

# Congressional Research Service Circulates Trash on Glass-Steagall

by Paul Gallagher

Aug. 8—The people who brought us toxic securities and derivatives, multi-trillion-dollar bailouts, and many millions of home foreclosures, are now trying to kill the only solution to this four-year economic depression, using arguments that only morons or corrupted public officials would accept.

With a growing number of rebellious Members of Congress debating the Glass-Steagall solution to this collapse of the United States, a report supposedly “debunking” Glass-Steagall has been circulated by the Congressional Research Service (CRS). The incompetent character of this report shows why Congress as a whole has been vulnerable to giving up its Constitutional powers to Wall Street. Its “arguments” against restoring Glass-Steagall are those bought and paid for by Wall Street, since Alan Greenspan and JP Morgan Bank first mobilized to free the beast of speculation from the wholesome regulations of Glass-Steagall 25 years ago.

Nearly four years ago, in February 2008, the CRS issued a report on the Homeowners and Bank Protection Act (HBPA) then circulating in the House, proposed by Lyndon LaRouche. That legislation combined restoring Glass-Steagall principles of bank regulation, with a national emergency moratorium on foreclosures.

The Congressional Research Service claimed that the HBPA was unconstitutional, helping to kill it. Months later the unregulated big banks exploded from their own speculations; since then, 8.5 million American households have had their homes foreclosed. Had the HBPA been enacted, the bank panic of 2007-08 would not have happened. Even the mortgage banks, whose foolish opposition to the HBPA was cited in the CRS report, would at least have rent-equivalent income today from many millions of what

are instead, delinquent and defaulted mortgage loans, and unsellable foreclosed homes.

In September of that year, as Lehman Brothers and AIG blew up, CRS issued another report, this time on Treasury Secretary Hank Paulson’s desperate and dangerous plan for the TARP bailout—to have the Treasury use \$700-800 billion in taxpayer funds to buy toxic, nearly worthless securities from the major banks and funds.

CRS endorsed the harebrained scheme, which the American people furiously opposed, and even Paulson quickly abandoned, after Congress gave him authorization for it. “The intervention in financial markets could restore stability by restoring confidence. Removing bad debt from bank balance sheets directly addresses several problems. Shortcomings in transparency become a less pressing concern for institutions that can participate, because counterparties would know that the institution has the opportunity to clean up its balance sheet. Similarly, the program may provide an orderly way to resolve derivatives contracts.” (“Proposal to Allow Treasury To Buy Mortgage-Related Assets To Address Financial Stability,” Congressional Research Service Report, Sept. 22, 2008).

This disastrous advice was provided by CRS “Financial Economics Analyst” Edward V. Murphy, a professor of the dismal science at West Texas State University, and a principal author of all three CRS reports: the “unconstitutional” attack on HBPA; the endorsement of Paulson’s nightmare bailout; and the current attempt to debunk the legislative drive to restore Glass-Steagall. Another CRS “Financial Economics Analyst,” Baird Webel, was Murphy’s co-author on the toxic securities bailout endorsement, and also on a November 2008 report purporting to explain the *causes* of the global fi-



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Sen. Carl Levin releases the Levin-Coburn report, “Wall Street and the Financial Crisis: Anatomy of a Financial Collapse,” April 13, 2011. The report identified the repeal of Glass-Steagall as the turning point that led to the crash and bank panic of 2007-08.

financial meltdown to Congress. According to them, the root cause was—increased defaults on mortgages; and they reported that it was unclear whether a recession was developing!

### Ignorance of the Constitution

The new CRS report attempts to scotch broad debate over Glass-Steagall in the House, where H.R. 1489, a measure introduced by Reps. Marcy Kaptur (D-Ohio) and Walter Jones (R-N.C.), has 33 bipartisan sponsors—but it has only heightened that debate. It was commissioned by Members of Congress and circulated at the end of June.

Where CRS recommended Paulson’s, Federal Reserve chairman Ben Bernanke’s, and Treasury Secretary Time Geithner’s bailouts, its report on Glass-Steagall does not recommend restoring President Franklin Roosevelt’s law—which stopped bank panics in the United States for 70 years. It is directly opposed to the findings on Glass-Steagall of Senators Carl Levin (D-Mich.) and Tom Coburn (R-Okla.)’s report; of the Congressional Financial Crisis Inquiry Commission (“Angelides Commission”); and of the head of the TARP oversight committee, former Sen. Ted Kaufman (D-Del.)—they all drew direct lines from

the 1987-99 erosion and then repeal of Glass-Steagall, to the crash and global bank panic of 2007-08.

