

II. Political Economy

Glass-Steagall Is a Necessity —What You Need To Know

by Paul Gallagher

Paul Gallagher, one of EIR’s Economics Intelligence Directors, was interviewed by Diane Sare on her “Symposium” program Nov. 21, 2025, on the subject of an international mobilization for reinstatement of the Glass-Steagall Act [Franklin Roosevelt’s U.S. Banking Act of 1933] and similar bank-separation laws worldwide. Subheads have been added. The video is available [here](#).

Diane Sare: I’m going to bring Paul in right now. And what we wanted to do was go through a document that Paul has prepared for activists around the country, to understand what we mean by reinstating Glass-Steagall, why this has to happen. And Paul, you should say whatever you want to say about this mobilization, and I can pull up the graphic whenever you’re ready.

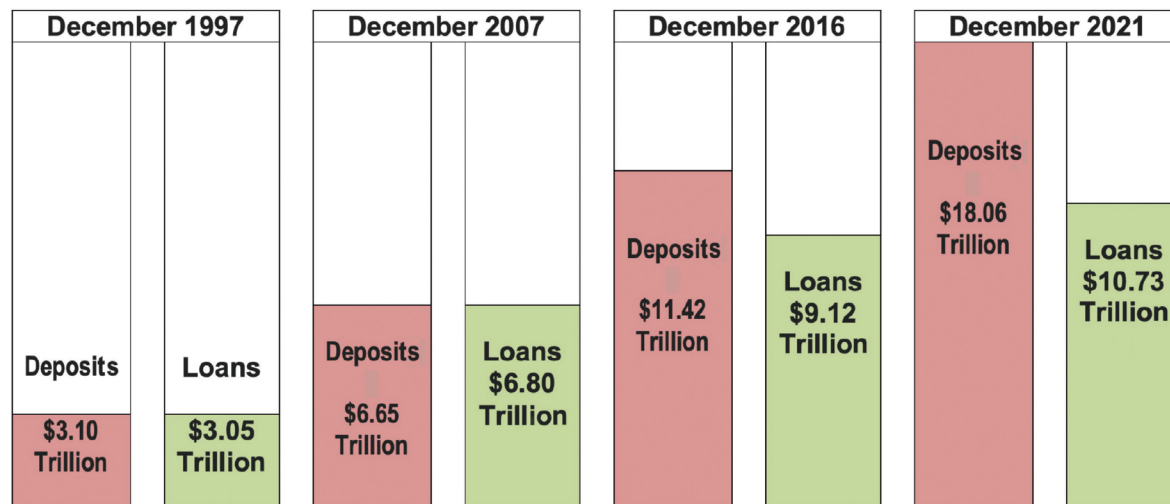
Paul Gallagher: This is a chart that I made that I’ve used before, but it’s invaluable in understanding that

the current state of the U.S. banking system—where a large portion of the deposits, even of ordinary banks, are used for various kinds of speculation, [e.g.,] mortgage backed securities, derivatives, real estate speculation and so on, rather than lending—is not the way things have been for a very long time at all.... This is a phenomenon of the abolition of Glass-Steagall, the [repeal of it, in 1999](#), followed by the crash in 2007 and 2008. Until that time, the ratio of loans to deposits in the U.S. banking system as a whole was essentially 100%. But after that time, in those two decade-and-a-half periods chosen there above, December 2007 to December 2021, the loan-to-deposit ratio of the banking system as a whole fell in two plunges, to about 60%. That is, 40% of the deposits were being used to back speculation and not being loaned to anybody for anything, even leaving aside whether any of these loans were productive or not; they simply weren’t being loaned.

Now, this is for the banking system as a whole.

Deposits and Loan Credit in the U.S. Banking System

U.S. Dollars



Source: Federal Reserve Forms H8

For the six biggest so-called Wall Street banks, this ratio has dropped from about 85% loans to deposits, down to 40%, roughly.

[It] means, that of the biggest banks—that is, the banks that always get bailed out by the Federal Reserve and the Federal Deposit Insurance Corporation—only 40% of their deposit base is used for lending, and 60% of it is used for speculation.

