

Gallagher Op-Ed: Restore Glass-Steagall Act Now

The following op-ed by EIR economics editor Paul Gallagher was published Aug. 14, 2013 in the Daily Oklahoman.

In “JPMorgan Chase’s CEO sounds off on regulation, growth of institution” (Business section, Aug. 7), Jamie Dimon said we shouldn’t restore the federal Glass-Steagall Act because Australia and Canada have supposedly done all right without such a law. I disagree.

America isn’t a sparsely developed and grossly underpopulated British former colony; it became the world’s leading industrial and agricultural power on the basis of the credit and commercial banking system originated by George Washington’s treasury secretary, Alexander Hamilton. The 1933 Glass-Steagall Act was a return to Hamilton’s principles of national banking after Wall Street had taken the country far astray in the 1920s, leading to collapse.

Dimon and fellow bankers did that again after Glass-Steagall’s repeal in 1999, with the same catastrophic result. Re-enactment of the American System Glass-Steagall legislation should have been accomplished by now. It prevented government-insured commercial bank deposits from being used for speculation by investment firms.

Three bills to restore Glass-Steagall are pending in Congress. Glass-Steagall memorial resolutions are pending in 25 state legislatures; consideration of it has gone worldwide (including four Glass-Steagall bills in Italy’s parliament).

Today, nearly five years after the bailout, Dimon says his firm, which just agreed to a \$500 million fine for California electricity price-manipulation, doesn’t need Glass-Steagall. Dodd-Frank works for him, comparing that fine to what Enron and its chief executives ultimately faced.

Glass-Steagall didn’t allow banks to own and speculate with commodities, power plants, oil tankers and metals warehouses. It would have prevented JPMorgan Chase’s electricity ventures. Detroit, Philadelphia and other cities are being bankrupted by interest-rate swaps based on banker-rigged LIBOR rates. Banks could not have sold those swaps under Glass-Steagall. If they had not been sold by a bank floating its municipal bonds, what city would have bought swaps?

The United States has lost its essential industries, like auto, steel and power, which provide the material for the transportation, water and power systems, and the good-paying jobs the people need. Instead, banks speculate with 60 percent of the nation’s deposits.

Wall Street investment banks’ speculative losses on mortgage-backed securities were backstopped by the federal government. Glass-Steagall protects citizens from paying for their losses. Glass-Steagall isn’t simply sane banking legislation. It represents a return to the principles of Alexander Hamilton, who rebuilt an indebted nation after the War of Independence by creating credit for each wave of production, which in turn, would fund the next one.

At every point, humankind’s power over nature, reflected in improved potentials of productivity and intelligence in the workforce, is enhanced. Congress must restore Glass-Steagall now.

Gallagher is an economics editor of Executive Intelligence Review’s online weekly magazine, which has supported restoration of the Glass-Steagall Act.