.com/opinion/finance/406101-new-age-glass-steagall-would-make-banks-put-people-over-profits>

One proposal worth consideration is a modernization of the Glass-Steagall Act. With bank fees hitting record highs, an ever-growing portfolio of billion-dollar fines and egregious breaches of consumer trust, banks have gotten away from serving main street. The largest banks no longer focus on providing consumers with affordable loans and financial products. Instead, they prefer to line the pockets of their shareholders. For example, savings from the most recent tax cut were expected to be passed along to consumers and their employees. But, according to a recent study, these same big banks are planning to boost shareholder dividends and other payouts by more than $28 billion through mid-2019 instead. How is this consumer centric? With GDP growth reaching north of 4 percent and the housing market recovering along with strong employment numbers, the economy is humming. But the 2008 financial crisis looms large for Americans who had their personal savings wiped out, homes foreclosed upon and pink slips handed to them. History has a knack for repeating itself. That’s why it is time for lawmakers to consider ensuring banks’ past misdeeds are not normalized or accepted as status quo.

Without Glass-Steagall, big banks can reply on federal insurance, which holds the American public responsible for losses

Carrie Hunt 2018.*(executive vice president of government affairs and general counsel of the National Association of Federally-Insured Credit Unions. J.D. from the* William and Mary School of Law.*) September 11, 2018. “*Updated Glass-Steagall would make banks put people before profits.” The Hill <https://thehill.com/opinion/finance/406101-new-age-glass-steagall-would-make-banks-put-people-over-profits>

Without Glass-Steagall, the Federal Deposit Insurance Corporation's (FDIC) insurance fund can now be used to back up big banks’ risky trading activities, thereby holding American public responsible for losses. Separating commercial and investment banking activities would make sure American taxpayers do not subsidize big banks.

Consumers exposed to too much risk if commercial banks and investment banks are not kept separate (i.e., without G-S)

**Joseph E. Stiglitz 2009. (**Nobel Prize–winning economist and professor at Columbia University.) January 2009. **“**Capitalist Fools.” Vanity Fair <https://www.vanityfair.com/news/2009/01/stiglitz200901-2>

Commercial banks are not supposed to be high-risk ventures; they are supposed to manage other people’s money very conservatively. It is with this understanding that the government agrees to pick up the tab should they fail. Investment banks, on the other hand, have traditionally managed rich people’s money—people who can take bigger risks in order to get bigger returns. When repeal of Glass-Steagall brought investment and commercial banks together, the investment-bank culture came out on top. There was a demand for the kind of high returns that could be obtained only through high leverage and big risktaking.

Example: Edgar Brown during the Great Depression

Matt Killorin 2018. (contributor for The Simple Dollar) November 2, 2018. “The Glass-Steagall Act, Explained.” TSD has been featured in some of the world’s largest publications, including Inc., Forbes, Business Insider, and TIME.) <https://www.thesimpledollar.com/the-glass-steagall-act-explained/>

Not long after the stock market crash of 1929, the Senate Committee on Banking and Currency heard testimony from a number of Americans, including Edgar Brown. Brown was frail, old, deaf, and suffering from tuberculosis. The United States was coming off a five-year period of 25% unemployment, with approximately 4,000 commercial bank failures, which resulted in a $1.3 billion loss to depositors—approximately $18 billion in 2016 dollars. Brown represented the average American that had worked his whole life only to be swindled out of his savings by shady bankers. According to the committee’s legendary counsel, Ferdinand Pecora, Brown was on the receiving end of a hard sell by the National City Company. Compelled to do so by the bank, Brown poured every last penny of his $100,000 nest egg into the bond and stock markets. Then the markets went belly up, and Brown lost everything. “A bank was supposed to occupy a fiduciary relationship and to protect its clients, not lead them into dubious ventures; to offer sound, conservative financial advice, not a salesman’s puffing patter,” wrote Pecora in 1939. “The introduction and growth of the investment affiliate had corrupted the very heart of these old fashioned banking ethics.”