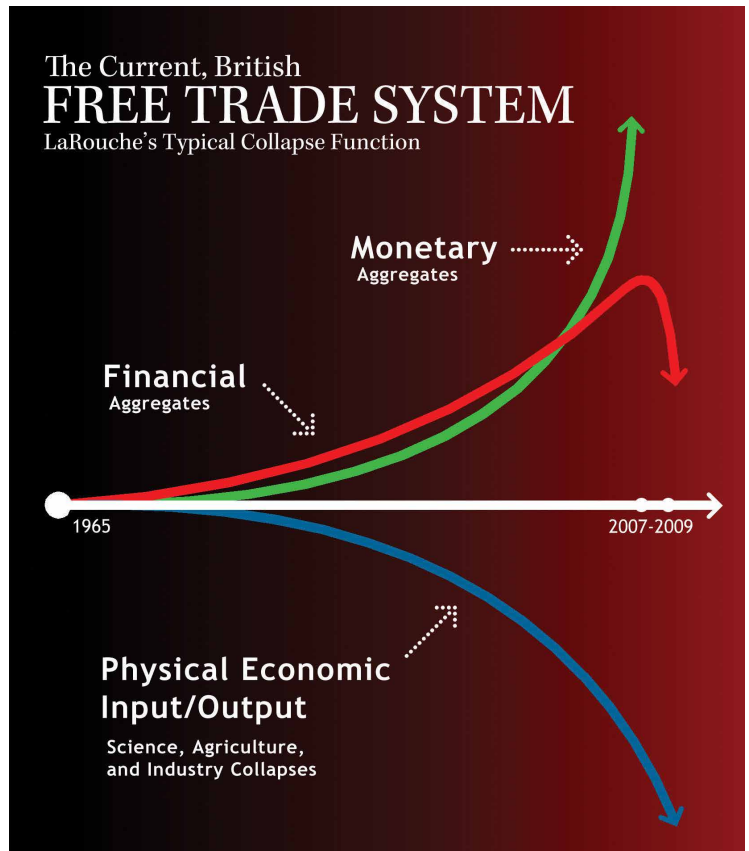
Now, what does *that* mean? Typically, each of these of the biggest six banks have several thousand divisions, several thousand divisions within the bank, many of which are completely unobserved, unregulated. Special purpose vehicles and similar securities vehicles to which the bank is allocating money for speculation, and money for investment in derivatives bets on those divisions on those trading desks and so forth. This is the kind of speculation which drives inflation in the economy, which drives over-indebtedness in the economy, unpayable indebtedness. That’s accounting for 60% of what the biggest banks do with their deposits. And that deposit base, in their case, is 50% bigger than it was before the crash in 2007-2008. So, the deposits have grown by 50%, and the portion of them used for speculation has grown to 60% in turn.

Now (if we could go down), beyond that, in the memo, I’ve just explained what’s below that chart. But secondly, in this memo, what else Glass-Steagall does.

What a Commercial Bank Does

First of all, it forbids exactly what you saw in the chart. Glass-Steagall prohibits lending for the purpose of supporting securities broker-dealing. It prohibits the ownership by banks, commercial banks, of securities broker-dealing, or broker dealers. So commercial banks, no matter how large, under a Glass-Steagall Act being enforced, will be limited to the business of depository services and lending, and otherwise just services incidental to that, such as currency exchange, or buying and selling, buying and redeeming, for customers, government securities; not for their own account, but for customers’ accounts. They’ll be prohibited from owning or lending to funds for the purpose of securities broker-dealing, and from dealing in the markets for financial derivatives contracts.

What I’ve called “holding companies” here, is that



LaRouche's Triple Curve, presented for the first time at a Rome conference in 1995, well depicts the dynamic of today's economic crisis. As Gallagher explains, money is being pumped into financial speculation at an ever-increasing rate, while loans for productive purposes dry up, leading to an increasingly "unaffordable economy" for the majority of Americans.

provision of Glass-Steagall, in which commercial bank holding companies, which own commercial banks, will be prohibited from also owning investment banks or from owning commodities dealers, which in turn hold and speculate in primary commodities—metals, for example—which are essential to the economy. And that includes energy, commodities, and electricity.

And then what I’ve called here, “rebuilding.”

Sare: Wait. Can you go back to holding companies? Could you give examples of what is a holding company?

Gallagher: The holding company of a large bank, a commercial bank or what they call a universal bank, combines commercial banking and private equity funding and investment banking and so forth, so-called “all under one roof.” The holding company is essentially the holder of the stock, the capital base of each of those

companies—each of those banks or non-banks, as the case may be, banks or funds—their shares, their capital shares are held by a common holding company, which is known to the public as, JP Morgan Chase Bank, for example, which owns not only many, many, many divisions but owns a number of investment banks, owns quite a number of different funds, probably in the order of several hundred hedge funds. Each of these banks owns hundreds of hedge funds for which it serves as the primary broker dealer. It will also tend to own money market mutual funds and other super-speculating entities. They'll all be under the holding company of a bank like JP Morgan Chase.

