



The Glass-Steagall Rorschach Test

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Few issues in banking seem to inspire the passion behind Glass-Steagall. Sen. Bernie Sanders (I-Vt.) has made it not only the centerpiece of his presidential campaign but also the most important distinction between himself and Hillary Clinton. How exactly did a relatively obscure New Deal piece of legislation come to dominate so much of the 2016 presidential campaign?

First a little history: Glass-Steagall, named after Congressman Henry Steagall of Alabama and Senator Carter Glass of Virginia, is generally understood to refer to either specific sections or the whole of the Banking Act of 1933. This is not to be confused with the Glass-Steagall Act of 1932, which deals more with the monetary activities of the Federal Reserve. The 1933 Act has a variety of provisions, including the creation of the Federal Deposit Insurance Corporation (which obviously hasn't been repealed).

The provisions that most commentators appear to refer to when invoking Glass-Steagall are the four (sections 16, 20, 21, and 32) relating to the separation of commercial and investment banking. Prior to the 1933 Act, investment and commercial banking activities could generally, subject to state law, occur in the same subsidiary. Obviously, as there was no federal deposit insurance prior to 1933, this did not place “taxpayer” money at risk. Two of those four provisions (sections 20 and 32) were repealed in 1999 in the Gramm-Leach-Bliley Act. Sections 16 and 21 remain current law.

There continues a lively debate over the relationship of this repeal to the recent financial crisis. Interestingly enough there remains some debate over the relation of Glass-Steagall to the Great Depression as well. While science is of course never “settled”, the evidence so far mustered in relation to the Great Depression makes Glass-Steagall appear more a “solution in search of a problem” than anything else.

Of course, lost in that debate is that Wall Street itself largely welcomed Glass-Steagall as an avenue to reduce competition from upstarts, mostly predominately that of A.P. Giannini's Bank of America (how dare some Californian son of Italian immigrants try to compete with the blue-bloods of Wall Street!).

The debates about either the recent crisis or the Great Depression, are largely irrelevant, however. After countless conversations with interested lay persons (I do occasionally get outside the beltway) one thing has become crystal clear: the debate about Glass-Steagall isn't about the technical details of which banking activities should have access to the safety net.

Rather, it is about whether you stand with the establishment or not. It is about whether you stand with the “Big Banks” or not.

Since the financial crisis, I’ve been repeatedly asked whether I support bringing back Glass-Steagall. Being an economist, I seem incapable of just saying yes or no. When I give my usual response, however, that I no more want to bailout bad loans than I do “gambling” on Wall Street, I’ve rarely gotten disagreement. But in my experience, Glass-Steagall is more about bailouts than about what or who is being bailed out.

To some extent, Glass-Steagall is also a proxy for the future of the Democrat Party. Should the party return to the Clinton coalition of the 1990s? If one feels that Bill Clinton, and by extension his wife, sold out the party to corporate interests, then there’s no greater symbol of that than Citibank, Robert Rubin and the repeal of Glass-Steagall.

Since I’ve long been opposed to both bailouts and the selling of government to corporate interests (or really any special interests for that matter), I should be standing at the front of the Glass-Steagall line. I certainly have great sympathy for the emotions behind it.

Perhaps it’s the economist in me, or being occasionally a stickler for details, but I am not in that line. A return to Glass-Steagall could well be acceptable as part of a larger package that actually did shrink the overall financial safety net, but alone, it’s a distraction, even if a powerful symbol.

Glass-Steagall also seems to channel an overall anger at corporate America. Witness the popularity of *Mr. Robot* or *the Newsroom*’s bizarre 2012 claim that Glass-Steagall “put a man on the moon”. At the end of the day, I don’t hate banks or corporations. I am against using taxpayers’ money to cover their mistakes. But both banks and corporations when they work well deliver tremendous benefits.

Profit isn’t a dirty word. Theft is.

Ultimately, Glass-Steagall isn’t about details or even policy. It is about anger, much of it justified. So rather than debate the nuances of the Bank Holding Company Act or whether the current restrictions on transactions between affiliates under Section 23 of the Federal Reserve Act are adequate, let’s just accept the Glass-Steagall debate for what it actually is.

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