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Democracy and Productivity: The Glass-Steagall Act and the Shifting Discourse of Financial Regulation

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In lieu of an abstract, here is a brief excerpt of the content:

In the fall of 2008, the United States experienced a sudden financial crisis that plunged the financial sector into disarray, provoked the worst economic downturn since the Great Depression, and gave rise to an ongoing series of highly contentious debates over economic regulation. Two years later, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, one of the largest overhauls of financial regulation in history. Throughout this debate, much of the discourse of financial reform revolved around concepts such as consumer protection, the problem of the "systemic risk" posed by the failure of financial institutions that could have vast negative spillover effects, and the clash between proponents and critics of expanded federal regulatory oversight.[1] But despite deep-seated public anger against financial firms and accusations of abusive practices of securitization and subprime mortgage lending, the public discourse of reform politics exhibited little evidence of more aggressive arguments against the concentrated economic and political **[End Page 612]** power of big finance—arguments that had historically animated antitrust and financial reformers during the late nineteenth and early twentieth centuries.[2] This current era of ongoing debate over the role of the state in regulating the financial sector suggests an opportune moment to reexamine the language and arguments of an earlier era of financial regulatory reform: the debate around the Glass-Steagall Act of 1933.

Passed as part of the Banking Act of 1933,[3] during the fabled Hundred Days session of Congress under Franklin Roosevelt, the Glass-Steagall Act consisted of several provisions that taken together mandated the separation of commercial and investment banking.[4] The Banking Act also expanded permission for national banks to engage in "branch banking" by opening subsidiary branches in different localities—a practice that had long been restricted out of concern for unfavorable competitive pressures on local banks

—and expanded the regulatory powers of the Federal Reserve. These three initiatives were colloquially known at the time as the “Glass bill,” named for its chief architect and proponent, Senator Carter Glass. By spring 1933, the Glass bill merged with legislation pushed by Henry Steagall in the House to create a deposit insurance system by establishing what is now the FDIC. With the added deposit insurance provisions, the combined Banking Act passed Congress easily in June 1933, signed into law by Franklin Roosevelt shortly thereafter.

As a substantive policy, the Glass-Steagall Act’s separation of commercial and investment banking was seen as crucial to preventing abuse by financial firms in selling securities—and its repeal in 1999 arguably contributed to the rise of complex derivatives and mortgage-backed securities that helped create the 2008 financial crisis. But the purpose of this article is not to evaluate the empirical evidence for or against Glass-Steagall as a policy choice; rather, it is to examine the nature of the debate around Glass-Steagall itself. What kinds of arguments were mobilized in favor and against the reform? What arguments carried the most political force at the time? And what can this story tell us about the current political debate we face today?

While most studies of the Glass-Steagall Act have focused primarily on the empirical case for and impact of the separation of commercial and investment banking,[5] there are no studies focusing on the politics and discourse of the reform itself. Aside from a few focused histories of the Glass-Steagall Act,[6] the Act is usually treated in passing in larger studies of financial reform or New Deal histories. Indeed, the Glass-Steagall Act itself was folded into and quickly supplanted by larger policy debates over initiatives such as deposit insurance, the creation of the Securities and Exchange Commission, **[End Page 613]** and more pitched political battles over economic planning and recovery in 1933–34.

The reform discourse in Congress surrounding Glass-Steagall parallels many of the debates in our current historical moment. Then, as now, policymakers struggled to conceptualize the precise nature of the economic challenge and how reforms ought to respond. Then, as now, the dominant narrative was primarily one where reforms were targeted toward promoting economic productivity and stability. Yet at the same time, there was a strong undercurrent of a...

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