Sare: Is Goldman Sachs a holding company now? What is that?

Gallagher: It is now, because Goldman Sachs, which is in fact nothing but an investment bank, was allowed during the 2008 crash, when it was being bailed out, it was allowed to purchase some small commercial banks, which enabled it to be bailed out—because it was still on the books that the FDIC and Federal Reserve could not bail out a pure investment bank. So, they had to make Morgan Stanley and Goldman Sachs into universal banks by letting them buy, I would almost say, token commercial banks.

Sare: I remember, because one of my colleagues called them up after they were made into a so-called bank, and asked if she could open an account, and they said, only if you had \$1 million, or some crazy thing.

National Banking, Not 'Central Banking'

Gallagher: On to the last point, building the real economy. I'm explaining here, that this dismal ratio of loans to deposits is very much connected to the Federal Reserve Bank. Because the Federal Reserve is a central bank, which does not lend to anyone other than the biggest, dozen or 20 banks in the entire banking system, into which it pumps deposits by buying securities from those banks—and as I said, it has made them 50% larger since the time of the 2008 crash—and these banks, in turn, used the deposits to speculate rather than lend.

So, you have a central bank, which lends to no one except an elite group of very, very large megabanks. And those banks in turn use 60% of the deposits that result, for speculation.

So that means that if we reinstate the Glass-Steagall Act from 1933—which was enforced really until the

1980s, finally repealed in 1999—if we reinstate that, it dries out that mass of speculative debt bubbles which dominate those banks. And it sets the stage for a real economic recovery in the U.S. economy.

The economy needs credit. It needs credit for infrastructure, needs credit for industrialization. You can look at the frenzied efforts that the Trump Administration is making to get other countries to somehow invest and reindustrialize the United States under trade agreements. Most of these are promises which are very unlikely to be fulfilled. But what we actually need is not investments from abroad, but a national lending bank, a national bank resulting from the nationalization of the Federal Reserve and the change of its charter to make it into a lending bank for industry and infrastructure, and also allow it to participate internationally in projects, in developing countries, in particular. So that's a Hamiltonian bank, a Hamiltonian national bank. It's capable of lending trillions, in the United States case, productively, and [would be] created by nationalizing the Federal Reserve.

So, that brings it back, I think, to the fundamental problem which we see in the fact that our banks speculate more than they lend.

Sare: Okay. So why is this worth talking about at this time? I think we see already, this is really alarming that the six biggest banks have 60% of their money sloshing around in speculative ventures. But, maybe you could say something about what's happening with the real U.S. economy and the world economy.

An 'Unaffordable' Economy

Gallagher: Well, I think you know, in the United States, Americans have an economy which about half of them can't afford. In Europe, it's even worse than that—in Germany in particular, because it also was formerly a leading economy, which its citizens can no longer afford.

The United States [has] definitely moved far in that direction already. If you are an American household and your earnings are less than \$80,000 a year, approximately, it means that you can't afford shelter, neither housing nor rent. That is, you can't afford it on the budget that you should be using to sustain your household. You can afford it by exorbitant borrowing. Subprime borrowing. But otherwise, you can't afford it. You can't afford the price of motor vehicles, cars or trucks, or the loans—you can't afford the interest rates on the loans to buy those cars or to lease them.

You can't afford electricity increasingly, this is for most of the country, still on the order of a 5%-a-year increase in electricity rates. That's a lot, but it's not completely alarming. But for those states in which the data centers are being concentrated—and that's particularly Virginia, Texas, [Ohio], California and Pennsylvania—for those states, to take Virginia as the example, electricity prices increased by 13.5% last year. So, they are going at an entirely different pace.

And that is what the so-called AI revolution and the dominant tech sector in the stock market is based on, is electricity, which will not be able to meet the needs that the tech sector is positing for it. And as it tries to meet those needs, especially with nuclear power, which takes a while to build, it's driving up electricity costs so that 45% or so of American households can't afford that, either.

They can't afford health care, for sure, neither the health care insurance premium nor the out-of-pocket costs of health care. And they can't afford the cost of college education for the younger members of the household. That's only naming the source of the "sore thumbs" in terms of an economy which half of Americans can't afford, while a certain upper level of income [individuals] smile at these prices and buy everything up.

Sare: I also want to interject the gap between rich and poor. You know, there's a strike of the fledgling Starbucks union, which is small and is ... only 12,000 members, I think, out of I don't know how many hundreds of thousands of people they employ. So they said there was a giant gap, and they referenced Japan where—this may be wrong—the law stated that the CEO could not have an income greater than X times, 7 or 10 or something times, what the average employee's income is. So, in the case of Starbucks, the income of the CEO [Brian Niccol], whose name I've happily forgotten, is 6,666 times the income of the average Starbucks employee.

