Wall Street Angry that Donald Trump Says "Restore Glass-Steagall Act"

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On July 18th, Rob Nichols, the President of the American Bankers' Association, which is controlled by the mega-banks, struck back against Republican Presidential candidate Donald Trump. Nichols criticized Trump's insistence to restore the Democratic U.S. President Franklin Delano Roosevelt's top reform of the U.S. economy, the Glass-Steagall Act, which prevented another taxpayer bailout of Wall Street firms for their gambling losses — it was the law President Bill Clinton with overwhelming Republican support in 1999 repealed. Trump is committing himself against that Clinton-Republican repeal of FDR's law. Trump insists it be restored so that there won't be a repeat of the Bush-Obama Wall Street bailout.

ABA chief Nichols told Morning Consult, "America's banking industry is well poised to fuel economic growth and job creation," and so they should continue to be supported by the government. He called Trump's stand to restore Glass-Steagall "a return to Depression-era regulation that would restrain banks' ability to drive our economy forward. All of our bank regulatory agencies have agreed that Glass-Steagall would not have prevented the crisis or the housing market collapse."

Many economists disagree with the ABA on that, and have called for restoration of the Glass-Steagall Act.

The major newsmedia and politicians refer to Glass-Steagall for its supposedly capping bank-size, but it never actually did any such thing: it instead separated commercial banks (lenders to consumers and businesses) from investment banks (stockbrokers and other market-makers for the sale of financial gambles) and from insurers (which take on the risks that other financial firms avoid). It never established any cap on bank-size.

What produced the 2008 crash was the Clinton-Republican Gramm-Leach-Bliley Act, named after the three conservative Republicans (Phil Gramm, Jim Leach, and Tom Bliley) who wrote it. Sanford Weill, then merely the head of Travelers Insurance, was a financial empire-builder who wanted his firm to buy Citibank, so as to produce the first financial conglomerate, Citigroup — a merger which the Glass-Steagall Act would have blocked from happening. Weill's Clinton-Administration friends Robert J. Rubin and Lawrence Summers had no trouble convincing their boss to say yes to Gramm-Leach-Bliley, though this would toss out the core of Democrat FDR's lasting heritage and restore the cause of the Great Depression: Wall Street's gambling with depositors' savings — gambling with assets that are so crucial the government would be politically compelled to backstop to prevent bankrupting tens of millions of people, savers who had made no error. It's a Hobson's choice of either revolution or else Wall Street bailouts; that Hobson's choice is what Glass-Steagall ended.

The great journalist who goes by the pseudonym "Tyler Durden" headlined on 25 July 2012, "In Defining Hypocrisy, Weill, Who Led Repeal Of Glass Steagall, Now Says Big Banks Should Be Broken Up" and he quoted Weill's recent statement, "I am suggesting that [big banks] be broken up so that the taxpayer will never be at risk, the depositors won't be at risk, the leverage of the banks will be something reasonable." Weill gave as his excuse for his 180-degree turnabout, "The world we live in now is different from the world we lived in ten years ago," but, in regard to the issue at hand, he was lying: his argument there was equally applicable today as it was in 2000 when he induced Clinton-Republicans to repeal it, and as it was in 1933 when FDR signed Glass-Steagall into law. Weill, after all, was saying this after the 2008 crash, which produced a huge taxpayer bailout of his own and the other Wall Street firms.

On 8 August 2012, Pam Martens — the best of all reporters about Wall Street — bannered "The Untold Story of the Bailout of Citigroup" and she recounted the relevant history:

> "The Citigroup merger occurred in 1998. Glass-Steagall was repealed on November 12, 1999 with the enactment of the Gramm-Leach-Bliley Act. It was just nine years later that Citigroup was teetering on the brink of collapse after holding $1.3 trillion off its balance sheet, gorging on toxic assets, and failing to disclose an extra $39 billion in subprime mortgage exposure. (As we discussed yesterday in Part One, we still don't know just how bad Citigroup's accounting was because the SEC has redacted much of that information from public records on its web site.)"

A financial-industry arbitrator headlined in American Banker magazine (which represents only medium-and-small-sized banks), on 11 December 2015, "A New Glass-Steagall Would Be Too Good for Banks to Pass Up", and he noted that the megabanks' allegations that Glass-Steagall is incompatible with modern finance is phony. Akshat Tewary wrote: "The proposed 21st Century Glass-Steagall Act — sponsored by Democratic Sen. Elizabeth Warren and Republican Sen. John McCain — mirrors many of the features of the original law, while also accounting for more recent innovations in banking and finance."

Only by deception can the megabanks oppose Glass-Steagall; but it's a multibillion-dollar deception which benefits the top financial executives, and so it is backed up by an enormous lobbying operation, and any Presidential candidate who fails to go along with that is going far out on a limb.

The issue here was never really about bank size, however; it was always an issue of risk-transference, from Wall Street to Main Street (like: from the American Bankers' Association, to American Banker magazine) — to transfer the megabanks' gambling risks to the public while the rewards remain privatized to the megabank executives via their pay and bonuses. That's what they want. In other words: it's a scam, and part of the money from it ends up advertising politicians and fooling voters.

And for Rob Nichols and Wall Street to criticize "a return to Depression-era regulation" is for them to be seeking to go back to what had *preceded the 1929 Crash.* That's what we have now, but in the form of the Clinton-Republicanism ('bipartisanship') that produced the 2008 crash, and that then was cumbersomely dealt with in the Dodd-Frank Act, which was co-written by Wall Street and Democrats, and which has, after 2008, produced a weak economic recovery, which goes almost only to the wealthiest 1%. That's the Obama version of the Clinton plan. But it's not only excruciatingly cumbersome; it is a cumbersome band-aid covering a gaping bleeding wound: the post-2008 economy.

Glass-Steagall wasn't any such cumbersome law as Obama passed; it was, instead, the "Depression-era regulation" that very simply separated, from one-another: commercial banking, from investment banking, from insurance. It said: you can do any one of those, but not more than one.

Perhaps Donald Trump has found some way to run a Presidential campaign that doesn't depend upon the good will, and megabuck donations, from Wall Street, because it now seems extremely likely that he's not going to be getting much in the way of donations from them. He hasn't in the past, and he now seems even less likely to in the future.

Nichols presented his criticism in a 'bipartisan' way, but it wasn't even really bipartisan: the situation is actually very different when a Bernie Sanders, who won't be the President, coerces Hillary Clinton, who might, to accept in 'her' Party platform a demand for restoring Glass-Steagall; it is entirely different when a Donald Trump, who *actually might become President*, demands that it be in *his* Party's platform.

The best way for Trump to try to squeeze some lemonade out of this otherwise sour (for a Presidential nominee) political lemon that he's now pushing, would be for him to make one of his major campaign themes against Hillary Clinton: "If I become President, then Elizabeth Warren's 21st Century Glass-Steagall Act will become the law of this land." How could Hillary trump that? For her even to challenge it (which would require her to repudiate her entire record) would cause people to distrust her even more than they already do. Maybe this would even be Trump's call of "Checkmate!" against her.

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