Negative Brief: Reinstate Glass-Steagall

By Kirstin Erickson

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

The main thrust of the affirmative case is the goal of economic stability and consumer protection. As the simplified argument goes, without Glass-Steagall, we experienced two devastating financial crises, and this piece of legislation is necessary to make sure that we don’t repeat history. Thus, this negative brief is designed to directly counter this argument. There are several supporting arguments, but your best bet is to make your thesis the exact opposite of the affirmative case. Glass-Steagall wouldn’t have stopped the financial crises in the past. In fact, it makes the economy worse and directly harms consumers. If we are serious about economic stability and consumer protection, we should leave Glass-Steagall repealed.

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Negative: Reinstate Glass-Steagall

OPENING QUOTES / PHILOSOPHY

Reinstating Glass-Steagall would have substantial costs, but no benefits

*Alex J. Pollock 2017. (a distinguished senior fellow at the R Street Institute. He was a resident scholar at the American Enterprise Institute from 2004 to 2015, after serving as president and chief executive officer of the Federal Home Loan Bank of Chicago from 1991 to 2004.) June 11, 2017. “*Glass-Steagall never saved our financial system, so why revive it?” The Hill <https://thehill.com/blogs/pundits-blog/finance/337289-glass-steagall-never-saved-our-financial-system-so-why-revive-it>

Reviving Glass-Steagall would be an action with substantial costs, but no benefits. Its primary appeal seems to be as a political slogan.

INHERENCY

1. The Volcker Rule

The Volcker Rule reinstated many of Glass-Steagall’s main provisions

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/>

The Dodd-Frank financial reform bill did include a version of the “Volcker rule,” named after Paul Volcker, who argued not for reinstating Glass-Steagall, but for enacting a kind of updated variation. The final Volcker provisions (sections 619-621), which are weaker than his original proposal, will restrict banks’ proprietary trading (dealing in securities and other financial instruments for the firm’s own profit, rather than on behalf of customers), impose additional capital requirements on shadow banks engaged in proprietary trading, and restrict banks’ ownership stakes in hedge funds and private equity funds. How effective these provisions will be at separating commercial banking from risky securities trading will largely depend on the specific rules that regulatory agencies write over the coming months to implement the restrictions, and how soon those agencies require compliance (the law allows for banks to request extensions for up to 12 years).

The Volcker Rule, like Glass-Steagall, restricts banks from using depositors’ funds for risky investments

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 that provide clear, practical advice on managing your money) <https://www.thebalance.com/glass-steagall-act-definition-purpose-and-repeal-3305850>

A part of the Act, known as Volcker Rule, puts restrictions on banks' ability to use depositors' funds for risky investments. It does not require them to change their organizational structure. If a bank becomes too big to fail and threatens the U.S. economy, Dodd-Frank requires that it be regulated more closely by the Federal Reserve.

The Volcker Rule in Dodd-Frank is designed to meet the same policy objectives as Glass-Steagall

David H. Carpenter, Edward V. Murphy, and M. Maureen Murphy 2016. (Carpenter is a legislative Attorney; E. Murphy is a specialist in Financial Economics, and M. Murphy is a legislative Attorney. All are with Congressional Research Service, a non-partisan agency of Congress) January 19, 2016. “The Glass-Steagall Act: A Legal and Policy Analysis.” Congressional Research Service report (Prepared for members and committees of Congress) <https://fas.org/sgp/crs/misc/R44349.pdf>

Although the Dodd-Frank Act neither reinstated the sections of the Glass-Steagall Act repealed by GLBA nor eliminated the ability of banking firms to affiliate with securities firms, it included various provisions designed to meet some of the same policy objectives of the Glass-Steagall Act. These policy objectives include reducing speculative securities-related activities of commercial banks and eliminating sources of financial instability, including some sources that the Glass- Steagall Act was never intended to address, such as the potential for securities markets to cause a crisis. One illustration is Section 619 of the Dodd-Frank Act, commonly referred to as the Volcker Rule. As mentioned in the introduction, trading securities for one’s own account (proprietary trading) is riskier than mere brokering on behalf of customers. When trading on behalf of customers, the firm derives a fee no matter which direction the security’s price moves. The Volcker Rule generally prohibits “banking entities” (i.e., commercial banks and their affiliates) from engaging in the proprietary trading of securities, but permits customer-driven securities transactions. The Dodd-Frank Act arguably restricts proprietary trading even more than the Glass- Steagall Act did because the Volcker Rule applies not just to depository institutions, but also to all a depository’s affiliates and subsidiaries, including broker-dealers. The Volcker Rule also restricts banking entities’ ability to make investments in or have relationships with hedge funds and similar “covered funds” that are exempt from registering with the SEC or Commodity Futures Trading Commission (CFTC).