SOLVENCY

Glass-Steagall was effective

Glass-Steagall restored confidence in the banking system and prevented further bank failures

Kimberly Amadeo 2018. (U.S. Economy expert for The Balance and president of WorldMoneyWatch.com. 20 years senior-level corporate experience in economic analysis and business strategy. M.S. in Management from the Sloan School of Business at M.I.T.) September 22, 2018. “Glass Steagall Act of 1933, Its Purpose and Repeal.” The Balance (a personal finance website that provide clear, practical advice on managing your money) <https://www.thebalance.com/glass-steagall-act-definition-purpose-and-repeal-3305850>

Glass-Steagall restored confidence in the U.S. banking system. It increased trust by only allowing banks to use depositors' funds in safe investments. Its FDIC insurance program prevented further bank runs. Depositors knew the government protected them from a failing bank.

Glass-Steagall prevented a crisis from spreading from one part of the financial system to other parts

Stacy Mitchell 2010. (co-director of the Institute for Local Self-Reliance, and directs its Independent Business Initiative, which partners with a wide range of allies to implement policies that counter concentrated power and strengthen local economies.) October 26, 2010. “Glass-Steagall Act & the Volcker Rule.” The Institute for Local Self-Reliance (ILSR empowers local communities through programs, policies, and initiatives.) <https://ilsr.org/rule/glass-steagall-act-the-volcker-rule/>

Another benefit of Glass-Steagall was that it alleviated systemic risk by greatly reducing the danger that a crisis in one part of the financial system would spread to other parts and ultimately cripple the real economy. If investment banks ran into trouble and the capital markets froze, companies could turn to banks for loans. Likewise, if banks suddenly cut back on lending, the capital markets could provide a safety valve.

The 21st Century Glass-Steagall Act

Text of the bill

<https://www.congress.gov/bill/115th-congress/senate-bill/881/text>

Text of the bill is at this site – print it out and bring to the debate round.

Summary of the bill

Congress.gov. 2017 (Congress.gov is the official website for U.S. federal legislative information.) “All Information (Except Text) for S.881 - 21st Century Glass-Steagall Act of 2017.” <https://www.congress.gov/bill/115th-congress/senate-bill/881/all-info#latestSummary-content>

A bill to reduce risks to the financial system by limiting banks' ability to engage in certain risky activities and limiting conflicts of interest, to reinstate certain Glass-Steagall Act protections that were repealed by the Gramm-Leach-Bliley Act, and for other purposes.

Reforms in the bill

Congress.gov. 2017 (Congress.gov is the official website for U.S. federal legislative information.) “All Information (Except Text) for S.881 - 21st Century Glass-Steagall Act of 2017.” <https://www.congress.gov/bill/115th-congress/senate-bill/881/all-info#latestSummary-content>

21st Century Glass-Steagall Act of 2017

This bill amends the Federal Deposit Insurance Act, the Bank Holding Company Act of 1956, the Home Owner's Loan Act, the International Banking Act of 1978, the federal bankruptcy code, and other laws to:

* limit affiliations between an insured depository institution and any insurance company, securities entity, or swaps entity;
* restrict the authority of a national banking association to purchase or sell investment securities or stock, invest in certain structured or synthetic products, control or hold an interest in financial subsidiaries, or otherwise engage in nonbanking activities;
* restrict the authority of a federal savings association to invest in, redeem, or hold shares or certificates issued by an open-end management investment company;
* limit the authority of a financial holding company to engage in nonfinancial activities;
* disallow certain foreign banks from engaging in nonbanking activities in the United States;
* repeal bankruptcy code provisions related to the contractual right to liquidate, terminate, or accelerate certain types of financial instruments; and
* establish various enforcement and penalty provisions.

