Wall Street, Obama Freak Over Building Glass-Steagall Momentum

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The filing of a second Senate Glass-Steagall bill on Thursday, July 11 has generated a good deal of media attention, and the anticipated freak-out from Wall Street and the Obama White House. It has also revived a factional split within the City of London and Wall Street that is reflected in the Financial Times, which ran a news analysis and another editorial endorsement of Glass-Steagall bank separation.

Obama reads CBC members the riot act. Photo:Whitehouse.gov.

According to sources who attended the meeting, President Obama "read the Riot Act" to the Congressional Black Caucus on Thursday in what was only the second meeting between the President and the CBC since Obama took office in January 2009. While Obama did not raise the Glass-Steagall issue in the meeting with the Caucus members, he did come down hard on them, demanding that they remain loyal sheep and lay off any criticisms of his Presidency, claiming his hands were tied and that it was "not his fault" that the situation in the African-American community had gone from bad to worse under his Presidency. After the overall meeting, the President had a private meeting with Rep. Maxine Waters (D-Cal.), who is the ranking member of the House Financial Services Committee. There is no doubt that Obama put her through the ringer to make sure the committee did not take up the Glass-Steagall bill of Rep. Marcy Kaptur (D-Ohio) and Walter Jones (R-N.C.), which now has 70 co-sponsors.

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 was also out front in today's media coverage of the Glass-Steagall fight. Huffington Post ran a headline "JPMorgan Chase Fires Back At Warren-McCain Plan To Reinstate Glass-Steagall" on an interview with JP Morgan's Chief Financial Officer Marianne Lake. Lake delivered the same 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 JP Morgan position against Glass-Steagall.

Sen. Elizabeth Warren (D-Mass.) countered the JP Morgan lies in an interview with Fox Business News yesterday, 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 September 2008 blowout.

The Financial Times ran a news account of the growing 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 published an editorial headlined "Split the Banks: A New Glass-Steagall Act Is Needed—Not Just in the U.S." The editorial, echoing an earlier editorial call for full bank separation a year ago, cited Warren and John McCain (R-Ariz.) as the two lead co-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."