Dodd-Frank and the Volcker Rule is actually better than Glass-Steagall

David H. Carpenter, Edward V. Murphy, and M. Maureen Murphy 2016. (David H. Carpenter is a legislative Attorney; Edward V. Murphy is a specialist in Financial Economics, and M. Maureen Murphy is a legislative Attorney.) January 19, 2016. “The Glass-Steagall Act: A Legal and Policy Analysis.” Congressional Research Service report (Prepared for members and committees of Congress) <https://fas.org/sgp/crs/misc/R44349.pdf>

The policy tools incorporated in the Dodd-Frank Act can potentially address several sources of financial instability that the Glass-Steagall regime alone could not. For example, not only were commercial banks kept separate from investment banks under the Glass-Steagall Act, but some policy tools for addressing causes of financial instability were limited to the commercial banking sector. In contrast, the Dodd-Frank Act includes policy tools to provide prudential regulation for large systemic financial firms even if they are not commercial banks, and an administrative alternative to bankruptcy for nondepository financial institutions.

SIGNIFICANCE / HARMS

Commercial and investment banking mix isn't really a problem

Banks have historically been involved in both activities and they are more efficient when they do

Sheldon Richman 2017. (executive editor of The Libertarian Institute, the former senior editor at the Cato Institute and Institute for Humane Studies, and former vice president at the Future of Freedom Foundation) May 10, 2017. “Don’t Bring Back Glass-Steagall.” American Institute for Economic Research. <https://www.aier.org/research/dont-bring-back-glass-steagall>

In reality, Glass-Steagall’s separation of commercial and investment banking was a solution in search of a problem, according to economic historians Jeffrey Rogers Hummel and Warren C. Gibson. They point out that while commercial and investment banking seem vastly different — the former matches depositors/savers with borrowers, the latter underwrites the issuance of stocks and bonds — the roles overlap: Some of the skills and practices of investment bankers are quite similar to those of bank-lending officers. Lenders must investigate the creditworthiness of prospective borrowers. Investment bankers must perform the same sort of due diligence in deciding whether to underwrite a proposed security offering and if so, how to price it. Firms that combine commercial and investment banking under one roof thus tend to be more efficient, a situation that economists call “economies of scope.” If they successfully exploit economies of scope, combined firms provide lasting benefits to their corporate clients and indirectly to consumers, as well as higher profits to themselves — at least until competing firms bid away those profits.

Glass-Steagall would not have stopped the Great Depression

Previous evidence that said so has been refuted

John Berlau and Daniel Press 2017. (Berlau - senior fellow at the Competitive Enterprise Institute. Press is a policy analyst at the Competitive Enterprise Institute) August 2, 2017. “Why Wall Street Loves Glass-Steagall.” Competitive Enterprise Institute (The Competitive Enterprise Institute is a non-profit public policy organization dedicated to advancing the principles of limited government, free enterprise, and individual liberty.) <https://cei.org/content/why-wall-street-loves-glass-steagall>

Evidence for the necessity of a firewall between commercial and investment banking was largely drawn from a 1932 inquiry by the U.S. Senate Committee on Banking and Currency into the causes of the 1929 Crash. The inquiry, named after the investigation’s chief counsel, Ferdinand Pecora, is credited with exposing abusive practices in the financial industry and galvanizing support for stricter regulations. While supporters of Glass-Steagall often cite these hearings to bolster their case, subsequent analyses have all but refuted the evidence on which the committee relied. As The Economist argued in 1999, “Accusations of disreputable practices and dishonest dealings made against the banks, particularly during the Congressional ‘Pecora Hearings’, were not supported by any compelling evidence.”

The fundamental cause of the Great Depression was structural fragility, not investment banking

John Berlau and Daniel Press 2017. (Berlau - senior fellow at the Competitive Enterprise Institute. Press is a policy analyst at the Competitive Enterprise Institute) August 2, 2017. “Why Wall Street Loves Glass-Steagall.” Competitive Enterprise Institute (The Competitive Enterprise Institute is a non-profit public policy organization dedicated to advancing the principles of limited government, free enterprise, and individual liberty.) <https://cei.org/content/why-wall-street-loves-glass-steagall>

The Pecora investigation failed to address the fundamental causes of the 1929 crisis. It was the structural fragility of the banking system due in part to government policy, not banks’ securities speculation, which led to the widespread failures. As Emory University finance professor George Benston argued in his book, The Separation of Commercial and Investment Banking: “The evidence from the pre-Glass-Steagall period is totally inconsistent with the belief that banks’ securities activities or investments caused them to fail or caused the financial system to collapse.”