Advocacy

A reinstatement of Glass-Steagall has diverse supporters

Kimberly Amadeo 2018. (U.S. Economy expert for The Balance and president of WorldMoneyWatch.com. She has 20 years senior-level corporate experience in economic analysis and business strategy. M.S. in Management from the Sloan School of Business at M.I.T.) September 22, 2018. “Glass Steagall Act of 1933, Its Purpose and Repeal.” The Balance (a personal finance website) <https://www.thebalance.com/glass-steagall-act-definition-purpose-and-repeal-3305850>

From the campaign trail, a modern refresh of the Glass-Steagall Act seemed one of the few things some Republicans and Democrats actually agreed upon. Democratic Senator Elizabeth Warren of Massachusetts and Republican Senator and former presidential nominee John McCain of Arizona — along with Maria Cantwell (D-Wash.) and Angus King (I-Maine) — actually joined forces to sponsor a bill called the 21st Century Glass-Steagall Act in the summer of 2015. And it’s not just the right and the left attempting to claim common ground on Glass-Steagall: It’s also a talking point from both free-market-focused and socially minded op-ed contributors. In a recent opinion piece on Money Morning, Shah Gilani, editor of the Capital Wave Forecast, advocates taking Glass-Steagall one step further and calls Trump’s reboot of the regulatory act an “idea that has staying power.” Money Morning recently published an opinion piece by Capitol Wave Forecast editor Shah Gilani that advocates taking Glass-Steagall one step further, and calls Trump’s reboot of the regulatory act an “idea that has staying power.” Meanwhile, an opinion piece by Nomi Prins for the Progressive calls for a similar charge to “break up the banks via a resurrected Glass-Steagall Act,” tax risky bank practices, and imprison CEOs who have broken the law. Even American Banker ran an op-ed in support of Glass-Steagall, albeit by financial reform advocate Akshat Tewary.

Nobel prize winner and economist Joseph Stiglitz: Glass-Steagall is necessary

Stacy Mitchell 2010. (co-director of the Institute for Local Self-Reliance, and directs its Independent Business Initiative, which partners with a wide range of allies to implement policies that counter concentrated power and strengthen local economies.) October 26, 2010. “Glass-Steagall Act & the Volcker Rule.”) <https://ilsr.org/rule/glass-steagall-act-the-volcker-rule/>

As Joseph Stiglitz, Nobel prize winner and the former chief economist of the World Bank, wrote, “Any institution that has the benefits of a commercial bank — including the government’s safety nets — has to be severely restricted in its ability to take on risk. There are simply too many conflicts of interest and too many problems to allow commingling of the activities of commercial and investment banks. The promised benefits of the repeal of Glass-Steagall proved illusory and the costs proved greater than even critics of the repeal imagined.”

The Glass-Steagall reinstatement has bipartisan advocacy

Akshat Tewary 2015. (attorney practicing in New Jersey, a Financial Industry Regulatory Authority arbitrator and President of Occupy the SEC, a nonprofit advocating for financial reform.) December 11, 2015.” A New Glass-Steagall Would Be Too Good for Banks to Pass Up.” American Banker <https://www.americanbanker.com/opinion/a-new-glass-steagall-would-be-too-good-for-banks-to-pass-up>

Despite the repeal of the law over 15 years ago, a modern version of Glass-Steagall still has its champions on Capitol Hill, in both parties. The proposed 21st Century Glass-Steagall Act — sponsored by Democratic Sen. Elizabeth Warren and Republican Sen. John McCain — mirrors many of the features of the original law, while also accounting for more recent innovations in banking and finance. The Glass-Steagall standard has also garnered support from several presidential candidates, both Democratic (Bernie Sanders and Martin O'Malley) and Republican (Mike Huckabee and Ben Carson).

ADVANTAGES

Thriving economy / Reduced risk

Glass-Steagall provided the longest running period of financial stability and growth

Stacy Mitchell 2010. (co-director of the Institute for Local Self-Reliance, and directs its Independent Business Initiative.) October 26, 2010. “Glass-Steagall Act & the Volcker Rule.” The Institute for Local Self-Reliance (ILSR empowers local communities through programs, policies, and initiatives.) <https://ilsr.org/rule/glass-steagall-act-the-volcker-rule/>

The 50 years following the passage of the Glass-Steagall Act constituted by far the longest running period of financial industry stability in U. S. history. Only a tiny number of banks failed, while the economy as a whole underwent robust growth. Federal deposit insurance brought an end to the panics and bank runs that had devastated the financial system at regular intervals throughout the 19th and early 20th centuries. Barring depository institutions from engaging in securities trading guaranteed that this backstop could not be used to fund the risky, high-stakes activities of Wall Street investment banks or rescue them when their bets went bad.

