Title:

No going back: Why we cannot restore Glass-Steagall's segregation of banking and finance

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Abstract:

The purpose of the 1933 Banking Act-aka Glass-Steagall-was to prevent the exposure of commercial banks to the risks of investment banking and to ensure stability of the financial system. A proposed solution to the current financial crisis is to return to the basic tenets of this New Deal legislation. Senior Scholar Jan Kregel provides an in-depth account of the Act, including the premises leading up to its adoption, its influence on the design of the financial system, and the subsequent collapse of the Act's restrictions on securities trading (deregulation). He concludes that a return to the Act's simple structure and strict segregation between (regulated) commercial and (unregulated) investment banking is unwarranted in light of ongoing questions about the commercial banks' ability to compete with other financial institutions. Moreover, fundamental reform - the conflicting relationship between state and national charters and regulation - was bypassed by the Act.

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Former investment banker Nomi Prins discusses the close ties between the big banks and Wall Street, which is the focus of her new book "All the Presidents'

gains on Wall Street, perhaps a bubble, but definitely a bull market. While restoring Glass-Steagall may appear like a slap at Wall Street, it would actually be a punch to Main Street. Re-imposing the barrier between commercial and investment banking would concentrate financial power in Wall Street, weaken local banks by denying them opportunities to diversify, and undercut the global competitiveness of U.S. financial institutions. In fact, Glass-Steagall hit Main Street hard the first time it came into play. Glass-Steagall Repeal Was Long Overdue. Congress voted overwhelmingly to repeal the firewall between commercial and investment banking in the 1990s, for good reason. As Columbia University visiting scholar Tian Kang Go concluded in his comprehensive study of the era Let's start with Glass-Steagall's origin. “It was founded on a false premise,” says Rodgin Cohen, senior chairman of Sullivan & Cromwell and my mentor at the firm. Senator Carter Glass initially blamed the securities activities of banks for the collapse of the banking system and thought that separating commercial and investment banking would result in a more stable financial system. But Glass soon came to question those assumptions. By 1935, he wanted to allow commercial banks to underwrite corporate bonds. Glass wasn't the only one who would have second thoughts. Regulators defanged Glass-... Personal Finance. WSJ Money. Columns & Blogs. In truth, traditional investment banking entails very little risk and certainly less than traditional commercial banking. RELATED VIDEO. Opinion Journal: Big Banks Bash-Fest. Editorial Page Assistant Editor James Freeman on why a new Glass-Steagall Act won't prevent a financial crisis. Photo credit: Zuma Press. To Read the Full Story.