Banks with diversified activities had a lower failure rate, not higher as G-S advocates believed

John Berlau and Daniel Press 2017. (Berlau - senior fellow at the Competitive Enterprise Institute. Press is a policy analyst at the Competitive Enterprise Institute) August 2, 2017. “Why Wall Street Loves Glass-Steagall.” Competitive Enterprise Institute (The Competitive Enterprise Institute is a non-profit public policy organization dedicated to advancing the principles of limited government, free enterprise, and individual liberty.) <https://cei.org/content/why-wall-street-loves-glass-steagall>

The historical record on bank failures contradicts the conclusions of the Pecora Investigation. Between 1930 and 1933, banks that engaged in both commercial and investment banking had lower failure rates than others. While 26.3 percent of all national banks failed during that period, only 6.5 percent of securities affiliated banks failed. This is because banks engaged in both commercial and investment banking had greater diversification and economies of scale, and diversification generally reduces risk. Banks’ securities activities were not a weakness, but a source of strength. Furthermore, as former financial regulator and UK Treasury Minister Oonagh McDonald argues, the majority of the 9,096 banks that failed between 1930 and 1933 were small banks that were unable to diversify loan risk in struggling agricultural towns. This was principally due to the structure of unit banking within states and the prohibition of nationwide branch banking. This overarching financial regulation forced banks to be small, undiversified, and tied to their local economies. During the Depression, they failed along with their local economies.

Glass-Steagall had nothing to do with past economic crises, including the Great Depression

*Alex J. Pollock 2017. (a distinguished senior fellow at the R Street Institute. He was a resident scholar at the American Enterprise Institute from 2004 to 2015, after serving as president and chief executive officer of the Federal Home Loan Bank of Chicago from 1991 to 2004.) June 11, 2017. “*Glass-Steagall never saved our financial system, so why revive it?” The Hill <https://thehill.com/blogs/pundits-blog/finance/337289-glass-steagall-never-saved-our-financial-system-so-why-revive-it>

Not having Glass-Steagall had nothing to do with the housing bubble or the resulting financial crisis of 2007 to 2009, except that being able to sell failing investment banks to big commercial banks was a major advantage for the regulators. And not having the law, in fact, had nothing to do with the crises of Glass’ own time, including the banking panic of 1932 to 1933 and the Great Depression. Meanwhile, having Glass-Steagall in force did not prevent the huge, multiple financial busts of 1982 to 1992, which caused more than 2,800 U.S. financial institution failures, or the series of international financial crises of the 1990s.

Canada's experience during the Depression confirms: commercial banking wasn't the cause

John Berlau and Daniel Press 2017. (Berlau - senior fellow at Competitive Enterprise Institute. Press is a policy analyst at Competitive Enterprise Institute) August 2, 2017. “Why Wall Street Loves Glass-Steagall.” Competitive Enterprise Institute (brackets in original) <https://cei.org/content/why-wall-street-loves-glass-steagall>

That the regulation-driven structural fragility of the banking system, not commercial bank speculation, was to blame for the bank failures is further verified by the experience of Canada. Canada faced largely the same economic problems as the US, with GDP falling by 40 percent between 1929 and 1939, but only one Canadian bank failed during the period. This is because, as McDonald further argues: “[N]ationwide branching allowed banks to handle any local runs while still maintain only negligible excess reserves. They were in a structurally stronger position to survive any potential financial crises.”

The Glass-Steagall repeal did not cause the 2008 recession

No major failures occurred because of the repeal of Glass-Steagall

Matt Killorin 2018. (contributor for The Simple Dollar) November 2, 2018. “The Glass-Steagall Act, Explained.” The Simple Dollar (ranked as a Top Ten Personal Finance Blog on Kiplinger. 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/> (brackets in original)

Wall Street analysts see it differently, “There is not a single major failure that occurred because of the limited repeal of Glass-Steagall,” Rodgin Cohen, senior chairman of Sullivan & Cromwell, told CNBC. “So, to attribute the financial crisis [of 2008] to this limited amendment of Glass-Steagall, there’s just not a correlation.”

The 2008 crisis had other causes that Glass-Steagall would not have prevented

John Berlau and Daniel Press 2017. (Berlau - senior fellow at the Competitive Enterprise Institute. Press is a policy analyst at the Competitive Enterprise Institute) August 2, 2017. “Why Wall Street Loves Glass-Steagall.” Competitive Enterprise Institute (The Competitive Enterprise Institute is a non-profit public policy organization ) <https://cei.org/content/why-wall-street-loves-glass-steagall>

Had the Glass-Steagall Act not been partially repealed in 1999, the 2007-2008 financial crisis would have unfolded in largely the same way. The primary cause of the crisis had little to do with the Gramm–Leach–Bliley Act amendments, just as the original conception of the law failed to deal with the cause of the 1929 financial crisis. Bank losses occurred in mortgage lending and securitization, in part because of moral hazard engendered by government guarantees. These were completely legal practices that had little to do with Glass-Steagall. Firewalling commercial from investment banking would have done little to stop the downfall. As Peter Wallison of the American Enterprise Institute notes:

None of the investment banks that have gotten into trouble—Bear, Lehman, Merrill, Goldman or Morgan Stanley—were affiliated with commercial banks. And none of the banks that have major securities affiliates—Citibank, Bank of America, and J.P. Morgan Chase, to name a few—are among the banks that have thus far encountered serious financial problems. Indeed, the ability of these banks to diversify into nonbanking activities has been a source of their strength.