Gallagher: That's the same guy who was going to be a liberal candidate for President a few years ago, I think. Great, but his campaign didn't take off. For some reason.

Given that Americans, Germans, most Europeans can't afford their economies, then subprime lending of various kinds is taking center stage among those very large populations. And now the unpayable debt involved in subprime borrowing is beginning to bring

companies down, within what they call the private credit. (I don't know why they call it that. It simply means nonbanks, or financial entities that are not banks, funds of various kinds, which in turn are borrowing large amounts from banks—those private entities are lending in an unregulated manner.)

And some of those lending companies are now going under, and causing considerable volatility and problems in the financial system. Tricolor auto lending was the first of them. First Brands, which is a conglomerate of auto-parts companies built up in a short period of time—cheaper auto-parts companies—was a much bigger one, which also liquidated. There have been two or three more in that category. And that is consumer debt, the consumer debt category. And now, we're seeing the first of them in the logistics, in the supply chain of business. This is a company called 48Forty Solutions, which is a logistics company, which is particularly sensitive to trade and trade disruptions and increased costs of trade, as, for example, with tariffs. It provides pallets, the kinds of pallets on which everything from small pieces of furniture to entire freight containers are transported. And there's a lot of logistics to that. It's one of the largest of the pallet logistics companies, and it's now under very significant debt, financial strain. So, its own lenders are now all trying to help it out so that it doesn't liquidate and cost them a lot of money. But that's the first of the supply-chain businesses to go into that sheep dip as well.

Illiquidity in Treasuries

So now, on top of that—and here's where it gets really dicey—is the [U.S.] Treasury market, which is the largest debt market, the largest financial market in the world by a significant margin. Including the Treasury securities not available to the public, the ones that go into the trust funds for Social Security and Medicaid and so forth, or Medicare, that's a \$38 trillion plus, \$38.2 or \$38.3 trillion financial market, easily the largest in the world. And to give you an idea of what's happening in that market, the Federal Reserve is now maintaining a federal funds rate in the range of 3.75 to 4%. And there is tremendous anticipation and pressure on it to lower that in December, to 3.5 to 3.75%. Right now, it's still 3.75 to 4% federal funds rate. Well, what is the rate at which Treasury securities are being bought and sold in the overnight market now? What is the actual federal funds rate? As of this week it was 4.05%.

So, it was not, in fact, in the range that the Federal

Reserve established for it more than a month ago, when it cut the rate down from four-and-a-quarter down to 4%; it's above that range. That's an indication that rarely happens. It's an indication of a great deal of liquidity pressure against the Treasury market in particular, but against the debt markets in general. There isn't enough liquidity to keep circulating all of that debt, and in particular the debt in the Treasury market. The overnight repurchase rate went as high as 4.25%, a full quarter of a percent above where it was supposed to be, above the Federal funds rate, only at the end of October. That's three weeks ago.

Now, I wanted to quote a guy, who is with a securities company, SMBC Nikko Securities. His name is Joseph Abate, the head of rates strategy at that fairly large securities company. He said the following this week: "We suspect that markets may be more vulnerable to overnight funding rate pressure than they were in 2019." Now in 2019, September 16 and 17 of 2019, these rates for overnight borrowing in the banking system, and among all these funds, these rates went from 2%, in one day, to 10%.

And overnight there was a crisis which, in less than three weeks after that, by October 4 of 2019, had led to the launching of "quantitative easing five." The Federal Reserve had to step in with billions, then tens of billions, then, every night, hundreds of billions of dollars in liquidity in order to get the banks through that night and the next day, and enable them to repay their repo [repurchase] loans. So, when he says they're under more pressure now than they were in 2019, that's an extremely serious reading of the repurchase market, which is supported by Treasury bills.

And this has been in part caused by the fact that [President Donald] Trump's Administration inherited a huge and very, very rapidly growing federal debt, growing by \$2 trillion every year in net debt. The Trump Administration has been desperately pressuring the Federal Reserve Board of Governors and the FOMC [Federal Open Market Committee] to lower interest rates quickly. As part of that pressure, they had switched over to issuing new debt overwhelmingly in the form of Treasury bills. That is the shortest-term, 30-day, 60-day, 90-day Treasury Bills—issuing at one time, in one quarter, \$565 billion worth of Treasury Bills. And the proportion of the Treasury securities go up to ten-years, 30-years, 20-years, [as well as] five years, two years. These [Bills] are absolutely the shortest-duration, and they now account for 26% of the total Treasury issuance.

