Álfheidur Ingadóttir

Only Glass-Steagall Can Protect the People

Greetings to the Schiller Institute conference in Flörsheim, Germany, on Nov. 24-25, 2012 from the Deputy Speaker of Iceland's parliament; she is also the chairman of the Left Green Movement's parliamentary group.

I extend my best wishes for a successful Schiller Institute conference, and applaud the Schiller Institute's international campaign for Glass-Steagall bank separation. I urge parliamentarians from around the world to familiarize themselves with the bank separation motion we have introduced in the Icelandic parliament, and to seriously consider taking similar actions.

Common people all over the world are suffering deeply because of the high-risk speculation of the financial world, and now this same financial world is exerting immense pressure on politicians to save their monetary values, by imposing brutal austerity on their constituents. I believe that that is wrong, and that there are alternatives. One is re-imposing full Glass-Steagall bank separation, which can help protect the population's savings, and help to build productive and sound economy.

After the onset of the current financial collapse, Iceland became the first country in which the financial system crashed. It has also become the first country to start to recover. Now, a group of Icelandic parliamentarians, including myself, is working to make Iceland the first country to re-impose Glass-Steagall-style bank separation.

The Resolution

On Oct. 24, 2012, a motion to separate commercial and investment banking was reintroduced into the Icelandic parliament, by 17 MPs from all parties and independents, except the Independence Party, which also announced its support for the idea during the hour-long parliamentary debate held on the subject. The motion reads:

"Parliament resolves to entrust the Minister of Economic Affairs with the task of appointing a committee which is to revise the framework of banking services in Iceland in order to minimize—through the separation of commercial and investment banks—the risk of disruptions within the banking sector for the national economy. The committee is to examine the policymaking of neighboring countries in this regard, and to submit its proposals before Feb. 1, 2013."

Were our motion passed, as seems most likely, it should be possible for the proposals to be ready earlier than the Feb. 1 deadline.

During the parliamentary debate, these are some of the points I stressed:

- The aim of the motion is to separate commercial banking and risky investment banking in our country. Right now, investment activity is still low in Icelandic banks, believed to be about 5%, but it had reached a little over 30% before the crash.
- The co-sponsors think that it is appropriate to make this step now, in full, before investment banking takes back all power in the Icelandic banking system. Although the percentage is still small, it is growing.

Why should we separate these activities?, one may ask. Separation of these two different types of financial services will reduce the systemic risk of the financial sector for the economy. While some point out that separation does not solve all problems, others stress that this is an absolute prerequisite for economic stability and honest business. Through separation, we actually ensure that public savings would not be re-used as "gambling money" in risky lending by investment banking owners. Through separation, the state can ensure that normal saving deposits would not be misused again, so that the loss due to risky loans and investments would not revert to the taxpayers and the state Treasury.

Ordinary deposits, and lending to households and businesses, are classified as normal or commercial banking. These deposits are largely protected by government guarantees. Should these protected deposits be put together with a speculation- and risk-based investment strategy, a toxic mix would be created that could place, and has placed, an entire financial system in ruins, with serious consequences for households and the Treasury, the consequences of which we know so well in Iceland.

The co-sponsors have no doubt in their minds that this toxic mixture has been a traceable cause of our banking collapse.

In a report issued by the Minister of Economic Affairs and presented in April 2012, it says on pages 84-85 that there is no doubt that the very unfortunate relationship between deposits and investment had been part of the roots of the crisis of 2008.

It says, moreover, that financial stability would seem to be strengthened with a clearer distinction between these two aspects of banking, and that currently there are warning signs about the unfortunate connection between the two segments of the financial system here.

The authors would not preclude differentiation or separation of these segments as a future arrangement, especially if the trend is heading in the direction of the international marketplace.

In a statement accompanying our motion, we discuss how a perfect separation of these two factors was ensured among the banks in the United States, after the collapse of the stock exchange in New York [in 1929], and the crisis that followed. The so-called Glass-Steagall law was in effect from 1933 to 1999, and the global financial system followed in the footsteps of the U.S. in this regard; but in 1999, it was no longer considered necessary in the United States. The law was abolished, and it took a little less than ten years from the time that financial institutions were again permitted to combine commercial banking and investment banking, for a new banking bubble to burst in 2007-08.

It is clear that the recent banking crisis has called for a reassessment of these issues throughout the trans-Atlantic region. Especially since the Barclay's bank scandal in the U.K., there has been a public debate about reinstituting Glass-Steagall in the U.S., the U.K, Europe, and Iceland.

The idea of implementing bank separation again, in the spirit of the Glass-Steagall Act, has increasing support throughout the Western world.

But, there are also those, especially in the United States and Great Britain, who argue that a partial bank separation were better, including the British Vickers Commission's proposal for ring-fencing for separate departments within the same bank, or those who favor the weak Volcker Rule for the United States.

We, however, believe that only full bank separation would protect the population from the excesses of the speculators. Here in Iceland, we now have a unique opportunity to fully take this necessary step, and to lead the way for other countries to implement full bank separation. The co-sponsors think that passing this motion is necessary so that we may continue to build a sound economy of the nation, upon which the future of our nation depends.

Now is the time for political leaders to think about welfare of future generations, and take bold actions to protect the population's general welfare. We owe allegiance to our constituents, not to the powers of the financial world.