Most important, the banks that have succumbed to financial problems—Wachovia, Washington Mutual and IndyMac, among others—got into trouble by investing in bad mortgages or mortgage-backed securities, not because of the securities activities of an affiliated securities firm. In reality, it was poorly written mortgage loans, spurred on by the government-sponsored enterprises Fannie Mae and Freddie Mac, and low-income housing lending quotas imposed by the Community Reinvestment Act that were at the heart of the mortgage crisis. Credit losses on real estate loans drove the bulk of commercial bank failures. Glass-Steagall would not have prevented this.

Glass-Steagall would have been irrelevant to the financial crisis

Jon Hartley 2015. (writes about macroeconomics, markets and economic policy. He previously worked as a client portfolio management senior analyst at Goldman Sachs. He has also worked at the Federal Reserve Bank of New York, the Federal Reserve Bank of Chicago. M.B.A. from Wharton School of the University of Pennsylvania) December 27, 2015. “Why Glass-Steagall Would Not Have Prevented The Financial Crisis And Could Have Made It Worse.” Forbes. <https://www.forbes.com/sites/jonhartley/2015/12/27/why-glass-steagall-would-not-have-prevented-the-financial-crisis-and-could-have-made-it-worse/#f50f0f66bfb1>

Glass-Steagall was irrelevant to the financial crisis since it would not have affected the investment banks and commercial lenders that were distressed in 2008

First, Glass-Steagall would have been “irrelevant”, to quote Bernanke, in preventing the 2008 financial crisis since commercial banks like Wachovia or Washington Mutual went bad because they made bad loans, and investment banks like Bear Stearns and Lehman went bad because of their investment banking activities.

Similarly, Glass-Steagall would have had no effect on AIG, a massive insurance giant and not a bank, which required large repeated bailouts during the crisis.

The “big banks” like J.P. Morgan and Bank of America, which Glass-Steagall would effectively break up, were in fact relatively solvent compared to their pure investing banking or commercial lending counterparts during and after the crisis with the one possible exception of Citigroup.

Glass-Steagall would actually have made the crisis worse

Jon Hartley 2015. (writes about macroeconomics, markets and economic policy. He previously worked as a client portfolio management senior analyst at Goldman Sachs. He has also worked at the Federal Reserve Bank of New York, the Federal Reserve Bank of Chicago. M.B.A. from Wharton School of the University of Pennsylvania) December 27, 2015. “Why Glass-Steagall Would Not Have Prevented The Financial Crisis And Could Have Made It Worse.” Forbes. <https://www.forbes.com/sites/jonhartley/2015/12/27/why-glass-steagall-would-not-have-prevented-the-financial-crisis-and-could-have-made-it-worse/#f50f0f66bfb1>

Glass-Steagall would have prevented the big banks from acquiring the distressed investment banks which stabilized the financial system in 2008

Second, one could make the argument that had Glass-Steagall been in place, it would have made the financial crisis worse as it would have prevented large banks like Bank of America or J.P. Morgan from ultimately buying the distressed Merrill Lynch or Bear Sterns respectively, acts which ultimately helped quell the financial contagion of 2008. Without prospective buyers, those investment banks could quite possibly have followed the same liquidation fate of Lehman Brothers, creating an even larger systemic issues for their counterparties.

Bernanke argues that re-implementing Glass-Steagall "would just be an example of breaking up firms for the purpose of breaking them up without a clear rationale for doing that.”

The 2008 crisis demonstrates the vulnerability of nondiversified institutions

Jeremy Newell 2017. (Executive Vice President, General Counsel & Chief Operating Officer at the Bank Policy Institute. Previously, he served as counsel in the Legal Division and then regulatory policy advisor in the Banking Supervision & Regulation Division to the Board of Governors of the Federal Reserve System. J.D. from Yale Law School) April 26, 2017. “Reinstating Glass-Steagall is Unnecessary and Doesn’t Make Sense.” <https://bpi.com/reinstating-glass-steagall-is-unnecessary-and-doesnt-make-sense/>

Moreover, the 2008 financial crisis clearly demonstrates the vulnerability of *nondiversified* institutions to distress, as several of the institutions that failed, such as Lehman Brothers, Bear Stearns, AIG, and Washington Mutual, operated on a relatively nondiversified basis. Reinstatement would limit the ability of financial institutions to diversify their risk exposures, rendering them more vulnerable to threats.

Elizabeth Warren (co-sponsor of the affirmative bill) agreed that Glass-Steagall wouldn’t have stopped the 2008 crisis

Norbert J. Michel 2017. (Senior Research Fellow for Financial Regulations and Monetary Policy in the Thomas A. Roe Institute for Economic Policy Studies, of the Institute for Economic Freedom, at The Heritage Foundation.) May 3, 2017. “Glass–Steagall Separation Did Not and Will Not Make Markets Safer.” The Heritage Foundation <https://www.heritage.org/government-regulation/report/glass-steagall-separation-did-not-and-will-not-make-markets-safer>

Senator Elizabeth Warren (D–MA), the consummate Wall Street critic who sponsored a new Glass–Steagall bill to separate commercial and investment banking, has admitted that those restrictions would not have prevented the 2008 crisis (or even the well-publicized JP Morgan “London whale” trading loss).

SOLVENCY

1. Can't draw the line

The line between investment banking and commercial banking is difficult to draw

Douglas J. Elliott 2015. (Former Brookings expert and partner - Oliver Wyman) March 24, 2015. “Political myths about banking make for bad policy.” The Brookings Institution <https://www.brookings.edu/opinions/political-myths-about-banking-make-for-bad-policy/>

Fourth, it is almost impossible to figure out where to draw the line between investment banking and commercial banking anymore. Corporate customers clearly want their bankers to be able to help with loans, bond offerings, and all the many derivatives transactions that make it possible to tailor transactions to business needs. That is why proponents usually call for a “New Glass-Steagall” that would reflect the changed business model. However, they usually skip the details or, when they propose them, they have serious flaws. “Traditional banking” for large and medium-sized corporations – the core customers for investment banking — just does not exist anymore; all the pieces are too intertwined, and for good reasons of economic efficiency.

2. Financial stability not assured

The risk for a widespread financial crisis would not be eliminated

David H. Carpenter, Edward V. Murphy, and M. Maureen Murphy 2016. (Carpenter is a legislative Attorney; Edward V. Murphy is a specialist in Financial Economics, and M. Maureen Murphy is a legislative Attorney. All are with Congressional Research Service, a non-partisan research agency of Congress) January 19, 2016. “The Glass-Steagall Act: A Legal and Policy Analysis.” <https://fas.org/sgp/crs/misc/R44349.pdf>

Reinstituting a rigid separation between commercial and investment banking would not eliminate every potential risk to the financial system. For example, commercial banks generally are subject to regulatory caps on any single asset class exceeding a certain percentage of the bank’s portfolio. These caps on asset class are intended to diversify bank portfolios so that losses in any one industry or one geographic area do not destabilize the banking system as a whole. However, under Glass-Steagall Act Section 16, commercial banks are allowed to invest, deal in, and to hold certain bank-eligible securities, such as U.S. Treasury securities, without limitation. To the extent that banks hold significant amounts of Treasury securities or other exempt assets, a substantial devaluation of those assets for any reason would impose significant losses on the banking system and potentially trigger a financial crisis. Other potential sources of financial crises include “irrational exuberance” for a traditional bank product, capital flight in anticipation of a sharp currency devaluation, and settlement failures for products used as collateral for securities trades. The Glass-Steagall Act was not designed to prevent these other sources of financial instability.

Canada example proves: Glass-Steagall rules would have no impact on bank crises

David H. Carpenter, Edward V. Murphy, and M. Maureen Murphy 2016. (Carpenter is a legislative Attorney; Edward V. Murphy is a specialist in Financial Economics, and M. Maureen Murphy is a legislative Attorney. All are with Congressional Research Service, a non-partisan research agency of Congress) January 19, 2016. “The Glass-Steagall Act: A Legal and Policy Analysis.” <https://fas.org/sgp/crs/misc/R44349.pdf>

Evidence of financial stability or instability may also be seen by comparing the historical record of different countries. Such comparisons are mixed. Many developed economies do not separate commercial banking from investment banking. For example, many countries allow their banks to provide the full range of financial services. On the one hand, these countries generally experienced fewer bank runs than did the United States in the 19th century and experienced similar stability following World War II. For example, Canada did not suffer the intensity of bank runs that the United States did during the Great Depression, nor did Canada’s financial system suffer the degree of instability that the United States did during the recent mortgage crisis, even though Canada and the United States are both developed economies with many similar activities. Yet, Canada’s banks are not restricted the way that U.S. banks were by the Glass- Steagall Act. The relative stability of Canada’s financial system, however, did not prevent severe economic hardship during the Great Depression or other bouts of economic instability.

In other developed economies, separating commercial and investment banking does not seem to have a connection to financial stability: Europe

David H. Carpenter, Edward V. Murphy, and M. Maureen Murphy 2016. (Carpenter is a legislative Attorney; Edward V. Murphy is a specialist in Financial Economics, and M. Maureen Murphy is a legislative Attorney. All are with Congressional Research Service, a non-partisan research agency of Congress) January 19, 2016. “The Glass-Steagall Act: A Legal and Policy Analysis.” <https://fas.org/sgp/crs/misc/R44349.pdf>

Similarly, many European countries with universal banking enjoyed relative financial stability during the same time that Glass-Steagall was in effect in the United States. However, financial crises and banking panics struck several European and emerging market economies with very different regulatory and institutional approaches during the 1990s. Historical and international comparisons, thus, are inconclusive.

DISADVANTAGES

1. Bigger banks & bigger risks

Link: Glass-Steagall creates risk ("Too Big to Fail") by protecting big investment banks from competition. Big investment banks get bigger!

