

Sen. Elizabeth Warren: David Can Beat Goliath

Here is the conclusion of Senator Warren's Nov. 12 speech.

So let's put the pieces together: 1. It has been three years since Dodd-Frank was passed, the biggest banks are bigger than ever, the risk to the system has grown, and the market distortions have continued. 2. While the CFPB [Consumer Financial Protection Bureau] has met every single statutory deadline—so we know it's possible to get the job done—the other regulators have missed their deadlines and haven't given us much reason for confidence. 3. The result is that the Too Big to Fail remains. I add that up, and it's clear to me: it's time to act. The last thing we should do is wait for more crises—for another London Whale or LIBOR disgrace or robo-signing scandal—before we take action.

For that reason, I partnered with Senators John McCain, Maria Cantwell, and Angus King to offer up one potential way to address the Too Big to Fail problem—the 21st Century Glass-Steagall Act.

By separating traditional depository banks from riskier financial institutions, the 1933 version of Glass-Steagall laid the groundwork for half a century of financial stability. During that time, we built a robust and thriving middle class. But throughout the 1980s and 1990s, Congress and regulators chipped away at Glass-Steagall's protections, encouraging growth of the megabanks and a sharp increase in systemic risk. They finally finished the task in 1999 with the passage of the Gramm-Leach-Bliley Act, which eliminated Glass-Steagall's protections altogether.

The 21st Century Glass-Steagall Act would rein-

state many of the protections found in the original Glass-Steagall Act. It would wall off depository institutions from riskier activities like investment banking, swaps dealing, and private equity activities. It would force some of the biggest financial institutions to break apart and eliminate their ability to rely on federal depository insurance as a backstop for high-risk activities.

In other words, the new Glass-Steagall Act would attack both too big and to fail. It would reduce failures of the big banks by making banking boring, protecting deposits and providing stability to the system even in bad times. And it would reduce too big by dismantling the behemoths, so that big banks would still be big but not too big to fail or, for that matter, too big to manage, too big to regulate, too big for trial, or too big for jail.

Big banks would once again have understandable balance sheets, and with that would come—greater market discipline. Now sure, the lobbyists for Wall Street say the sky will fall if they can't use deposits in checking accounts to fund their high-risk activities. But they said that in the 1930s, too. They were wrong then, and they are wrong now. The Glass-Steagall Act would restore the stability to the financial system that began to disappear in the 1980s and 1990s. . . .

We should not accept a financial system that allows the biggest banks to emerge from a crisis in record-setting shape while working Americans continue to struggle. And we should not accept a regulatory system that is so besieged by lobbyists for the big banks that it takes years to deliver rules and then the rules that are delivered are often watered-down and ineffective.

What we need is a system that puts an end to the boom-and-bust cycle. A system that recognizes we don't grow this country from the financial sector; we grow this country from the middle class.

Powerful interests will fight to hang on to every benefit and subsidy they now enjoy. Even after exploiting consumers, larding their books with excessive risk, and making bad bets that brought down the economy and forced taxpayer bailouts, the big Wall Street banks are not chastened. They have fought to delay and hamstring the implementation of financial reform, and they will continue to fight every inch of the way.

That's the battlefield. That's what we're up against. But David beat Goliath with the establishment of CFPB, . . . with the confirmation of Rich Cordray, . . . with the passage of Dodd-Frank. . . . I am confident David can beat Goliath on Too Big to Fail. We just have to pick up the slingshot again.