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# If A New Glass-Steagall Act Can Protect Us, Why Is There Opposition?

By [GREG MADISON](#), Contributing Writer, Money Morning    July 24, 2013

There has been a huge outpouring of support for Senators John McCain and Elizabeth Warren's idea to reinstate some form of the [Glass-Steagall Act](#), which drew a clear separation between investment banking and commercial banking.

The enthusiasm has managed to vault a wall that many thought impossible: broad bipartisan support.

In fact, from McCain and Warren on down to the right and left, strange bedfellows are signing on.

Whether it's the various Tea Party groups, or MoveOn.Org. Whether it's the Huffington Post or Breitbart, or Bill Clinton, there is *plenty* of common ground between all of these divergent groups.

Even in Congress itself, there is significant bipartisan support for at least the *idea* behind Glass-Steagall - that big banks should be broken up, and that those who remain should be [absolutely prohibited](#) from, frankly, gambling with our money.

It's perfectly clear that, among the people of this country, there is a real desire to bring banks to heel.

Professor William K. Black, veteran warrior of the Savings & Loan Crisis, put it well when he said that "it violates the core principles of conservatism and libertarianism to extend the federal subsidy (to)... commercial banks via deposit insurance to allow that subsidy to extend to non-banking operations," meaning that we, the taxpayers, shouldn't be forced to subsidize a bank's gambling habit.

As always, there are many powerful interests who stand to lose out from tighter, sensible regulations. Of course there are the big investment and commercial banks, such as Goldman Sachs, Bank of America, and so on, the masters of many a politician. It's not shocking that they would be opposed to limits on their own power.

But there are some politicians who claim to be progressive that are dead-set against what Glass-Steagall could do for us.

President **Barack Obama** is one of several who have used some variation of the argument that Glass-Steagall wouldn't have done enough to protect the economy from the causes of the Great Collapse.

That argument is easy enough to refute. The runaway trading in risky mortgage derivatives couldn't have happened without collusion between retail and investment banking. The big banks built huge portfolios of subprime mortgage securities in off balance sheet investment vehicles using their depositor's federally-backed funds. With Glass-

Steagall, the investment banking units of the banks could not have had access to those deposits.

Also remember that the President's 2008 and 2012 election campaigns benefitted greatly from investment banker contributions, and the President threw his support behind the Dodd-Frank legislation - which was for all intents and purposes *written* by the banks.

Treasury Secretary **Jack Lew** is another powerful individual opposed to Glass-Steagall, spouting the same specious arguments about the possible effectiveness of new regulation. His predecessor, **Tim Geithner**, said much the same thing in his own opposition.

What's more, Secretary Lew actually *worked* for Citigroup's "Alternative Investment Unit," a group that bet against housing. This group funneled millions through the Cayman Islands, which President Obama decried as "a tax scam."

But when Lew was his nominee for the top Treasury spot, President Obama said his activities as an investment banker "didn't concern" him. Lew has made ominous, vague threats regarding Dodd-Frank, with its Volcker Rule, saying that if Dodd-Frank isn't turned into law, "other options" will have to be looked at amidst a greater likelihood of "more bailouts."

What Lew means by this is anyone's guess, but these are mere scare tactics designed to hold up Dodd-Frank as the only thing between us and another Great Collapse.

Former Representative **Barney Frank**, who (along with Senator Chris Dodd, the American Bankers Association, Goldman Sachs, and JP Morgan) co-authored Dodd-Frank, has said that his legislation "adequately addresses the issue of [Too Big To Fail](#)."

He believes that there "are always going to be... institutions which if they couldn't pay enough of their debts... could cause problems." It's clear that Frank believes that it's not worth fighting just because something *seems* like it's going to happen anyway.

This comes as Frank plots a return to Congress. Is Barney Frank the most powerful person opposed to Glass-Steagall? Not at all... But it's still early.

The list of politicians, liberal and conservative, who stand to lose out if Glass-Steagall's protections are re-established is long. Their links to Wall Street banks must be exposed to daylight if there's any hope of Glass-Steagall seeing daylight.

The odds are stacked against it, to be sure, but these protections can be restored if it's possible to align the politicians' interests with our own.

For a history of Glass-Steagall and the efforts to restore the separation of investment and commercial banking, [read here](#).

*If you think Glass-Steagall is a good idea, let us know about it on [Facebook](#). The squeaky wheel gets the grease...*

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