The report attempts to argue that “Glass-Steagall would not have prevented financial instability” in the eight years of wild speculation, “securitization,” and growth of derivatives bets to \$1,000 trillion in the eight years after its repeal, leading to the 2007-08 global crash. Its arguments against Glass-Steagall are those of sophistry and trickery—completely lacking in force or passion about the crash and mass unemployment and loss of homes and wealth of tens of millions which resulted; and completely lack-

ing in knowledge of the fundamental principles of the U.S. Constitution.

The prime mover for that Constitution was our first Treasury Secretary Alexander Hamilton, who turned U.S. debt into credit and created U.S. national banking, defining “commercial banking” as an instrument of the Constitutional general welfare principle. Franklin Roosevelt’s Glass-Steagall Act returned depository commercial banking, under Section 12 of the U.S. Code on “National Banking,” to that proper role, and set aside the Wall Street speculation and securitization gambling games as “non-banking,” prohibited from any form of government lending, insurance, or support.

Under Glass-Steagall the “universal megabanks” of the Eurozone—which have been bailed out to the last bank, over and over, and are still collapsing—were not even allowed to establish branches in the United States until the 1990s, because they violated the basic Glass-Steagall principle of bank credit which had obtained in the United States since 1933. Thus restoring Glass-Steagall in the United States now, would end the Federal Reserve’s massive bailouts of European banks’ bad debts; would end President Obama’s pledges to be lender of last resort for the entire Euro-

pean Monetary Union; and would set an example for the European nations to end their policy of ever-larger, desperation bank bailouts.

### Bought-and-Paid-for Arguments

Some will call the CRS report's arguments against Glass-Steagall regulation, "Republican"; but they would be wrong. These are also the arguments of House Financial Services Committee ranking member Rep. Barney Frank (D-Mass.), who argued at length in 1999 House floor speeches in favor of repealing Glass-Steagall (by the Gramm-Leach-Bliley bill). Barney now argues—just like CRS—that the Glass-Steagall he helped to kill "wouldn't have made any difference" to the ensuing global speculative blowout. He also argued—just as CRS did in its 2008 report against the HBPA—that holding off millions of home foreclosures would have been an unconstitutional violation of (Bank of America's) property rights!

The arguments against the Glass-Steagall principle made by CRS's Professor Murphy are not "party" arguments; they are those of the City of London financial circles and Wall Street financial roundtables.

What are these arguments?

1) The meaningless: "The investment banks, mortgage brokerages, hedge funds, etc. could, under continued Glass-Steagall, have conducted all the same speculative activities they did anyway."

Quite true—but under Glass-Steagall, they would have blown up . . . only themselves. They could not have used the commercial banks' capital, loans, and barred investments to do it; they could not have set up funds to lure depositors' savings; as a result, they could never have escalated their debt-to-capital leverage to 40:1 in doing it; and *they couldn't have been bailed out from 2008 onwards for all of it*; nor could the commercial banks have bought the speculators' MBS (mortgage backed securities) and associated derivatives.

2) The fantastic: "Glass-Steagall might have prevented the collapse of bank credit, capital, and risk standards in the last decade, but the Glass-Steagall prohibitions on commercial banks' engaging or in-

vesting in high-hazard activities could have been enforced by regulators under other laws. So the absence of Glass-Steagall was immaterial."

But of course the regulators did not enforce them. These "other laws" aren't further identified by Professor Murphy. The U.S. Supreme Court found, in its 1971 "Camp" decision, that these high-risk speculations were prohibited specifically by Glass-Steagall, and that decision is invoked by Reps. Kaptur and Jones in their H.R. 1489 legislation.

3) The deceptive: "Commercial banks even under Glass-Steagall could offer, buy, and hold whole mortgages [unsecuritized mortgages, exactly the sort of banking activity which does *not* cause collapse], and could invest in MBS issued by Fannie Mae and Freddie Mac" [only because of one of the holes poked into the original

Glass-Steagall provisions, in the 1970s].

4) The bought-and-paid-for: "Glass Steagall prevented banks from engaging in risky activity, but it also made them less profitable, and thus reduced their stability."

This was Fed chairman Alan Greenspan's and JP Morgan's "financial innovation" argument in attacks on Glass-Steagall from the mid-1980s, and eventually for Gramm-Leach-Bliley, which repealed it.

5) The desperate: "Europe had fewer banking panics than U.S. in the 19th Century, and Canada had fewer bank failures than the U.S. in 1929-33, without having Glass-Steagall legislation."

A Congress which believes any of this, or is held back by it from acting on Glass-Steagall, is owned hand-and-foot by Wall Street and London.

The global financial panic which has now resumed with greater ferocity *because* of the bailouts Glass-Steagall would have prevented, demands that they break those shackles and act immediately. More than \$14 trillion in Wall Street, London, and European megabank gambling debts, foisted on American taxpayers during the past three years, would be thus charged back. With that gambling debt removed from the Federal government's back, the United States would regain its capacity to issue Federal credit for vitally needed infrastructure projects, scientific progress, and productive employment.