Gillian B. White and Bourree Lam 2016. (Gillian White is a deputy editor of TheAtlantic.com; Bourree 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 **John Berla (***a senior fellow at the Competitive Enterprise Institute)*

Second, since Glass-Steagall forbade “Main Street” commercial banks from venturing into investment banking, it actually protected Wall Street investment banks such as Bear Stearns and Goldman Sachs from competition, enabling them to get bigger. Through the 1980s, the Securities Industry Association, a trade group for investment banks, lobbied and [litigated](https://www.law.cornell.edu/supremecourt/text/468/137) against any loosening of the law. And in the end, it was pure investment banks such as Bear and Lehman Brothers—neither of which had merged with commercial banks—that were the first dominoes to fall in the financial crisis. To really curb the problem of “systemic risk”—or banks that are “too big to fail”—we must bring to the financial sector what virtually every other field of American business possesses: competition. Companies such as Borders and Blockbuster once dominated their industries but their implosions—while difficult for employees and stockholders—didn’t trigger a crisis. This is largely because competitors were standing ready to absorb demand from their customers.

Brink: Diversification helps reduce the risk of failure. Historically, single focus banks have big failures

Douglas J. Elliott 2015. (Former Brookings expert and partner - Oliver Wyman) March 24, 2015. “Political myths about banking make for bad policy.” The Brookings Institution <https://www.brookings.edu/opinions/political-myths-about-banking-make-for-bad-policy/>

Third, combined groups benefit from the diversification effect of having both businesses together. Usually one side does better than the other in troubled times, reducing the risk of failure. Since the Crisis demonstrated that investment banking failures can be nearly as devastating to the economy as commercial banking failures, there is clear value in diversification to protect both sides. This is a major reason the big failures were in firms with purer focuses.

Impact: Economic catastrophe and taxpayer burden. “Too big to fail” banks caused the financial crash of 2008 and cost taxpayers trillions of 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).

2. Lost US banking jobs

Glass-Steagall resulted in American banks losing business to European banks

John Berlau and Daniel Press 2017. (Berlau - senior fellow at the Competitive Enterprise Institute. Press is a policy analyst at the Competitive Enterprise Institute) August 2, 2017. “Why Wall Street Loves Glass-Steagall.” Competitive Enterprise Institute (The Competitive Enterprise Institute is a non-profit public policy organization ) <https://cei.org/content/why-wall-street-loves-glass-steagall>

Under Glass-Steagall, commercial banks could not engage in underwriting or deal in non-government securities, while investment banks could not accept deposits. That led to a wave of bank mergers that resulted in investment banking becoming concentrated on Wall Street. It also resulted in American banks losing business to banks in Europe and American businesses having fewer financing options than their European counterparts.

After Glass-Steagall, U.S. banks began declining in international markets

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By contrast, the United States and Japan—which, after the Second World War, was forced to adopt banking laws similar to the United States—were the only developed nations to have separated commercial and investment banking at the time. This hindrance left U.S. banks relatively uncompetitive in international markets, which was reflected in the international rankings of bank size. For example, in 1960, six of the world’s 10 largest banks were based in the United States, while by 1980 only two U.S. banks were in the top 10. By 1989, there was not a single U.S.-based bank in the global top 25. Given the globalization of financial markets, it was increasingly damaging to prohibit U.S. banks from engaging in activities performed by their global competitors.

3. Consumers harmed

Bank customers would experience substantial costs and inconveniences from restructuring banking systems

Jeremy Newell 2017. (Executive Vice President, General Counsel & Chief Operating Officer at the Bank Policy Institute. Previously, he served as counsel in the Legal Division and then regulatory policy advisor in the Banking Supervision & Regulation Division to the Board of Governors of the Federal Reserve System. J.D. from Yale Law School.) April 26, 2017. “Reinstating Glass-Steagall is Unnecessary and Doesn’t Make Sense.” Bank Policy Institute (The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation’s leading banks) <https://bpi.com/reinstating-glass-steagall-is-unnecessary-and-doesnt-make-sense/>

Proposals to “reinstate” Glass-Steagall would impose substantial costs on bank customers and the economy.  
Glass-Steagall proposals are really a kind of industrial policy designed and intended to dramatically re-shape the existing banking industry to break apart commercial and investment banking operations and dictate the corporate structure of banks. For example, and not acknowledged by proponents, a reinstatement of Glass-Steagall would entail the radical restructuring of the U.S. banking landscape, breaking apart, downsizing or otherwise restructuring the 75+ financial holding companies that currently engage in both types of banking activities to some extent.

