

# Glass-Steagall Act (P.L. 73-66, 48 STAT. 162).

## Summary:

While the Glass-Steagall Act technically refers to 2 separate federal laws - the **G-S Act of 1932** and the **G-S Act of 1933** - the term most commonly refers to the 1933 Act, also known as the Banking Act of 1933. It Effectively separated commercial banking from investment banking. The Act also amended the Federal Reserve Act to institute the system of federal deposit insurance on a temporary basis, and created the Federal Deposit Insurance Corporation ("FDIC"), owned by the Federal Reserve System. Historically, all banks which were members of the Federal Reserve System on or before July 1, 1934 were required to become stockholders of the FDIC by such date. No state bank was eligible for membership in the Federal Reserve System until it became a stockholder of the FDIC, and thereby became an insured institution, with required membership by national banks and voluntary membership by state banks.

The primary purpose of the 1933 Act was to make banking safer by prohibiting speculation in securities.

The **1932 Act** accomplished 3 objectives;

1. It allowed the FED to underwrite Federal Reserve notes with government securities. Prior to this currency needed to be backed by gold.
2. It lessened the collateral required for FED member banks engaging in discount transactions with the FED.
3. It allowed the federal government to loan out the countries gold reserves.

The **Banking Act of 1933 Act** (Glass-Steagall) also accomplished 3 objectives:

1. It prohibited commercial banks from owning securities brokerage firms.
2. It established a temporary deposit insurance program under the Federal Reserve.
3. It included Reg. Q which prohibited paying interest on commercial checking accounts and capped the interest rate on savings accounts.

Senator Carter Glass and Representative Henry Steagall wanted to establish a firewall between banking and securities firms. They were especially concerned with the tremendous financial power of J. P. Morgan and John D. Rockefeller. Under the 1933 Act, institutions were given a year to choose between commercial banking and securities investment. Banks were permitted to receive no more than 10% of their income from the securities markets. Because the limit was so small, most banks just abandoned the securities business and focused on banking.

On November 12, 1999, President Clinton signed into law the Gramm-Leach Bliley Act which repealed the Glass-Steagall Act (the 1933 Act).

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**Key Points:**

- It prohibited commercial banks from owning securities brokerage firms.
  - It established a temporary deposit insurance program under the Federal Reserve.
  - It included Reg. Q which prohibited paying interest on commercial checking accounts and capped the interest rate on savings accounts.
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**Why is it still relevant?**

The Glass-Steagall Act was the law of the land for over 70 years and it is important to recall the history of why it was enacted and why it was repealed.

Sources: "Glass-Steagall Act," [http://en.wikipedia.org/wiki/Glass-Steagall\\_Act](http://en.wikipedia.org/wiki/Glass-Steagall_Act); The Glass Steagall Act: 1930's Division of Financial Power, by Diana B. Henriques, New York Times, April 7, 1998.