Documentation

# Cantwell-McCain on Glass-Steagall

*This press release was issued by Sen. Maria Cantwell's office, under the title "Cantwell, McCain Seek to Restore Glass-Steagall Safeguards by Separating Commercial and Investment Banking; Amendment would limit bank size and systemic threats to the whole economy."*

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WASHINGTON, DC—Today, U.S. Senators Maria Cantwell (D-WA) and John McCain (R-AZ) introduced a bipartisan amendment to separate commercial and investment banking. The proposed change in the banking and financial reform legislation being debated in the Senate is also cosponsored by Senators Ted Kaufman (D-DE), Tom Harkin (D-IA), and Russell Feingold (D-WI). The amendment restores safeguards modeled after the 1933 Glass-Steagall Act that protect bank deposits from being used in Wall Street's risky speculation. The amendment is based on the Cantwell-McCain Banking Integrity Act introduced in December 2009.

"Behemoth banks are putting their money into risky, get-rich-quick Wall Street schemes instead of investing in Main Street," Senator Maria Cantwell said. "So much U.S. taxpayer-backed money is going into speculation in dark markets that it has diverted lending capital from our community banks and small businesses that depend on loans to expand and create jobs. This is stifling America and it is why there is bipartisan support for restoring the important safeguards that protected Americans for decades after the Great Depression. It's time to go back to separating commercial banking from Wall Street investment banking."

"I want to ensure that we never stick the American taxpayer with another $700 billion—or even larger—tab to bail out the financial industry," said Senator John McCain. "If big Wall Street institutions want to take part in risky transactions—fine. But we should not allow them to do so with federally insured deposits. It is time to put a stop to the taxpayer financed excesses of Wall Street. No single financial institution should be so big that its failure would bring ruin to our economy and destroy millions of American jobs. This country would be better served if we limit the activities of these financial institutions."

"It's no coincidence that our financial sector got completely out of line once the Glass-Steagall prohibitions were overturned in 1999. By consolidating commercial banking, investment banking and insurance into single financial companies, institutions grew so large and became so interconnected that they were 'too big to fail,'" said Senator Tom Harkin. "It is clear to me that going back to the Glass-Steagall era regulations will help end the problem of 'too big to fail' and will restore order to our financial sector."

The amendment filed today would prohibit commercial banks from affiliating in any manner with investment banks and vice versa; prevent officers, directors, and employees of a commercial bank from serving as an officer, director, or employee of an investment bank and vice versa; prohibit commercial banks from engaging in all insurance activities; and establish one year from date of enactment as the deadline for financial houses to transition and separate their commercial and investment banking operations.

Beginning in 1933, Glass-Steagall established a wall between commercial and investment banking to protect depositor money from being put at risk by Wall Street speculation. For nearly 60 years, this firewall maintained the integrity of the banking system; prevented self-dealing and other financial abuses; and limited stock market speculation. But since its repeal, banks have blended banking and brokerage, using loopholes in the Act and other statutes to market financial products like stocks, mutual funds and underwriting stocks to their consumers at the same time. When these megabanks default under the current system, taxpayers pay for the losses twice over.

The biggest banks keep getting bigger in the bailouts and the acquisitions. While there are 7,000 commercial banks in the United States, just five of them hold over 50 percent of our nations bank-owned assets. Those same five entities hold over 95 percent of bank's risk in the derivatives markets.

Under the amendment, major financial firms currently operating both commercial banks and investment houses will have to make a decision on whether to focus on commercial banking or investment banking. In most of these institutions, the investment banks and the commercial banks will both be very valuable independently and profitable for their stockholders. By separating the commercial banks from the investment banks, the amendment ends speculation with depositor money and returns investments to Main Street.