New Glass-Steagall Bill Stirs Debate

by Jeffrey Steinberg

July 13—The filing of a second Senate Glass-Steagall bill (S. 1282) on July 11, by Senators Elizabeth Warren (D-Mass.), John McCain (R-Ariz.), Angus King (I-Me.), and Maria Cantwell (D-Wash.), has generated a good deal of media attention, along with the anticipated freakout from Wall Street and the Obama White House. It has also revived an open factional split within the City of London/Wall Street nexus, that was reflected today in the *Financial Times*, which ran a news analysis on Wall Street's reaction, and another editorial endorsement of Glass-Steagall bank separation.

The "21st-Century Glass-Steagall Act" joins the "Return to Prudent Banking Act" introduced in the Senate (S. 985), by Tom Harkin (D-Iowa), and in the House (H.R. 129), by Reps. Marcy Kaptur (D-Ohio) and Walter Jones (R-N.C.). It differs from them primarily in its specific reference to the fact that it would outlaw derivatives, swaps, etc., and in its timeframe for compliance (five years, rather than one or two). H.R. 129 currently has 70 sponsors; S. 985, one.

The legislation to restore Glass-Steagall has in-depth support around the nation, as reflected in the fact that memorials for its reinstatement have now been introduced in 23 states, the latest being Oregon, on July 3.

JPMorgan Chase Counters

The same JPMorgan Chase Bank that led the lobbying campaign to stop the pro-Glass-Steagall resolution from coming to a vote in the Delaware State Senate last month, immediately came out swinging to defend its speculative activities. Huffington Post July 13 headlined "JPMorgan Chase Fires Back at Warren-McCain Plan To Reinstate Glass-Steagall" on an interview with Morgan's chief financial officer Marianne Lake.

Lake delivered the tired old lies that "Glass-Steagall didn't have anything to do with the crisis, and our business model allows us to be a port in the storm." To nobody's surprise, former Rep. Barney Frank (D-Mass.), the man who blocked the convening of a genuine Pecora Commission after the September 2008 debacle, came out publicly endorsing the JPMorgan position against Glass-Steagall.

Senator Warren countered the Morgan lies in an interview with Fox Business News July 12, pointing out that it was precisely the too-big-to-fail banks—including JPMorgan Chase, Citibank, and Bank of America—that received the massive taxpayer bailouts after the collapse of Lehman Brothers in September 2008. She noted that the four biggest Wall Street banks are today 30% bigger than they were at the time of the 2008 blowout.

Support from Britain

The *Financial Times*, which took a strong stand in favor of reinstating Glass-Steagall on July 4, 2012, today ran a news account of the growing U.S. battle around Glass-Steagall under the headline "Bill To Restore Glass-Steagall Unnerves Wall Street," noting that the introduction of the 21st-Century Glass-Steagall Act of 2013 "adds to a drumbeat of oddly bipartisan maneuvers in Congress to break up the banks that has been gaining steam."

The *Financial Times* also ran an editorial headlined, "Split the Banks: A New Glass-Steagall Act Is Needed—Not Just in the U.S.," echoing its editorial call for full bank separation a year ago. It cited Warren and McCain as the lead sponsors of the new bill, and concluded "the instinct of the two legislators that retail banking ought to be separated from riskier activities is sound and should be heeded. As the financial crisis made abundantly clear, the main beneficiaries of the universal banking model have been the banks themselves. They have been able to fund themselves cheaply, since investors know governments will come to the rescue to save depositors. This implicit subsidy encourages the type of reckless behavior taxpayers around the world are still counting the costs of."

The editorial continued, "Full-scale separation could be easier to enforce" than the Volcker Rule or the Vickers Commission scheme for ring-fencing. "The original Glass-Steagall Act was a mere 37 pages long. It would also eradicate the testosterone-charged culture of investment banking from retail activities, which require patient stewardship. As the Libor scandal has shown, when the two cultures conflate it is the traders who typically have the upper hand."

The editorial ended with a warning: "When popular discontent with the banks is so high, this powerful argument cannot be ignored."