



R-19

Memorandum

To: Mayor and City Council

December 6, 2011

From: Suja Lowenthal, Second District 

Subject: Glass-Steagall Act Restoration

REQUESTED ACTION:

Respectfully request City Council support for federal legislation restoring the Glass-Steagall Act and if necessary, repealing provisions of the Gramm-Leach-Bliley Act to restore integrity and trust in our financial system.

BACKGROUND INFORMATION:

The Glass-Steagall Act (GSA), also known as the Banking Act of 1933 prohibited commercial banks from engaging in the investment business. GSA allowed member banks to borrow from a Federal Reserve Bank by pledging paper other than that ordinarily eligible for rediscount or as collateral for loans. It was enacted in response to bank failures during the Great Depression and gave tighter regulation of national banks to the Federal Reserve System; prohibited bank sales of securities; and created the Federal Deposit Insurance Corporation (FDIC), which insures bank deposits with a pool of money appropriated from banks. The act forced a separation of commercial and investment banks by preventing commercial banks from underwriting securities, with the exception of U.S. Treasury and federal agency securities, and municipal and state general-obligation securities. Likewise, investment banks could not engage in the business of receiving deposits. Investment banking consisted mostly of securities underwriting and related activities; making a market in securities; and setting up corporate mergers, acquisitions, and restructuring.

The repeal of Glass-Steagall led to mega-banks combining more traditional commercial lending duties with risky investment banking leveraging deposits from customers. Two of the repeal's greatest proponents, former President Clinton and former Speaker Newt Gingrich, have gone on record admitting that it was a mistake.

Currently, there are two bills in the House of Representatives seeking reform of our federal financial system. Both H.R. 2451 (Hinchey) and H.R. 1489 (Kaptur) would restore the Glass-Steagall Act, while H.R. 1489 would repeal certain provisions of the Gramm-Leach-Biley Act.

FISCAL IMPACT:

There is no fiscal impact to the General Fund.