Reinstating Glass-Steagall would disrupt the financial system and eliminate many current benefits

Jeremy Newell 2017. (Executive Vice President, General Counsel & Chief Operating Officer at the Bank Policy Institute. Former counsel in the Legal Division and then regulatory policy advisor in the Banking Supervision & Regulation Division to the Board of Governors of the Federal Reserve System. J.D. from Yale Law School) April 26, 2017. “Reinstating Glass-Steagall is Unnecessary and Doesn’t Make Sense) <https://bpi.com/reinstating-glass-steagall-is-unnecessary-and-doesnt-make-sense/>

Large, diversified banks provide unique economic benefits to their customers and to the economy that would be diminished by proposals to “reinstate” Glass-Steagall. “Reinstating” Glass-Steagall would involve legislative prohibitions on certain bank affiliations that would force financial institutions to change their size, structures, and activities, which would cause significant disruptions to the financial system and the real economy and eliminate the numerous benefits and efficiencies created by the affiliation between banks and other financial institutions. Proponents of “reinstatement” also fail to acknowledge that there would be significant negative implications of dismantling and restructuring banking organizations, including the elimination of the economies of scale and scope provided by the affiliation of commercial banking and other financial institutions. Rarely discussed by Glass-Steagall proponents are the collateral effects including substantial costs and inconveniences customers, who would be forced to discontinue long-standing relationships with existing financial institutions and establish new relationships with multiple financial institutions.

Diversified banks are able to provide services at much lower prices

Jeremy Newell 2017. (Executive Vice President, General Counsel & Chief Operating Officer at the Bank Policy Institute. Former counsel in the Legal Division and then regulatory policy advisor in the Banking Supervision & Regulation Division to the Board of Governors of the Federal Reserve System. J.D. from Yale Law School) April 26, 2017. “Reinstating Glass-Steagall is Unnecessary and Doesn’t Make Sense) <https://bpi.com/reinstating-glass-steagall-is-unnecessary-and-doesnt-make-sense/>

Large, diversified banks provide unique economic benefits to their customers and to the economy that would be diminished by proposals to “reinstate” Glass-Steagall. “Reinstating” Glass-Steagall would involve legislative prohibitions on certain bank affiliations that would force financial institutions to change their size, structures, and activities, which would cause significant disruptions to the financial system and the real economy and eliminate the numerous benefits and efficiencies created by the affiliation between banks and other financial institutions. For example, as a result of their ability to mutualize significant yet fixed costs of technology and infrastructure costs, larger, diversified banking organizations are able to provide services to customers at lower prices. In addition, as a result of their diverse business lines, vast geographic reach, and balance-sheet size, larger, diversified banks are able to offer products and services that are critical to the global financial system that smaller institutions are unable to offer. “Reinstating” Glass-Steagall would significantly reduce the ability of larger, diversified institutions to offer critical services at lower costs.

Reinstating Glass-Steagall would likely result in hurting consumers

Norbert J. Michel 2017. (Senior Research Fellow for Financial Regulations and Monetary Policy in the Thomas A. Roe Institute for Economic Policy Studies, of the Institute for Economic Freedom, at The Heritage Foundation.) May 3, 2017. “Glass–Steagall Separation Did Not and Will Not Make Markets Safer.” The Heritage Foundation <https://www.heritage.org/government-regulation/report/glass-steagall-separation-did-not-and-will-not-make-markets-safer>

Implementing a new version of the Glass–Steagall separation between commercial and investment banking would not make markets safer, and the very notion that politicians and bureaucrats can design financial markets by dictating precisely who can take which financial risks is flawed. The most likely result from implementing a similar version of the Glass–Steagall separation, which clearly serves to protect firms from competition, is that consumers would suffer from higher prices, fewer choices, and less opportunity.

A/T Conflicts of interest are dangerous for consumers: the risks are manageable and not unique to the banking industry

Sheldon Richman 2017. (executive editor of The Libertarian Institute, the former senior editor at the Cato Institute and Institute for Humane Studies, and former vice president at the Future of Freedom Foundation) May 10, 2017. “Don’t Bring Back Glass-Steagall.” American Institute for Economic Research. (brackets added) <https://www.aier.org/research/dont-bring-back-glass-steagall>

But what of the dangerous conflicts of interest that were said to arise by combining commercial and investment banking? [Economic historians Jeffrey Rogers] Hummel and [Warren C.] Gibson reply:

It is certainly possible that a banker in a combined firm might steer customers into ill-suited investments or insurance products. This is a hazard we face whenever we deal with professionals, such as physicians who advise treatments and also provide them, or lawyers who advise lawsuits and offer to file them. Such hazards are manageable: We can always get a second opinion or consult a fee-based financial planner or simply rely on the professional’s incentive to maintain a reputation for ethical service.

4. Bank failures

Traditional banking is extremely risky without also making investments

*Alex J. Pollock 2017. (distinguished senior fellow at the R Street Institute; was a resident scholar at the American Enterprise Institute from 2004 to 2015, after serving as president and chief executive officer of the Federal Home Loan Bank of Chicago) June 11, 2017. “*Glass-Steagall never saved our financial system, so why revive it?” The Hill <https://thehill.com/blogs/pundits-blog/finance/337289-glass-steagall-never-saved-our-financial-system-so-why-revive-it>

The fundamental problem of banking is always, in the memorable phrase of great banking theorist Walter Bagehot, “smallness of capital.” Or, to put the same concept in other words, the problem is “bigness of leverage.” So-called “traditional” commercial banking is, in fact, a very risky business, because making loans on a highly leveraged basis is very risky, especially real estate loans. All of financial history is witness to this.

