Wall Street, London Held Off Glass-Steagall—for 2012

by Paul Gallagher

Dec. 30—A year-end poll reported by the London *Financial Times* Dec. 27 showed an extraordinary result: More than 60% of the Members of the British Parliament, across all parties, "would support a full-scale separation in British banking, modelled on the Glass-Steagall reforms implemented in the 1930s in the United States." The poll, taken by the Ipsos Mori public opinion firm, showed the pro-Glass-Steagall faction even stronger in the Conservative Party—with 66% of the Tories polled supporting it—than in the Labour Party, with 60% in favor. Ipsos Mori CEO Ben Page said, "MPs are completely divided over a whole range of issues—including regulation of business generally, but are united in their view that retail and investment banking should be separated."

The *Financial Times* wrote that the finding "piles pressure on the Chancellor [of the Exchequer, George Osborne] to go further than ministers' proposed 'ring-fence' around retail banking." The newspaper itself has been campaigning in favor of Glass-Steagall for six months.

Any poll of this type taken within the United States Congress would likewise show very substantial support for re-enacting the Glass-Steagall Act.

Yet no legislation to enact a Glass-Steagall banking reform was introduced into the British Parliament during 2012, because of strong opposition from the Cameron Tory government—usually expressed by Osborne—acting on behalf of London's giant malefactor banks—HSBC, Barclays, RBS, Lloyds, etc. These banks are all escaping with large fines for wholesale criminal activity over the past decade, but are still fighting off a healthy Glass-Steagall reorganization. A select parliamentary committee on banking reform in late December came within inches of demanding immediate Glass-Steagall reorganization, agreeing instead to "threaten" to impose it over the coming year.

And in the United States no bill to restore Glass-Steagall was introduced in the Senate of the 112th Congress, despite a strong House Glass-Steagall bill (H.R. 1489) with 85 bipartisan sponsors. The reason was the same: fierce opposition from a President Obama and Treasury Secretary Geithner acting for the giant "universal banks" on Wall Street and in the City of London. A *Politico* analysis article in August and a frank public comment by Sen. John McCain (R-Ariz.) in September both pinpointed the cause for lack of a Senate Glass-Steagall bill: Wall Street money and Presidential opposition. McCain said, "The votes are not there to pass Glass-Steagall in the Senate, and the reason is the power of the financial interests is too strong."

Obama chose to stress his opposition to Glass-Steagall publicly late in the election campaign, in particular, in an Oct. 24 interview with *Rolling Stone* magazine.

The Alternative: Hyperinflation

The big banks and the Cameron and Obama governments held off Glass-Steagall in 2012 by the use of campaign financing, threats delivered by their Treasury secretaries, and by begging legislators to "give a chance" to their faux Glass-Steagall alternatives: the Dodd-Frank Act in the United States and the Vickers Commission "ringfencing" policy in the U.K.

But the continuing spectacular misconduct of the giant "universal banks" laid bare the impotence of these alternatives, for which policymakers are taking years to define their "rules" and will take more years to implement them. JPMorgan Chase tried to control and manipulate the global credit derivatives markets, lost at least $7 billion doing it, and had to finger its own traders to the authorities for crimes.

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Will the dam break for Glass-Steagall in the U.S. this year? All indications are that it could, but much more pressure is needed on Congress. Shown: LaRouchePAC organizers in New York City, September 2012.

Bank of America and Morgan Stanley moved tens of trillions in derivatives exposures from their investment bank divisions to their FDIC-insured commercial banks, flouting the law. The huge Libor-rigging scandals remain largely unpunished—and continue. HSBC, Barclays, and Standard and Chartered all were fined for money-laundering crimes, with the Obama Justice Department refusing to prosecute HSBC criminally because of publicly stated fears of a resulting bank panic. German authorities, by contrast, are prosecuting Deutsche Bank for multiple crimes (see next article).

In the asset balance sheets of these huge banks, the proportion of actual loans to businesses, individuals, and households is no higher than 65%—the remainder being securities speculations—and goes down to as low as 11% (in the case of Deutsche Bank), completely undeserving of the legal designation of "bank." No capital rules or Volcker Rules can make these institutions play any role but as the powder kegs of an early new financial crash.

The real Obama-British alternative policy to Glass-Steagall bank reorganization is not Dodd-Frank or the Vickers Commission: It is the hyperinflation being carried out by the central banks, combined with disastrous economic austerity policies being imposed by the governments. These so-called "recovery policies" are mass money-printing and perpetual zero-interest-rate actions by the central banks, long-term mass unemployment and/or low-wage employment for the labor forces, and deep cuts—in some European countries, verging on genocidal austerity—in government budgets. They have plunged all of Europe into depression, have failed in the U.K., and are now being intensified in the United States.

