Congressional Closeup by William Jones

Repeal of Glass-Steagall banking act proposed

Treasury Secretary Robert Rubin on Feb. 28 submitted the Clinton administration's proposal to repeal the Glass-Steagall Act, which would eliminate the legal barriers that have separated U.S. commercial banks, securities firms, and insurance companies since the 1930s.

The administration proposal would allow banks to "affiliate" with securities firms, insurance companies, and other financial firms. Banks could also sell securities, insurance, and other financial services. The larger outfits among the banking, securities, and insurance firms praised the administration's plan, while smaller banks and insurance agents strongly criticized the plan as a threat to their operations and bad public policy.

Rep. Charles Schumer (D-N.Y.), citing what had just happened to Barings PLC because of its risks in derivatives, said, "You could end up with a crisis that makes the savings and loan crisis look tame."

Paul Equale, of the Independent Insurance Agents of America, said big banks would begin demanding their customers buy insurance from affiliates as a condition for granting loans. "It's absolutely incredible to me that we have a Democratic administration that does not see the dangers . . . to have cross ownerships at the expense of Main Street. They're sacrificing economic interests in the name of international competition," he said.

Other bills to repeal Glass-Steagall are already in Congress, including two different Republican bills that are working their way through committees. A bill sponsored by Rep. Jim Leach (R-Iowa), considered the most moderate, would allow for mergings of commercial and investment banks, but under a holding company.

Senate Banking Committee Chairman Al D'Amato (R-N.Y.) and Rep. Richard Baker (R-La.) have introduced identical bills allowing nonfinancial companies to merge with commercial banks, as well as securities firms and insurance companies. D'Amato praised Rubin's plan for the similarities to his plan: "His support for key provisions of my bill is the first indication from this administration that it will join in a bipartisan effort to create a more innovative and competitive financial services industry."

Brown scores 50% decline in R&D under 'Contract'

Ranking minority member of the House Science Committee George Brown (D-Calif.) stated on March 2 that federal funding for research and development would decline by 50% over the next five years, from $72 billion to about $35 billion, under the Contract with America.

"Republicans in Congress are leading the nation down a path that will do serious damage to the R&D infrastructure of the United States," Brown stated. "The pillaging of federal R&D programs comes at a time when foreign competition is severely impeding the ability of the private sector to make the R&D investments necessary to remain competitive in domestic and global markets. The consequences will be devastating."

Brown added, "I do not believe Americans voted in the last election to throw away our future. . . . The dismantling of the nation's scientific and technological infrastructure has already begun. Last week, the Republican-controlled House passed a defense supplemental appropriations and rescission package for fiscal year 1995 that cut total federal R&D funding by $13.3 billion, or 2%. This is just the first installment."

Using Congressional Budget Office and Treasury Department estimates, Brown produced a table showing that existing budget caps, the Balanced Budget Amendment, and the loss of funds due to Contract with America-inspired tax cuts, will mean that $1.7 trillion in budget cuts will have to be made by the year 2002, if entitlements are to be protected. Nondefense across-the-board cuts in discretionary spending would lead to the R&D cuts, Brown stated.

Endangered Species Act may be weakened

Bracing for a Republican attack on the controversial Endangered Species Act, the Clinton administration on March 6 said it was prepared to weaken the law to give more consideration to business activity. The new proposals would exempt small landowners, who are often unable to pay the costs of the law's mandates, from the law; require stricter evidence to declare species in danger; and give state and local officials a bigger role in implementing the law.

This act, more than any other single issue, fed the anti-government hysteria which helped propel Republicans to their current congressional majority. Weakening the legislation could deprive Republicans of an important electoral issue.

Under the administration plan, most activities on single-household tracts of land, or those affecting five acres or less, would be permitted to continue free of restrictions under the act if the land in question harbors threatened species. Even Interior Secretary Bruce Babbitt, the darling of the environmentalists, said, "Most species won't survive on small tracts of land . . . and it's not fair to tie up small landowners."

Dole urges hearings on affirmative action

Senate Majority Leader Robert Dole (R-Kan.) called on Labor and Human Resources Committee Chairman Nancy Kassebaum (R-Kan.) and Small Business Committee Chairman Christopher Bond (R-Mo.) to hold wide-ranging hearings to evaluate programs within each committee's purview that grant preferences to individuals on the basis of race, gender, or other factors. "The bottom line is that no federal program should be immune from congressional scrutiny," Dole said. He had earlier ordered such a review of all federal programs, rules, and orders.

In letters to the two chairmen, Dole asked them to investigate whether there are "other, more equitable ways to expand opportunity for all Americans, without resorting to strategies that rely on providing preferences for individuals simply because they belong to certain groups."

Civil rights groups have decried the Republican attack on affirmative action programs as an attempt to turn back the clock to the pre-Kennedy era, the time when affirmative action was first instituted.

Administration downplays Russia-Iran nuclear deal

In testimony before the Near Eastern and South Asian subcommittee of the Senate Foreign Relations Committee on March 2, Assistant Secretary of State for Near Eastern Affairs Robert Pelletreau rejected any impulsive moves against Russia for alleged violations in their sale of nuclear technologies to Iran.

The position contrasted sharply with that of House Speaker Newt Gingrich (R-Ga.) who, after discussions with Israeli Likud leader Benjamin Netanyahu in February, began threatening sanctions against Russia for allegedly aiding Iran in its nuclear program. On a February visit to the United States, Netanyahu, the heir to the radical expansionist ideology of Ariel Sharon, had warned that Iran was developing a nuclear weapons capability, and called it the greatest threat facing the world. Gingrich and Senate GOP leaders have called for a cutoff of aid to Russia.

"With respect to nuclear weapons and other weapons of mass destruction, the Iran-Russia act defers completely to other statutes," said Pelletreau, "Based on the information available at this time, we have concluded that sanctions against Russia are not currently mandated under any of these statutes." Russia has said that its deals with Iran only involve the development of Iran's civilian nuclear energy program.

Israel warns Congress on Mideast aid cuts

Israeli leaders have reportedly given firm warnings of the serious dangers to the Mideast peace process if the Republican-controlled Congress cuts aid to Middle East countries, particularly those involved in the peace process. A GOP-controlled House subcommittee has voted to cut promised debt relief to Jordan from the agreed-upon $225 million, to $50 million.

The debt relief had been promised by the Clinton administration as an inducement for Jordan to sign a peace treaty with Israel. President Clinton had warned Congress against making the cuts, and Israeli Prime Minister Yitzhak Rabin telephoned President Clinton to express his concern.

Israeli Deputy Foreign Minister Yossi Beilin warned in a televised interview, "There is a sort of lack of understanding regarding the terrible price—also in money—that the United States could pay if, God forbid, there is another war in the region or in other regions." Beilin said that the relatively small sums are essential in "creating a better atmosphere," and described the congressional climate created by the Republicans as "a danger not only for us in the Middle East."

Markey would regulate derivatives dealers

Ed Markey (D-Mass.), the ranking member of the Telecommunications and Finance subcommittee of the House Commerce Committee, announced on Feb. 27 that he was introducing new legislation to regulate derivatives dealers.

Markey said that the collapse of Barings Bank "underscores the risks inherent in failing to assure that regulators have adequate tools on hand to minimize the potential for OTC [over the counter] derivatives to contribute to a major disruption in the financial markets, either through excessive speculation and overleveraging, or due to inadequate internal controls and risk management on the part of major derivatives dealers or end users." He said that his legislation is "aimed at providing a framework for improved supervision and regulation of previously unregulated dealers and assuring appropriate protections for their customers."