Former French Premier Backs Glass-Steagall

Former French Prime Minister Michel Rocard (1988-91) called for an FDR-style Glass-Steagall system, in a full-page op-ed in the Oct. 4 issue of *Le Monde*.

Under the headline, "A Banking System That Needs Rethinking," Rocard writes, "Speculative funds continue to prosper and new ones are created, while little or nothing has been done to limit the volume on the markets of virtual derivatives products, that is, those detached from any link with the real economy. And the liquidity issued, under current conditions, is not directed toward productive investments or the financing of growth, but to investment on financial markets."


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Michel Rocard

The attempt to repay all the debts in Europe, Rocard warns, will blow out public investments and economic growth, which will, in turn, hit the taxes collected and the ability to pay the debt, with serious consequences for democracy in the EU.

In that case, "we are facing a financial tsunami," which changes the nature of the problem. At that point, "the issue is not so much to try and avoid an all-too-likely financial tragedy, as to try and limit its scope. There are many possible and desirable measures, and one the most obvious involves reintroducing, on an emergency basis, the separation between deposit banks, which must be forbidden from carrying out any risky activity, and banks involved in all aspects of high-risk finance, including investment, which must finance their operations from their own funds or from earmarked funds. In that way, we would cut off most of the liquidity available for speculative flows, and protect the physical economy. . . .

"The European banking world rejects this idea," continues Rocard. "Using funds from deposits in risky transactions generates huge profits. . . . But the risk is too great. What I'm referring to is a lightning rod, and we are in the midst of a storm.

"Naturally, this means that the enormous mass of bad debt, coming out of this separation, will be exclusively on the side of those banks taking the risks. A notable proportion of it will have to be cancelled. If the entire debt can't be paid, it is the price of risk, not growth, that has to be sacrificed. And if someone has to pay, which now seems to be unavoidable, it is fairer that it be those risk-takers, rather than taxpayers, or especially, the unemployed.

"Let's not forget history," Rocard advises. "This idea came from Franklin D. Roosevelt, who put in place the Glass-Steagall Act in 1933, by an act of Congress, against the advice of the banks at the time, of course. It was an order for separation of the banking institutions, depending on whether they faced risks, or managed deposits which must not be put at risk."

Rocard notes that a similar separation "was introduced in Europe after the end of the war. It prevented any severe financial crisis for us for nearly 60 years," before being repealed in France, under German pressure in the 1980s, and in the U.S. at the end of the 1990s. "Ever since mergers were allowed, and banks became multifunctional, we have been drawn into financial crises every four or five years. . . ."

He concludes with an urgent call for action from the EU Commission and the European Central Bank. And, he adds, since "preventing financial catastrophes and dramatic recessions is part and parcel of our security," we may well end up taking the matter to the UN Security Council.

Elsewhere in Europe, Danish economist Christen Sørensen, a former chairman of Denmark's Council of Economic Advisors, issued a statement Oct. 7, supporting enactment of a Glass-Steagall-style banking law. Sørensen takes note of the situation in the U.S., where "there are strong proponents for reinstating the principles of the Glass-Steagall law, so that the stockholders behind these activities, and not the taxpayers, should bear the losses caused by failed speculative financial transactions."