The Angelides Report Tells the Truth: LaRouche Was Right! Glass-Steagall Now!

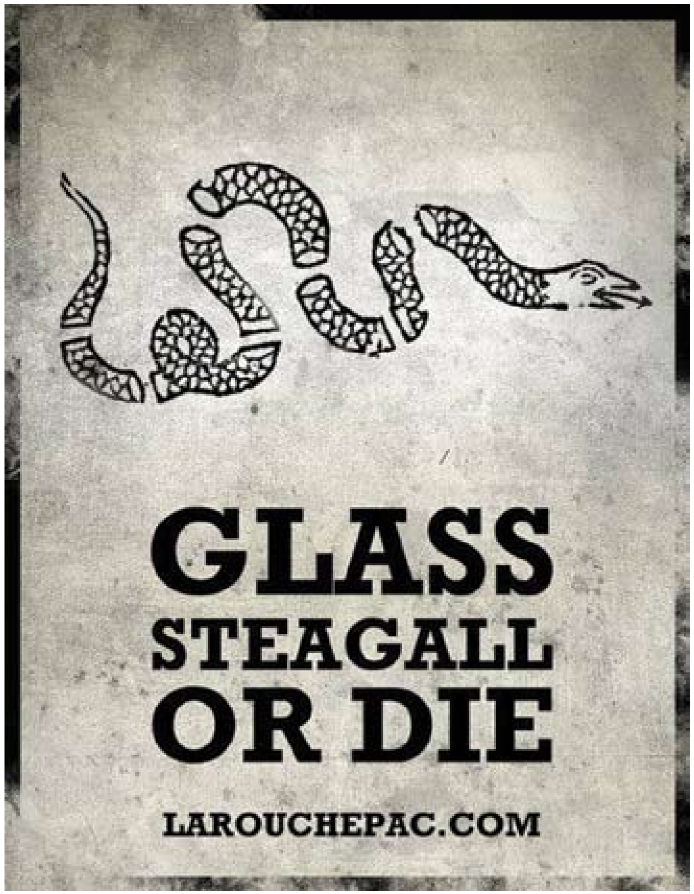
by Nancy Spannaus

Introduction

On Jan. 27, 2011, the Federal Financial Crisis Inquiry Commission (FCIC), which was established by Congress in 2009, to determine the causes of the financial blowout of 2007-08, made history. Its 500-odd-page report, known in short by the name of the Commission's chairman, Philip Angelides, *told the truth* about the last 40 years of policy decisions which have led to the bankruptcy of the U.S. financial system, and devastation of the U.S. economy.

To us in the LaRouche movement, the conclusions and chronology of this report were no surprise. Indeed, the chronicle and analysis paralleled the record of Lyndon LaRouche himself, who has uniquely both forecast the development of the current financial-economic breakdown crisis, and presented the policy alternatives which, at every point along the way, so far, have been rejected by the leading financial "experts" and authorities. The result, as any sane person knows, has been catastrophic.

Angelides' summary conclusion is succinctly damning:



"More than 30 years of deregulation and reliance on self-regulation by financial institutions, championed by former Federal Reserve chairman Alan Greenspan and others, supported by successive administrations and Congresses and actively pushed by the powerful financial industry at every turn, had stripped away key safeguards, which could have helped avoid catastrophe. This approach had opened up gaps in oversight of critical areas with trillions of dollars at risk, such as the shadow banking system and over-the-counter derivatives markets. In addition, the government permitted financial firms to pick their preferred regulators in what became a race to the weakest supervisor."

But it is worse than inadequate to leave the matter at that. For, as LaRouche and his movement have insisted without compromise, *nothing has been done to ameliorate this crisis!* The Angelides Commission puts it mildly:

"Our financial system is, in many respects, still unchanged from what existed on the eve of the crisis. Indeed, in the wake of the crisis, the US financial sector is now more concentrated than ever in the hands of a few large, systemically significant institutions.

"The greatest tragedy would be to accept the refrain that no one could have seen this coming and thus nothing could have been done. If we accept this notion it will happen again."

In his Feb. 2 presentation on the LPAC-TV Weekly Report (http://www.larouchepac.com/node/17386), LaRouche drew the necessary conclusions, for what must be done now. He said:

"The Angelides report, by going through the breaking points, not coincidentally, happened to coincide with *exactly my previously confirmed forecasts*, and therefore, I have a very distinct authority and importance for decisions-makers, in the present crisis. If people do not change their ways, and now, finally, respond to the fact that I had been correct, that decision not to respond, would mean *the end of the existence of the United States,* a development which many in England, and the British Empire as such, would like to see happen: The desire to destroy the United States since before it was created, since 1763, has continued to the present time. And these characters, of the international British Empire, the British Empire which was actually founded, in fact, as the empire of the British East India Company in February 1763, have now taken over the world."

The solution, he concluded, is the immediate forcing through of Glass-Steagall, an act which will require the removal from the Presidency of the principal obstacle to that measure, the mentally ill Barack Obama.

In the following pages, we give a summary of those breaking points that LaRouche refers to, putting side by side, LaRouche's warnings and actions, with the Angelides Commission's analysis, the line of the so-called financial experts (mostly in government), and what the consequences were of the toleration by the U.S. population of the decisions of those "experts." The conclusion should be obvious. The Angelides report underscores the reality, already knowable, that LaRouche was right. There is now no excuse not to act, by readopting Glass-Steagall now.

1960s

What LaRouche Said

In **1961**, LaRouche issues a long-range forecast, outlining the danger of an economic depression, following a series of U.S. and world monetary crises. These crises would be the result of policies embracing a post-industrial society, in which real production of wealth was abandoned in favor of "services," speculation, and looting of living standards. In a pamphlet titled, "The Third American Revolution," in **1969,** he warns of the danger that the bankers will try to stabilize their profits "by a general assault on the incomes of farmers and the real earnings of working people," and calls for investment in new productive jobs.

Angelides Commission Analysis

The end of the 1960s saw the rapid growth of the "commercial paper" and "repo markets," essentially, cheap means for creating and rolling over unsecured corporate debt. The Federal Reserve moves to support the commercial paper market, in response to banker pressure to loosen regulation established by President Franklin Roosevelt, including the Glass-Steagall Act of 1933.

The "Experts"

British and American economists, over this decade, spew out a wide array of calls for the "post-industrial society," including calls for population control, consumerism, and the takedown of large-scale infrastructure, such as the NASA space program.

What Happened

After the assassination of President Kennedy in 1963, his FDR-styled policies of rapid technological and infrastructural advance are dropped, including cutbacks in NASA, even before the Moon landing occurs in **1969**. The U.S. economy goes into net economic decline, per capita and per square kilometer, and the first of the dollar crises breaks out in 1968.

1970s

What LaRouche Said

1970: LaRouche outlines an emergency reconstruction program, entitled "How To Lick a New Depression in a Single Day."

1971: LaRouche warns that fascism, in the United States and globally, is the inevitable result if the U.S. government does not shift policy toward massive investment in physical wealth, especially infrastructure.

1976: LaRouche, in an election-eve TV address, warns that the Carter Administration program of Malthusian policies, such as deregulation and environmentalism, will lead to depression and war.

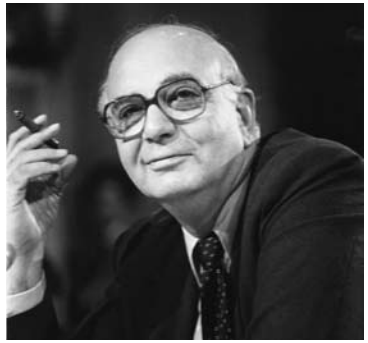
1979: LaRouche forecasts that the result of the huge hike in interest rates, implemented by Fed chairman Paul Volcker, will lead to a sharp drop in physical production in the short term, and the outbreak of recession by the early 1980s.

Angelides Commission Analysis

In the 1970s, the commercial paper market grew almost fourfold, building up money market mutual funds. "The second major shadow banking market that grew significantly was the market for repos, or repurchase agreements," which were quick turnaround loans involving Treasury bonds. "Both forms of borrowing could be considered 'hot money'—because lenders could quickly move in and out of these investments in search of the highest returns." The popularity of these investments "came at the expense of the banks and thrifts."

The "Experts"

The Nixon Administration insists that wage-control is key to stability. The Carter Administration promotes deregulation, starting with the airlines and trucking, as keys to "competitiveness" of industry. Citibank head Walter Wriston and Volcker agree in **1978**: the real problem is inflation (not debt and lack of production). In **1979**, allegedly to deal with the massive increase in inflation over the decade, Fed chairman Paul Volcker declares that a shock increase in interest rates is essential to restore the economy.



EIRNS/Stuart Lewis

Federal Reserve Chairman Paul Volcker, 1979-87.

What Happened

The Nixon Administration in **1971** takes the dollar off gold, and, in **1972**, adopts the floating-exchange-rate system. Bankruptcy crises break out in the Third World and U.S. cities, including New York City. Carter slashes infrastructure spending, starting with a huge water infrastructure bill. The U.S. economy hit by collapse and inflation (stagflation). Carter appoints Volcker as Fed chairman on July 25, and he immediately jacks up interest rates, which soon go over 20% (usury).

SCID/Pan Asia Conference

George Shultz, as Nixon's Treasury Secretary, 1972-74, oversaw the destruction of the Bretton Woods System.

1980s

What LaRouche Said

1980: LaRouche issues "Federal Reserve Reform Act," calling for a shift away from money-market operations, and into issuing credit for the productive economy. He simultaneously denounces the further deregulation of the banking system, including the end to usury limits, and the like.

1982: LaRouche puts forward policies to end the "new Depression," both national and international, and a plan to reorganize the unpayable debt, including "Operation Juárez," and great projects such what became known as the Strategic Defense Initiative (SDI).

1984: LaRouche forecasts the collapse of a large section of the U.S. banking system, especially savings and loan institutions, due to the deregulatory changes put in place, along with the high interest rates.

May 1987: LaRouche warns of the likelihood of an October stock market crash (his only stock market forecast), and, in **1988**, forecasts the continuing collapse of the economy, comparing the shape of the graph thereby produced to a "bouncing ball."

Angelides Commission Analysis

The Federal government acted in **1982** to relax the capital requirements for Fannie Mae, and bailed out the repo market. "The Fed loosened the terms on which it lent Treasuries to securities firms, leading to a ten-fold increase in securities lending." It further eroded the Glass-Steagall provisions, under pressure from banks that argued that their problems stemmed from that law. The changes in the law, especially Garn-St Germain, created "a bubble and massive overbuilding in residential and commercial real estate in certain regions." Fed chairman Greenspan "supported and encouraged this shift toward deregulated financial markets," and the Fed "also weakened or eliminated other firewalls between traditional banking subsidiaries and the new securities subsidiaries of bankholding companies."

The "Experts"

April 1981: Treasury Secretary Donald Regan says, "We must place greater reliance on market forces to determine the character and structure of our financial system. . . . At some point all institutions must have the same power to perform the same types of business." World Bank President Robert McNamara asserts that overpopulation is one of the "major threats" to U.S. national security. The U.S. establishment sets up the Bipartisan Budget Appeal to push deficit reduction as a cure-all. Retired Citibank chairman Walter Wriston, after the October stock market crash, says: "There is nothing fundamentally the matter with our economy." Milton Friedman, virtually the nation's official economist, agrees, saying there's nothing like a Great Depression in the wings.

Monetarist Milton Friedman

What Happened

1980: The Depository Institutions Deregulation and Monetary Control Act is passed, which repeals limits on interest rates (a Glass-Steagall element).

Investment banks begin to securitize mortgage loans, and the savings banks are eventually squeezed to the point of a major blowout by 1984-87, in which almost 33,000 commercial banks and thrifts fail, despite multi-billion-dollar bailouts

1982: The Garn-St Germain Act allows thrifts to make interest-only, balloon-payment, and adjustable-rate mortgages.

1982: The first of major international debt crises, the "debt bomb" which LaRouche had identified, due, in large part, to the interest-rate increase and IMF-pushed deindustrialization policies.

1983-84: The Office of the Controller of the Currency allows national banks to expand into derivatives.

1987: Greenspan is appointed Federal Reserve chairman at the height of the stock market bubble (August); the stock market crashes on Oct. 19, equivalent in scope to the 1929 Crash. Greenspan moves to further weaken regulations.

1988: LaRouche gives Berlin speech calling for Food for Peace collaboration between Eastern and Western Europe.

1990s

What LaRouche Said

1990: LaRouche outlines a program for global reconstruction, in the wake of the fall of the Berlin Wall, and then the collapse of the Soviet Union. First called the "Productive Triangle," the program is eventually elaborated to become the Eurasian Land-Bridge. It calls for a reorientation of finance to state credit for massive infrastructure projects, in collaboration among sovereign nations.

1990: LaRouche releases draft legislation to turn the Fed into a national bank.

1991: LaRouche polemicizes against those looking for a new dramatic market crisis, emphasizing that the collapse is actually underway, as "the great mudslide of 1991."

1993: LaRouche targets expansion of derivatives, proposes a 0.1% transaction tax on same, and calls for emergency measures to restore the physical economy. "The derivatives bubble, by the very nature of these transactions, is a financial bubble in the tradition of the more primitive, more rudimentary, and far less dangerous bubbles of the 18th Century, such as the John Law bubble in France, and the South Sea Island bubble in Eng-

Angelides Commission Analysis

The Angelides report notes that "despite new laws passed by Congress in 1989 and 1991 in response to the S&L crisis that toughened supervision of thrifts, the impulse toward deregulation continued. The deregulatory movement focused in part on continuing to dismantle regulations that limited depository institutions' activities in the capital markets."

It also notes that the Treasury adopted a policy of "too big to fail," which began with the bailout of Continental Illinois in 1988.

"In the end, the 1991 legislation sent financial institutions a mixed message: you are *not* too big to fail—until and unless you *are* too big to fail. So the possibility of bailouts for the biggest, most centrally placed institutions—in the commercial and shadow banking industries—remained an open question until the next crisis, 16 years later" (Chapter 2).

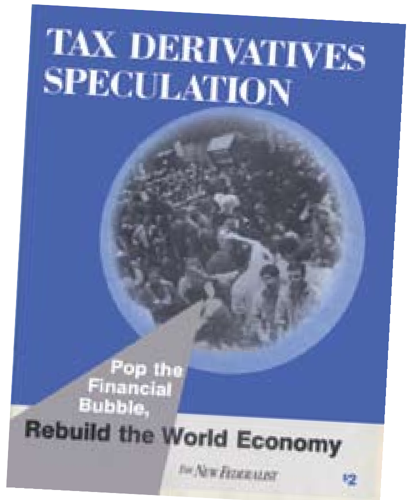
During the 1990s, securitization (largely in the housing market) and derivatives explodes, even as mathematical-model-makers begin to move into the markets.

But what best characterizes this decade, in the Angelides report's description, is the growth of derivatives, which it calls "by far the most signifi-

The "Experts"

House Financial Services

Federal Reserve Chairman Alan Greenspan, 1987-2006.



The experts failed to listen to LaRouche's warnings on derivatives speculation, put out in this 1993 pamphlet.

What Happened

1991: The Treasury Department issues a study calling for repeal of Glass-Steagall, to make U.S. banks "more competitive."

1993-94: The further rev-up of the machinery for the housing bubble through Fannie Mae and Freddie Mac.

What LaRouche Said

land in the same period of time. This is the John Law bubble gone mad. The vulnerability to the entire financial system, the chaos and destruction of actual physical processes of production, distribution, employment, and so forth, is incalculable in potential, and therefore this thing must be brought under control promptly."

On Sept. 8, *EIR*'s John Hoefle testifies before the House Banking Committee, warning of the impending collapse of the derivatives market in the context of the implementation of NAFTA (North American Free Trade Agreement), and calling for Congressional action.

1994: LaRouche issues his "Ninth Forecast," pointing out that the disintegration of the financial markets was inevitable, and that a full bankruptcy reorganization of the U.S. financial system is required.

1995: LaRouche issues his famous "Triple Curve" schematic diagram, highlighting growth of debt and derivatives at the expense of the physical economy.

1997: LaRouche and his wife, Helga Zepp-LaRouche, launch a drive

Angelides Commission Analysis

cant event in finance during the ... decade." While there was concern expressed over the growth of derivatives, particularly in the over-the-counter markets, and Congress held hearings, nothing was done.

"Emboldened by success and the tenor of the times, the largest banks and their regulators continued to oppose limits on banks' activities or growth." While "banks already had beachheads in securities firms and insurance companies," they now went on to eliminate Glass-Steagall altogether.

"The new regime encouraged growth and consolidation within and across banking, securities, and insurance.... The biggest bank holding companies became major players in investment banking. The strategies of the largest commercial banks and their holding companies came to more closely resemble the strategies of investment banks.... Both prospered from the late 1990s until the outbreak of the financial crisis in 2007." However, there was no fallback or "spare tire" in the system: "All the wheels of the system would be spinning on the same axle."

Interestingly, the role of the repeal of Glass-Steagall in bringing on the

The "Experts"

WEF/swiss-image.ch/Remy Steinegger

Larry Summers, from the Treasury Department, played a key role in promoting deregulation.

1994: Greenspan testifies against regulating derivatives: "There is nothing involved in federal regulation per se which makes it superior to market regulation. Today's markets and firms, especially those firms that deal in derivatives, are heavily regulated by private counterparties who for self-protection insist that dealers maintain adequate capital and liquidity."

1997: Greenspan tells the Association of Private Enterprise Education,

What Happened

1994-95: The outbreak of high-profile bankruptcies due to the derivatives crisis, including Procter & Gamble, Orange County, Calif., and the several-hundred-year-old Barings Bank.

1997: The so-called Asian crisis begins to sweep the globe.

1990s (continued)

What LaRouche Said

for a "New Bretton Woods" conference to establish a new fixed-exchange-rate system, in line with intention of FDR. At a New Bretton Woods meeting in Rome, Italy, April 2, 1998, LaRouche says, "The system is essentially bankrupt. The international financial system is bankrupt. There is only the prosperity of fools in the system. We have, in the world presently, dominated by so-called derivatives, about $140 trillion equivalent of short-term gambling debts. In the recent years, especially since 1982, and most emphatically since 1987, the growth of derivatives has taken over and eaten up the banking system itself."

1999: *EIR* denounces repeal of Glass-Steagall as a violation of Federal conspiracy statutes, and as a "disaster."

Angelides Commission Analysis

crisis was a matter of active dispute in the Angelides Commission, shown by the fact that both of the Republican (Wall Street) dissents specifically attacked the idea that the repeal played a role in creating the disaster.

CSPAN

FCIC Chairman Phil Angelides

The "Experts"

"Regulation by government unavoidably involves some elements of perverse incentives."

WEF/swiss-image.ch/Michael Würtenberg

Congressman Barney Frank played a key role in permitting deregulation, including the repeal of Glass-Steagall.

1999: Greenspan praises the "wealth effect" of housing speculation.

What Happened

1998: Russian GKO and U.S. LTCM crises nearly bring down the financial system. In response, Greenspan provides a "wall of money," and, with low interest rates, further stokes up the mortgage securities market.

1999: Repeal of the Glass-Steagall law.

2000s

What LaRouche Said

While campaigning for a New Bretton Woods, LaRouche, in **2000**, updates his Triple Curve function, noting that the money-printing of the Federal Reserve was creating a hyperinflationary process that would lead to disaster.

He blasts Greenspan's interest-rate policy, and the latter's moves for expanded deregulation. *EIR* characterizes the Commodity Futures Modernization Act of **2000**, which legalizes over-the-counter (OTC) derivatives in the trillions, as the "Derivatives Decriminalization Act."

Meanwhile, LaRouche continues to campaign for orderly bankruptcy reorganization, in contrast to the blowout that would otherwise occur. For example, in his **July 2, 2003** webcast he says:

"The collapse is more or less immediate. And what Alan Greenspan is doing, is actually criminal. That is, what Alan Greenspan is doing right now: He's got a hyperinflationary drop of the discount rate. This hyperinflation is a trap, to lure suckers into financial markets, for one last go. Soon, one of these bubbles, or more of these bubbles, will blow out. Credit derivatives bubbles; mortgage-based securities bubbles; similar kinds of bubbles will blow."

Angelides Commission Analysis

The report emphasizes the growth of the bubble which occurred after the repeal of Glass-Steagall in 1999, and the passage of the Commodity Futures Modernization Act of **2000**:

"We conclude over-the counter derivatives contributed significantly to this crisis. The enactment of legislation in 2000 to ban the regulation by both the federal and state governments of over-the-counter (OTC) derivatives was a key turning point in the march toward the financial crisis."

In Chapter 1, page 5, it describes the new bubble thus:

"Unlike so many other bubbles—tulip bulbs in Holland in the 1600s, South Sea stocks in the 1700s, Internet stocks in the late 1990s—this one involved not just another commodity but a building block of community and social life and a cornerstone of the economy: the family home. Homes are the foundation upon which many of our social, personal, governmental, and economic structures rest. Children usually go to schools linked to their home addresses; local governments decide how much money they can spend on roads, firehouses, and public safety based on how much property tax revenue they have; house

The "Experts"

Throughout this decade, both Greenspan, and his successor, Ben Bernanke, continue to argue that the bubble they created can be contained. Two examples (next page):

creative commons/lkradionews

"Helicopter" Ben Bernanke, Fed chairman 2006 to today.

What Happened

In the wake of the late 1990s blowout, Greenspan lowered interest rates 11 times, in order to maintain loose money for the banks. Nonetheless in **2001**, there were a record number of corporate debt defaults, including the bankruptcies of the corporate giants Enron and WorldCom.

The bubble continued to grow, especially through derivatives and mortgage-backed securities.

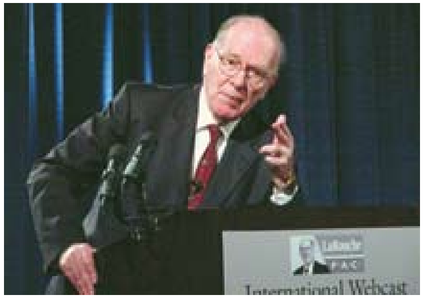
John F. Martin/General Motors

The Bush and Obama administrations oversaw the dismembering of the main machine-tool section of the U.S. economy, the auto sector.

2000s (continued)

What LaRouche Said

In **2005-06**, LaRouche campaigns for immediate economic revival in the United States, including saving the auto industry, through the Emergency Reconstruction Act.



EIRNS/Stuart Lewis

Lyndon LaRouche in 2007.

July 25, 2007, as the bubbles are beginning to pop, LaRouche gives his now-famous forecast: "The world monetary, financial system is actually now currently in the process of disintegrating. There's nothing mysterious about this: I've talked about it for some time, it's been in progress, it's not abating. What's listed as stock values and market values in the financial markets internationallly is bunk! There are purely fictitious beliefs. There's no truth to it: the fakery is enormous. There *is* no possibility of a non-collapse of the present financial system—none! It is finished, *now*! The present

Angelides Commission Analysis

prices are tied to consumer spending. Downturns in the housing industry can cause ripple effects almost everywhere."

The report also notes that, using mathematical models as "reliable predictors of risk," investment banks leverage themselves up to 40:1, with much of the debt short-term, and with a lot of the debt conceived by derivatives and off-balance-sheet entities. "The total value of mortgage-backed securities issued **between 2001 and 2007** reached $13.4 trillion."

"We conclude this financial crisis was avoidable. The crisis was the result of human action and inaction, not of Mother Nature or computer models gone haywire. The captains of finance and the public stewards of our financial system ignored warnings and failed to question, understand, and manage evolving risks within a system essential to the well-being of the American public. To paraphrase Shakespeare, the fault lies not in the stars, but in us."

And, after all the bailouts, "Our financial system is, in many respects, still unchanged from what existed on the eve of the crisis. Indeed, in the wake of the crisis, the US financial

The "Experts"

June 2005: Greenspan tells Congress that "the apparent froth in housing markets may have spilled over into mortgage markets," but he declares that the U.S. economy is on a "reasonably firm footing." "Although we certainly cannot rule out home price declines … these declines, were they to occur, likely would not have substantial macroeconomic implications."

March 2007: Fed chairman Bernanke testifies to Congress that "the problems in the subprime market were likely to be contained."

What Happened

At the end of **July 2007**, three days after LaRouche's July 25 webcast, the blowout of the banking system begins.

In the **Spring of 2008**, with the bankruptcy of Bear Stearns, the Bush Administration announces its first Federal bailout, on March 20 of that year.

On **July 24, 2008** with the housing securities market in increasing turmoil, Treasury Secretary Hank Paulson moves to bail out Fannie Mae and Freddie Mac, which bailout eventually turns into an *unlimited* checkbook for the mortgage securitizers.

Oct. 3, 2008: Congress passes the $787 billion bailout (TARP) demanded by the Bush Administration,

creative commons/BasicGov

Due to government inaction, foreclosures have devastated communities and thrown millions out of their homes.

2000s (continued)

What LaRouche Said

financial system cannot continue to exist *under any circumstances, under any Presidency, under any leadership, or any leadership of nations. Only a fundamental and sudden change* in the world monetary financial system will prevent a general, immediate chain-reaction type of collapse."

Immediately thereafter, LaRouche proposes his Homeowners and Bank Protection Act of 2007, which would apply the Glass-Steagall principle to the banks holding mortgages, and freeze all foreclosures. Despite support from more than 100 city councils, and at least six state legislative bodies, Congress refuses to act. When Congress chooses bailouts instead, starting in **March 2008**, LaRouche blasts these as lawless, and "tantamount to treason." "This is illegal and unconstitutional," he says.

In the aftermath of Congress's failure, LaRouche escalates his campaign for restoring the FDR Glass-Steagall Act, a campaign which British puppet Barack Obama, just like George W. Bush, has blocked. That remains the cutting edge of the battle today, to write off trillions of derivatives and bailout gambling debts—and start up *credit* for rebuilding the physical economy.

Angelides Commission Analysis

sector is now more concentrated than ever in the hands of a few large, systemically significant institutions.

The "Experts"

What Happened

with the blessing (and pressure) of Barack Obama, thus (according to Bernanke's own testimony to the Angelides Commission) preventing the bankruptcy of 12 out of the 13 top financial institutions in the country. Nonetheless, trillions of dollars of equity, in banks and households, are wiped out over the next two years.

Throughout **2009**, the Obama Administration expands the bailouts to the auto industry and insurance companies, and maintains an open-ended, virtually free credit-line for the major banks. TARP oversight manager Neil Barofsky has estimated that the government has taken on liabilities of $17-23 trillion.

Meanwhile, unemployment stands at a *real* 25% (and up), the poor are being cut off from minimal services, and the major financial institutions are off and running again, aware they have the full support of the Federal Reserve. A hyperinflationary blowout is imminent at any point.

EIRNS

LaRouchePAC organizers, shown here outside the Texas State Legislature, are spreading the Angelides Report, and demanding the Glass-Steagall now.

Paul Gallagher and Edward Spannaus contributed to this report.