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A Trump Adviser From Wall Street Wants to Bring Back Glass-Steagall

Emily Stewart

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White House economic adviser and former **Goldman Sachs** (GS) exec Gary Cohn thinks the country's biggest financial institutions should separate their consumer-lending businesses from their investment banks.

The National Economic Council director said in a private meeting with lawmakers he generally favors returning banks to their structure before the turn of the 21st century, when certain firms focused on trading and underwriting securities and others primarily issued loans, Bloomberg reports. The remarks echo rumblings from President Donald Trump's orbit regarding establishing a modernized version of Glass-Steagall, the Depression-era law repealed under the Clinton administration in 1999.

Cohn reportedly made the remarks in a meeting with senators and staffers organized by Senate Banking Committee Chairman Mike Crapo, an Idaho Republican.

This isn't the first time people in Trump's circle have floated the idea of bringing back Glass-Steagall or some version of it. The Republican National Convention's official campaign platform last July included a provision endorsing reinstatement.

At the time, Mark Calabria, a former Cato Institute director who has since been hired as Vice President Mike Pence's chief economist, said he perceived the provision as an attempt to pick off Bernie Sanders supporters from Democratic rival Hillary Clinton. Reinstating Glass-Steagall was a major part of the Vermont senator's insurgent presidential campaign.

The law's repeal was widely blamed for the 2008 financial crisis, since it had enabled the formation of banking behemoths through deals such as Bank of America's purchase of Merrill Lynch at the height of the crisis, a move partly responsible for the company's need of a $45 billion government bailout.

And among Trump's team, support for restoring a firewall between commercial and investment banking didn't end with the real estate mogul's victory against Clinton in November.

Treasury Secretary Steven Mnuchin, also a Goldman alum, said in his confirmation hearing before the Senate Finance Committee in January that he would support a "21st century version" of Glass-Steagall but not going back to the original version of the law. Trump used similar language ahead of the election, and a person familiar with the matter said Thursday that Cohn was simply reiterating Trump's position.

Press Secretary Sean Spicer in a March 9 press briefing said that the administration is committed to restoring Glass-Steagall, but the president hadn't made plans to meet with Sanders on the matter.

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Splitting consumer lending and investment banking businesses would arguably affect Goldman, whose former personnel hold several posts in Trump's administration, less than major rivals such as **JPMorgan Chase (JPM**) .

While Goldman recently added unsecured consumer loans through its Marcus platform to offerings of secured loans for high net worth individuals, its revenue from debt securities and lending accounted for less than 5% of last year's $30.6 billion in revenue. Trading and investment banking made up more than two-thirds of the total.

Among its rivals, the consumer business accounted for 45% of companywide revenue at JPMorgan Chase and 38% at **Bank of America** (**BAC**) .

To be sure, exactly what Cohn, Mnuchin, Spicer and Trump mean by "21st century" Glass-Steagall isn't clear, and given the at-times competing factions within the administration, it's quite possible they might not mean the same thing in the first place.

It's doubtful their interpretations of the law would line up with proposals from Sanders or progressive firebrand Senator Elizabeth Warren, a Massachusetts Democrat who has proposed a 21st Century Glass-Steagall Act of her own.

Moreover, the support could be simply a smoke-and-mirrors routine to appeal to Trump's populist base.

Cowen and Company analyst Jaret Seiberg said in a note on Thursday that, given Cohn's comments, the firm believes a return of Glass-Steagall is likely.

"Cohn was the most likely obstacle within the Trump White House. With him supporting Glass Steagall's restoration, there is no one in the inner circle left to fight it," Seiberg wrote.

Cowen believes the likeliest structure is not preventing a banking company from owning a broker-dealer but instead for the government to require the broker-dealer to be the subsidiary of the holding company rather than the bank. "This would force the broker dealer to be separately funded and separately capitalized from the bank," Seiberg wrote, adding it could be accomplished through regulation or legislation.

If the Trump administration produces and discloses a cohesive 21st century Glass-Steagall proposal, it is likely to face significant pushback on Capitol Hill.

Democrats, many of whom would like to see the biggest banks broken up, are unlikely to support it because it will probably be attached to significant changes to the Dodd-Frank Act written in the wake of the 2008 financial crisis.

For example, Democrats wouldn't back any move by Republicans to attach the measure to a repeal of the Consumer Financial Protection Bureau, which oversees mortgages and other credit products. In addition, Republicans might oppose it because they feel they aren't getting enough in terms of dismantling Dodd-Frank in return.

There is one softer variation that could pass muster on Capitol Hill. Federal Deposit Insurance Corp. vice chairman Tom Hoenig last month proposed setting up separately capitalized banking and investment bank units at one too-big-to-fail bank rather than an outright break-up.

To help ensure that the separately capitalized divisions are maintained, the biggest banks would need to set up two corporate boards, one for each partitioned business. In exchange, Hoenig said big banks could get some relief from key aspects of Dodd-Frank, including the Volcker Rule, which seeks to limit speculative trading by big banks.

It's unclear whether the Trump administration or Cohn in particular support the Hoenig measure. However, the Trump administration has yet to nominate anyone for a top **Federal Reserve** bank supervision post. A decision by the White House to pick Hoenig for the job would send a loud message that his proposal is one that White House wants to support.