Reinstating Glass-Steagall is key to heading off economic catastrophe

*James Rickards 2012. (hedge fund manager in New York City*) August 27, 2012. “Repeal of Glass-Steagall Caused the Financial Crisis.” US News <https://www.usnews.com/opinion/blogs/economic-intelligence/2012/08/27/repeal-of-glass-steagall-caused-the-financial-crisis>

In fact, the financial crisis might not have happened at all but for the 1999 repeal of the Glass-Steagall law that separated commercial and investment banking for seven decades. If there is any hope of avoiding another meltdown, it's critical to understand why Glass-Steagall repeal helped to cause the crisis. Without a return to something like Glass-Steagall, another greater catastrophe is just a matter of time

Reinstating Glass-Steagall would promote a more competitive marketplace and a more sound financial system

Carrie Hunt 2018.*(the executive vice president of government affairs and general counsel of the National Association of Federally-Insured Credit Unions. She received her B.A. from the University of Maryland and J.D. from the* William and Mary School of Law.*) September 11, 2018. “*Updated Glass-Steagall would make banks put people before profits.” The Hill <https://thehill.com/opinion/finance/406101-new-age-glass-steagall-would-make-banks-put-people-over-profits>

A 21st-century Glass-Steagall Act would promote a more competitive marketplace and a safer and more sound financial system. Building a firewall between investment and commercial banking would ensure these two segments of banking stay mutually exclusive.

Glass-Steagall fragments power to promote competition

Prof. Ganesh Sitaraman 2018. (Professor of Law at Vanderbilt Law School) June 16, 2018. “The case for Glass-Steagall Act, the Depression-era law we need today.” The Guardian <https://www.theguardian.com/commentisfree/2018/jun/16/case-glass-steagall-act-ganesh-sitaraman>

Indeed, we can think of a modern Glass-Steagall as something like a ban on mergers that create conglomerates. The purpose is to fragment power. When firms are smaller and separated by function, it is more likely there will be competition along specific business lines. Take a financial startup that wants to enter the depository sector. It will be harder for that startup to compete with conglomerates that can cross-subsidize business lines.

Depositors protected

A reinstatement of Glass-Steagall would better protect depositors

Kimberly Amadeo 2018. (U.S. Economy expert for The Balance and president of WorldMoneyWatch.com. She has 20 years senior-level corporate experience in economic analysis and business strategy. M.S. in Management from the Sloan School of Business at M.I.T.) September 22, 2018. “Glass Steagall Act of 1933, Its Purpose and Repeal.” The Balance (a personal finance website) <https://www.thebalance.com/glass-steagall-act-definition-purpose-and-repeal-3305850>

A reinstatement of Glass-Steagall would better protect depositors. At the same time, it would create organizational disruption in the banking industry. This might be a good thing, as these banks would no longer be too big to fail, but it should be managed effectively.

Promotes democracy

Too much economic power spills over into politics

Prof. Ganesh Sitaraman 2018. (Professor of Law at Vanderbilt Law School) June 16, 2018. “The case for Glass-Steagall Act, the Depression-era law we need today.” The Guardian <https://www.theguardian.com/commentisfree/2018/jun/16/case-glass-steagall-act-ganesh-sitaraman>

Concentration isn’t just bad for competition, it’s also bad for the political system. Too much economic power spills over into politics, giving massive firms an advantage in lobbying Congress or influencing regulators. In other words, concentration makes it more likely that government gets captured by corporate behemoths and that regulations are written to stack the deck in their favor. As Theodore Roosevelt noted a century ago: “There can be no real political democracy unless there is something approach an economic democracy.”

