**Bill Clinton: Glass-Steagall repeal had nothing to do with financial crisis**

*By*[*Lauren Carroll*](http://www.politifact.com/truth-o-meter/staff/lauren-carroll/)*on Wednesday, August 19th, 2015 at 5:22 p.m.*

Recently, activists have shown up at Hillary Clinton’s campaign events to urge her to bring back Glass-Steagall.

What is Glass-Steagall?

It’s the Depression-era bank regulation that kept different types of financial institutions separate; then-President Bill Clinton signed legislation reversing it in 1999.

Some Glass-Steagall supporters argue that its demise [led to the 2007 financial crisis](http://www.salon.com/2015/07/18/robert_reich_hillary_clinton_is_making_a_big_mistake_by_not_reinstating_the_glass_steagall_act_partner/), and some Democrats have put a good amount of effort into restoring it -- such as presidential candidates Martin O’Malley and Sen. Bernie Sanders, I-Vt.

But Hillary Clinton [won't pledge to reinstate](https://www.youtube.com/watch?v=eIlv4IjR3LU&feature=youtu.be) Glass-Steagall if she becomes president. And Bill Clinton says criticism over the law’s repeal is unfounded.

"Look at all the grief I got for signing the bill that ended Glass-Steagall," Bill Clinton said in an interview with Inc. magazine [for its September issue.](http://www.inc.com/magazine/201509/james-ledbetter/inc-interview-bill-clinton.html) "There's not a single, solitary example that it had anything to do with the financial crash."

Given the significant attention on Glass-Steagall among Democrats, we wondered if it’s true that it didn’t have "anything to do with the financial crash."

Our research shows the law’s demise was part of a broad deregulatory push that greatly contributed to the financial crisis. But Clinton has a point that a direct line from the 1999 repeal to the market crash in 2007-08 is hard to identify.

**Too big to fail**

Congress passed Glass-Steagall in 1933, in the wake of the 1929 stock market crash that led to the Great Depression. The law kept commercial banks (where customers deposit money and take out loans) separate from investment firms (which hold securities and make investments) -- more colloquially, the law separated Main Street from Wall Street.

Some experts and lawmakers want to keep these kinds of activities separate, because they’re worried that merging them could put the public’s money at risk. Here’s a simple hypothetical: A bank merges with an investment firm to create a massive company. The investment side makes a huge bet on an investment that fails big time, so the commercial bank side’s money -- money individuals have deposited for safe-keeping -- could be at risk. Because those deposits are federally insured, it might require a government bailout. (Think too-big-to-fail.) Supporters of the law say keeping these activities separate prevents this kind of domino effect.

Is this what caused the most recent financial crisis? There’s plenty of room for debate here, given that there [isn’t a single what-caused-the-crisis narrative](http://www.argentumlux.org/documents/JEL_6.pdf) that every economist accepts. It’s safe to say, though, that there is not a prominent group of economists who argue "but for the 1999 repeal of Glass-Steagall, the crisis would not have happened."

Lawrence White, an economist at New York University, doesn’t see Glass-Steagall playing any role in the financial crisis whatsoever. He pointed to the crisis’ biggest culprits: firms such as Lehman Brothers, Bear Stearns, Goldman Sachs and AIG, to name a few. He added that much of the crisis hinged on activity by these institutions that would have been possible with or without Glass-Steagall, such as mass investment in notoriously bad mortgage loans. (Clinton’s staff linked us to commentary by several other experts who share White’s view.)

We also contacted Barry Ritholtz, a wealth management expert and commentator, who [said](http://www.washingtonpost.com/repeal-of-glass-steagall-not-a-cause-but-a-multiplier/2012/08/02/gJQAuvvRXX_story.html) Glass-Steagall would have done nothing to stop the financial crisis, but not having it made the crisis worse. It encouraged banks to get bigger and to take on riskier investments, so the ripple effects of the crisis were bigger than they would have been otherwise, he said, adding that it [wasn’t just the headline-making banks](http://www.demos.org/publication/brief-history-glass-steagall-act)that struggled.

The extent over Glass-Steagall’s effect on the financial crisis is a topic on which reasonable people can disagree. More so in Clinton’s favor is the fact that Glass-Steagall was a shadow of its former self by the time 1999 rolled around.

**Deregulating like it’s 1999**

A few decades out from the Depression, starting in earnest in the 1970s, there was a push to roll back financial regulations that continued throughout the administrations of former presidents Ronald Reagan, George H. W. Bush, Bill Clinton and George W. Bush. As part of that movement, banks and lawmakers steadily chipped away at Glass-Steagall and took advantage of loopholes. Banks were engaging in the kinds of activity Glass-Steagall was intended to stop even though the law was still on the books.

By the time Clinton signed the Financial Services Modernization Act, commonly known as Gramm-Leach-Bliley, repealing the key components of Glass-Steagall in 1999, the regulation was nearly toothless. The law was simply catching up to what the market had already accomplished in the previous 10 to 15 years, said Kathleen Day, a lecturer at Johns Hopkins University and an expert in financial crises.

Take for example the poster child of the end of Glass-Steagall: The merger of Citicorp, a bank, and Travelers Group, a financial conglomerate, was announced in 1998 before Glass-Steagall was repealed. Even though this was the exact type of merger Glass-Steagall was intended to halt, the financial industry [did not see many obstacles](http://www.nytimes.com/1998/04/07/news/07iht-citi.t.html) for the creation of [Citigroup](http://baselinescenario.com/2013/07/14/remember-citigroup/).

"Citigroup and others wanted and got the repeal of Glass-Steagall in order to validate what they had already been allowed to do," said Simon Johnson, an economics professor at the Massachusetts Institute of Technology.

So the overall, decades-in-the-making decline of Glass-Steagall might have contributed to the financial crisis and its fallout, as it was part of the deregulatory push. But Clinton putting pen-to-paper on the repeal of Glass-Steagall in 1999 probably didn’t make any meaningful difference.

But Clinton’s hands aren’t clean of the financial crisis, because his administration played no small part in the longer term deregulatory trend. Clinton and his administration did not make an earnest attempt to maintain oversight over the big, hybrid banks created by the demise of Glass-Steagall, Day said. Additionally, the administration’s firm decision not to regulate other aspects of the financial market played a meaningful role in the crisis -- for example, the absence of regulations regarding over-the-counter derivatives, which were becoming increasingly prevalent, [despite internal warnings](http://www.washingtonpost.com/wp-dyn/content/article/2009/05/25/AR2009052502108.html).

Clinton’s claim "might be technically true, but it’s a sin of omission," Day said.

**Our ruling**

Clinton said, "There's not a single, solitary example that" signing the bill to end Glass-Steagall "had anything to do with the financial crash."

By focusing on the bill that officially repealed Glass-Steagall, Clinton's statement ignores the fact that the demise of Glass-Steagall took place over decades, amid a deregulatory push in which the Clinton administration played a role. By the time the law to repeal hit his desk, Glass-Steagall had been whittled down so much that it wasn’t very meaningful. It's a matter of debate how much of a role the overall demise of Glass-Steagall had in causing the financial crisis, but we couldn't find any economists who argue that the regulation was the sole linchpin keeping the financial system stable until its official repeal in 1999. Overall, we rate Clinton’s claim Mostly True.