Sare: Now, who buys those?

Gallagher: Who buys them, primarily: again, speculators who are speculating in quick, quick moves among very short-term interest rates; and in particular, all of these hedge funds which are participating in the basis trade, as it's called, in which they're betting on the difference between the current rate, right now, of short-term Treasury securities they might buy, and the futures [rate on] short-term securities they might buy in 90 days or 180 days. And they use these Treasury Bills as security—as collateral for all the derivatives bets that they're making.

So, you have a Treasury market that's devolving. It's being deranged, into a highly volatile, highly speculative market which, it now appears, does not have enough liquidity to keep going smoothly. And now that it looks like the Federal Reserve may not lower interest rates in December, the pressure is becoming excruciating on the liquidity within the Treasury market, and that affects the liquidity within the broader lending markets, including all this debt-lending to people who can't afford to repay the loans. It should remind you of when housing got completely out of control, and out of the range of what Americans could afford, right in the first six or seven years of this century. And so, subprime lenders and securitizers of subprime loans took over, to try to make those American households think that they could afford those houses. And the result was a crash.

Something very much like that is happening right now. We don't know if we're in 2004 or 2005 or 2006—how close we are. But it's this unaffordability, this proliferation of debt which households and businesses cannot, in fact repay, ever; have no hope of repaying. That's what is leading to this extreme pressure of, not just volatility, but the lack of liquidity in the market, and in the biggest market in the world. It's showing itself in the most dangerous form.

Sare: I guess the 50-year mortgage plan is part of this. That's Trump's plan to lower the price of— He's not going to lower the price of housing; he's just going to stretch it out. So, the bank gets more money, and the person gets less house while they're alive.

Gallagher: The person eventually pays more for the mortgage but doesn't pay it off, right? Exactly the way things were in the 1920s when people had unpayable mortgages, that they could pay as they went along, for as long as ten years. But then they came to a balloon

payment at the end, which involved the majority of the principal—[they] absolutely couldn't make that payment. And so, they lose their—in most cases, their farmhouse and their farm.

This immediately then demands, I think, two things, really simultaneously. One, is that Glass-Steagall be reinstated. And again, in the major European economies, this situation of debt and affordability is worse. It's significantly worse than it is here. So, when we discuss here, we're discussing globally, in a sense, that the first thing to do is to reinstate Glass-Steagall. So that the banks have a decent period, say, six months, for all of these thousands of, [or] hundreds of little speculative divisions that they have—they have to sell them off. They have to get rid of them one way or another. And in the process, because they are not allowed under Glass-Steagall to hold or lend to speculative funds of that kind, most of those speculative entities will probably go bankrupt. And they will have been barred from being bailed out by Federal agencies, by taxpayer funds, in any way—by the FDIC, Federal Reserve, or any other agency. So, they will probably go bankrupt, and that will dry out speculative markets to a significant degree.

Trillions in New Production Credit

Now, if that's all we do, then we have a recession. We're going to have that anyway. But we have perhaps a deeper recession, if that's all we do. But it isn't all we do. We create a national bank.

The easiest way is by nationalizing the Federal Reserve and creating a national Hamiltonian lending bank in the New York Federal Reserve Bank, which has the capacity to put trillions of dollars, over a period of time, in credit, in new credit, into reindustrialization and infrastructure, both here, and where it's most needed and most profitable, in developing countries abroad. So, we do both of those things, and we replace the unpayable debt, that's dried out and lost, with eminently repayable credit—because the productivity involved in the projects, and in the reindustrialization, makes ... that credit more than payable.

So, that's what I think we need to do. We must do it. As I say, we don't know how long this economy is going to limp along. But as the problems in unpayable debt for the household and business in the country become worse, the likelihood of a crash also becomes more certain, for the absolute lack of support for all of that speculative debt.

EIR Offprint Special Report Available

The Great Leap Backward: LaRouche Exposes the Green New Deal

Executive Intelligence Review has released this Special Report to warn of the extreme danger to mankind represented by the Green New Deal, also called "The Great Reset" by the leaders of the Davos World Economic Forum.

Already being implemented, this plan is taking over the direction of national economies from sovereign governments, using the power of central banks and the too-big-to-fail private financial institutions, cutting off credit to fossil fuel power generation and to industrial and agricultural enterprises claimed to emit too much carbon. Meanwhile it is creating a new huge bubble in the "sustainable fuel" sector, hoping to prop up the increasingly bankrupt financial system.

Stopping it by returning to a Hamiltonian American System credit policy, requires an understanding which is the purpose of this report.



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