

# THE VAMPIRE SQUID STRIKES AGAIN

Banks are no longer just financing heavy industry. They are actually buying it up and inventing bigger, bolder and scarier scams than ever

BY MATT TAIBBI

**C**ALL IT THE LOOPHOLE THAT DESTROYED the world. It's 1999, the tail end of the Clinton years. While the rest of America obsesses over Monica Lewinsky, Columbine and Mark McGwire's biceps, Congress is feverishly crafting what could yet prove to be one of the most transformative laws in the history of our economy - a law that would make possible a broader concentration of financial and industrial power than we've seen in more than a century.

But the crazy thing is, nobody at the time quite knew it. Most observers on the Hill thought the Financial Services Modernization Act of 1999 - also known as the Gramm-Leach-Bliley Act - was just the latest and boldest in a long line of deregulatory handouts to Wall Street that had begun in the Reagan years. Wall Street had spent much of that era arguing that America's banks needed to become bigger and badder, in order to compete globally with the German- and Japanese-style financial giants, which were supposedly about to swallow up all the world's banking business. So through legislative sleight-of-hand, the red-faced Republican deregulation

Phil Gramm, bank lobbyists were pushing a new law designed to wipe out 60-plus years of bedrock financial regulation. The key was repealing - or "modifying," as bill proponents put it - the famed Glass-Steagall Act separating bankers and brokers, which had been passed in 1933 to prevent conflicts of interest within the finance sector that had led to the Great Depression. Now, commercial banks would be allowed to merge with investment banks and insurance companies, creating financial megafirms potentially far more powerful than had ever existed in America.

All of this was big enough news in itself. But it would take half a generation - till now, basically - to understand the most explosive part of the bill, which additionally legalized new forms of monopoly, allowing banks to merge with heavy industry. A tiny provision in the bill also permitted commercial banks to delve into any activity that is "complementary to a financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally."