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DODD-FRANK VERSUS GLASS-STEAGALL

In 1933, Congress passed a banking-reform law known as the Glass-Steagall Act after its co-sponsors Senator Carter Glass of Virginia and Congressman Henry B. Steagall of Alabama. The act prohibited commercial banks from engaging in the investment business and was passed as a reaction to the Great Depression that saw 5,000 banks fail — some say due to reckless, high-risk investments using depositors' funds. Critics charged that Glass-Steagall failed to improve financial sector stability, and by 1935, Glass himself tried to repeal his own bill. Is Dodd-Frank a later-day Glass-Steagall?

The Good, the Bad, the Failed

A positive outcome of Glass-Steagall was the creation of the Federal Deposit Insurance Corporation (FDIC), insuring depositors' funds up to $2,500, and the establishment of the Federal Open Market Committee (FOMC), consisting of various members of the Federal Reserve Board and its regional Federal Reserve Banks.

However, as merchant consumer credit was made popular by major retailers and auto manufacturers, such lending cut deeply into banks' consumer-loan business, placing them at a distinct disadvantage until the Office of the Comptroller of the Currency (OCC) stepped in and issued regulations curtailing portions of Glass-Steagall. (In 1971, the Supreme Court overturned OCC rules that ran contrary to Glass-Steagall.)

Under the provision known as Regulation Q, Glass-Steagall, capped interest rates that banks could pay on savings accounts, but when inflation exceeded this cap rate, customers withdrew their funds in order to invest in bonds and other higher-yielding investments. At the same time, Savings and Loan Associations promoted NOW accounts, which were not subject to rate caps since S&Ls did not fall under Glass-Steagall. All of this created more difficulties for federally and state-chartered banks.

GLBA — Then Dodd-Frank

By 1999, Glass-Steagall was repealed altogether, and in its place the Gramm-Leach-Bliley Act was enacted, once again allowing banks to operate as investment brokerages and vice versa. Whether this reversion to pre-Glass-Steagall status led to the 2008 Great Recession is a matter of debate among finance historians, but like the reaction to the Great Depression, Congress took drastic steps in reaction to the Great Recession, and the rest — the Dodd-Frank Wall Street Reform Act — is modern financial history.

Both Sides of the Aisle

From an Arizona Republican senator to a Massachusetts Democratic senator, various politicians have called for a return to Glass-Steagall — albeit from different motivations. At the same time, the Republican chairman of the House Financial Services Committee has vowed a retreat from Dodd-Frank, but his campaign seems to be making little headway. And so, just as it took 67 years for Glass-Steagall to be laid to rest, Dodd-Frank will surely make its presence felt on the regulatory landscape for some time to come.

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