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HUFF POST POLITICS

Conservatives and Libertarians Should Support the Return of Glass-Steagall

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Glass-Steagall prevented a classic conflict of interest that we know frequently arises in the real world. Commercial banks are subsidized through federal deposit insurance. Most economists support providing deposit insurance to commercial banks for relatively smaller depositors. I am not aware of any economists who support federal "deposit" insurance for the customers of investment banks or the creditors of non-financial businesses.

It violates core principles of conservatism and libertarianism to extend the federal subsidy provided to commercial banks via deposit insurance to allow that subsidy to extend to non-banking operations. Absent Glass-Steagall, banks could purchase anything from an aluminum company to a fast food franchise and (indirectly) fund its acquisitions and operations with federally-subsidized deposits. If you run an independent aluminum company or fast food franchise do you want to have to compete with a federally-subsidized rival?

Deposit insurance is a material federal subsidy, but it pales in comparison to the implicit federal subsidy we provide to systemically dangerous institutions (SDIs) (so-called "too big to fail" banks). The SDIs are precisely the banks most likely to purchase non-commercial banks. The general creditors of SDIs are protected against all loss so they funds to SDIs at a substantially lower interest rate than smaller competitors. The largest SDIs are commercial banks that get both the explicit subsidy of federal deposit insurance and the larger subsidy unique to SDIs.

No conservative or libertarian should want the SDIs to maintain their political and economic dominance. The SDIs' dominance comes about not due to their efficiency but their size and the size of their lobbying wallet and force that allows them to extort greater federal subsidies than their rivals. If conservatives and libertarians have any uncertainty about their position on Glass-Steagall they should consider these facts: (1) President Obama opposes ending the SDIs, (2) has done nothing effective to end the large federal subsidy provided to the SDIs, and (3) opposes bringing back Glass-Steagall and removing the explicit federal subsidy to banks that indirectly provides a competitive advantage to their commercial affiliates.