Moreover, making investments in securities — that is, buying securities, as opposed to being in the securities business — has always been a part of traditional commercial banking. Indeed, it needs to be, for a highly leveraged balance sheet with all loans and no securities would be extremely risky and entirely unacceptable to any prudent banker or regulator.

Banks that cannot diversify are exposed to greater financial risk

Norbert J. Michel 2017. (Senior Research Fellow for Financial Regulations and Monetary Policy in the Thomas A. Roe Institute for Economic Policy Studies, of the Institute for Economic Freedom, at The Heritage Foundation.) May 3, 2017. “Glass–Steagall Separation Did Not and Will Not Make Markets Safer.” The Heritage Foundation <https://www.heritage.org/government-regulation/report/glass-steagall-separation-did-not-and-will-not-make-markets-safer>

Sound financial practice dictates that investing in a diverse portfolio of assets rather than one single type of asset reduces an investor’s financial risk. Holding a diversified portfolio of stocks and bonds, for example, is less risky than holding a single risky security or loan. The same principle applies to financial firms, whether they are buying securities or making loans.

A bank that lends only to one type of industrial customer in a local market is exposed to greater risk than one that lends to many different types of customers across several geographic locations. Similarly, a financial firm that diversifies by investing funds in many different types of assets—bonds, money market funds, equities, and various commercial loans—is exposed to less financial risk than a bank that makes only commercial loans.

These ideas are not merely theoretical. The U.S. has already had two major crises exacerbated by banks that lent in narrow markets: in one case, geographic markets and in the other, asset markets. Banks that diversify are better protected against unique problems that arise in one sector of the economy, so it makes perfect sense that combined commercial–investment banking firms were stronger than their single-focused counterparts in the 1930s. It makes little sense to return to a regulatory framework that legally forces financial firms into becoming narrowly focused entities that cannot adequately diversify their risks. The notion that doing so could improve the stability of the banking system is based on a flawed understanding of financial risk.

Small banks cannot stabilize and compete through both investment and commercial banking

John Berlau and Daniel Press 2017. (Berlau - senior fellow at the Competitive Enterprise Institute. Press is a policy analyst at the Competitive Enterprise Institute) August 2, 2017. “Why Wall Street Loves Glass-Steagall.” Competitive Enterprise Institute (The Competitive Enterprise Institute is a non-profit public policy organization ) <https://cei.org/content/why-wall-street-loves-glass-steagall>

Politicians often like to claim they are championing the little guy by declaring their allegiance to Main Street. That pose is almost as old as American political rhetoric itself. Recently, however, it has taken a harmful form in calls to revive provisions of the Glass-Steagall Act, a New Deal-era financial law that mandated the separation of commercial and investment banking. While restoring Glass-Steagall may appear like a slap at Wall Street, it would actually be a punch to Main Street. Re-imposing the barrier between commercial and investment banking would concentrate financial power in Wall Street, weaken local banks by denying them opportunities to diversify, and undercut the global competitiveness of U.S. financial institutions. In fact, Glass-Steagall hit Main Street hard the first time it came into play. In the decades before the Act was enacted, an investment banking industry was thriving in cities across the nation. Were Glass-Steagall to return, the costs would fall most heavily not on big commercial banks, but on small banks across the U.S. Many regional banks, still recovering from the Great Recession, have stabilized themselves by expanding into investment banking and wealth management. A new Glass-Steagall would force smaller banks to curtail offering these services.

5. Masking DA – blocks real solutions

Reinstating Glass-Steagall not only won't work, but would cause damage by distracting us from more effective reforms

**Stephen G. Cecchetti and Kermit Schoenholtz 2016 (Cecchetti is** *pro*fessor at Brandeis International Business School. Schoenholtz is director of the Center for Global Economy and Business at NYU Stern School of Business) quoted by Gillian B. White and Bourree Lam 2016. (White - 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/>

To make finance safe—to prevent runs, credit crunches, and the need for government bailouts—the financial system must be made more resilient to disturbances that undermine the balance sheets of intermediaries. This means requiring greater capital and liquidity buffers, treating the activities of financial intermediaries alike regardless of who is performing them (whether it is a bank, a money market fund, or some other type of “shadow bank”) and modernizing the financial plumbing (including short-term financing mechanisms, collateral rules, and derivatives trading). These changes, combined with a streamlining of the U.S. regulatory apparatus itself, will reduce the incentives to take risks that trigger crises and bailouts, while making the system capable of absorbing the potentially large and unforeseen shocks that will inevitably come. Unfortunately, regulators face powerful opposition from politically connected financial intermediaries and their clients, all of whom benefit from high leverage and implicit, taxpayer-financed, government support. Viewed from this perspective, the focus on Glass-Steagall is a damaging distraction from the job of designing and implementing effective reforms that truly make our financial system safe.

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