The European Central Bank's asset book already equals 30% of the continent's GDP, so massively has it purchased toxic assets from the banks. The Federal Reserve's assets are over 20% of GDP and heading for 25% or more in 2013, as it prints *at least* $85 billion/month to buy mortgage securities, derivatives, and Treasury securities from the big banks.

A Bloomberg News analysis Dec. 30 noted, "Nearly quadrupling the balance sheet poses myriad dangers, among them that when interest rates do rise, the Fed will be left with a huge portfolio of securities of shrinking value. Unloading that portfolio to stem the losses could cause collapse. [And wild money-printing to try to prevent that collapse—ed.] In a recent Huffington Post column, hedge-fund manager Mitch Feierstein referred to the Fed's balance sheet as a 'monetary time-bomb.'"

The hyperinflationary, zero-interest policy is also having severe effects on the vast majority of banks in the United States, smaller commercial banks, and "community banks," driving them into securities speculation as a defense. Securities, rather than loans, have risen abruptly from about 5-10% of the assets of these banks to 20-25% now, with the speculative danger being greater, the smaller the assets class of the banks.

It is to protect commercial banking from such speculative and potentially hyperinflationary dangers that Glass-Steagall was enacted, and in which it succeeded for over 60 years.

Austerity No Answer

Meanwhile, Washington was locked in a fake New Year's Eve drama over *what form* Obama's radical austerity policy would take. Would there be cuts in all "discretionary" government spending immediately, which could cause, among other things, half a million or more rapid layoffs centered in the defense industries; or would a series of cuts to Medicare and Social Security be put through during the Winter, particularly cutting off senior citizens from access to medical care?

Obama has been driving steadily toward this austerity policy for two years. This truth was forcefully stated on the eve of the final "fiscal cliff" showdown by a liberal Democrat and former bank regulator active in the Occupy Wall Street and "99%" movements, Prof. William Black of the University of Missouri-St. Louis.

Black wrote a Dec. 28 column demonstrating in some detail that it was President Obama, not the Republicans, who, in mid-2011, demanded enactment of automatic spending cuts to be triggered at the end of 2012—the so-called "sequester" cuts—in order to force both parties to accept brutal austerity. Black wrote: "Austerity is the weapon that is about to inflict the self-inflicted wounds on our nation. The fiscal cliff is the ammunition about to be used to inflict austerity on the nation. One of the wounds is a recession, which would increase unemployment and the federal budget deficit. The other terrible wounds are cuts to social programs and the safety net that would add greatly to human misery.... Who insisted on creating the fiscal cliff, threatened Republicans in Fall 2011 when they wanted to eliminate or reduce it, and after the 'failure' of the November 2011 'super committee' to reach a deal to inflict even greater austerity on the nation, made a veto threat to block a Republican proposal to eliminate or delay the fiscal cliff? The answer is: Obama."

Three Aspects of Recovery

Given this reality, the Congressional supporters of Glass-Steagall re-enactment must introduce it into the new, 113th Congress, combined with the measures of real economic recovery which it only makes possible.

Restoration of Glass-Steagall will cut the legs out from under Fed chairman Ben Bernanke's hyperinflation policy; but enacted alone, will still leave the economy with its current deficit of immediate bank credit and the government with its historic record-low revenues due to the collapse since 2007.

As numerous bank economists were mobilized to come out against the growing call for Glass-Steagall in the latter half of 2012, they often claimed that the banking sector was "beginning to lend into the economy again," and should be left alone. This is simply false. With the Fed's immense liquidity and capital assistance to the banks, bank lending is plentiful for the largest corporations and speculative takeover funds but scarce-to-completely-unavailable for all others. Mass unemployment continues and has become effectively permanent unemployment for 4-5 million formerly full-time workers; real average wages continue to fall, month after month.

Glass-Steagall must be restored quickly against hyperinflation, but combined with a new source of large-scale lending—a system of national credit centrally targeted on crucial "Rooseveltian" developments of new economic infrastructure, which can transform the economy's productivity levels as the TVA or the Apollo space program did, for example. These are also the pathways to increasing government tax revenues without austerity.

The proposed North American Water and Power Alliance (NAWAPA) project is the largest and most fully engineered such infrastructure development in this nation's history—and also the one most urgently needed for a country wracked by widespread drought and falling food production.

Restoring Glass-Steagall will recreate a commercial banking system which can play a critical lending role for such efforts and the reindustrialization they require—but only if the national credit policy is launched, effectively, in the same action.