Mega-banks have tremendous political and market influence that they did not have under Glass-Steagall

Gillian B. White and Bourree bLam 2016. (White is a deputy editor of TheAtlantic.com. Lam is a former staff writer at *The Atlantic*.) August 23, 2016 “Could Reviving a Defunct Banking Rule Prevent a Future Crisis?” The Atlantic <https://www.theatlantic.com/business/archive/2016/08/glass-steagall/496856/>; quoted is **Sheila Bair (***president of Washington College and former Chairperson of the Federal Deposit Insurance Corporation (FDIC) under President George W. Bush)*

Another negative outcome of Glass-Steagall repeal, which is frequently overlooked, is the increase of political and market power by the mega-banks. There is too-big-to-fail and then there is simply too big. Politicians, media, think tanks—all are influenced in one way or the other by these powerful financial institutions. And given their tremendous market influence, even large corporations can be fearful about taking them on. Pre-Gramm-Leach-Bliley, the commercial banks and investment banks were frequently fighting with each other and offsetting each other’s agendas in Congress. You no longer have that dynamic.

DISADVANTAGE RESPONSES

A/T Overregulation

The repeal of Glass-Steagall did not increase efficiency or lower costs for banks – may have made it worse

Richard Eskow 2015. (Senior Advisor for Health & Economic Justice at Social Security Works; a former consultant, public policy advisor, and senior executive in the US and more than 20 foreign countries.) November 16, 2015. “5 Reasons Why Glass-Steagall Matters.” The Huffington Post <https://www.huffpost.com/entry/yes-glass-steagall-matter_b_8579520>

Given the risks associated with the repeal of Glass-Steagall, what about the benefits? Turns out there aren’t many. We were told that repealing Glass-Steagall would lead to more efficiency and lower costs, but neither of these promises has come true. No less an expert than John Reed, former CEO of Citigroup, now says those claims were wrong. Reed wrote in a recent op-ed (behind a firewall) that “there are very few cost efficiencies that come from the merger of functions - indeed, there may be none at all.” In fact, says Reed, it is possible that this combination of functions actually makes banking services more expensive.

Glass-Steagall simplified regulatory oversight

Stacy Mitchell 2010. (co-director of the Institute for Local Self-Reliance, and directs its Independent Business Initiative.) October 26, 2010. “Glass-Steagall Act & the Volcker Rule.” The Institute for Local Self-Reliance (ILSR empowers local communities through programs, policies, and initiatives) <https://ilsr.org/rule/glass-steagall-act-the-volcker-rule/>

Separating banks that accept deposits from those that underwrite securities also simplified regulatory oversight. Banking regulators were charged with ensuring the stability of commercial banks by minimizing risk and monitoring the soundness of their lending standards. The aim of the Securities and Exchange Commission, meanwhile, was not so much to safeguard the survival of investment banks, but rather to make sure that they did not defraud investors.

Separating bank functions would indirectly promote simpler, smarter, and fairer regulations

Ganesh Sitaraman 2018. (Ganesh Sitaraman is Professor of Law at Vanderbilt Law School and the author of The Crisis of the Middle-Class Constitution.) June 16, 2018. “The case for Glass-Steagall Act, the Depression-era law we need today.” The Guardian <https://www.theguardian.com/commentisfree/2018/jun/16/case-glass-steagall-act-ganesh-sitaraman>

Separation along functional lines also has a variety of legal and political benefits. It will improve the ability of regulators to monitor and regulate financial entities, indirectly making simpler regulations more sviable. It also breaks up political power based on different kinds of financial activities, meaning that lobbyists for different parts of the financial system are more likely to find themselves on opposing sides of policy questions. That should, in turn, enable policymakers to design smarter and fairer regulations. Financial institutions themselves might also benefit from such separation. Separation along functional lines makes compliance easier for banks that have become “too big to manage”. With fewer divisions and complex structures, management will have an easier time preventing the next London Whale. Indeed, employee culture within these institutions would likely change over time. Depository bankers, for example, could redevelop a culture of being “boring”, while investment bankers would remain risk-takers.

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