Glass-Steagall Option Raised At Jackson Hole Bankers' Meet

by Paul Gallagher

Sept. 2—Over the entirety of the two-day annual Jackson Hole, Wyo. bankers' retreat Aug. 31-Sept. 1, debate raged over the threatening prospect of both the U.S. Federal Reserve and the European Central Bank (ECB) resuming "open-ended qualitative easing"—massive money-printing—within the next few weeks. The fact that the fundamental economic failure of this central bank money-printing policy since 2008 was admitted there in a speech by its chief practitioner, Fed Chairman "Helicopter Ben" Bernanke, made the debate at Jackson Hole more intense.

In many respects, this debate is nothing new. It's been going on at one crisis inflection point after the other. What's new is that, for the first time at this internationally followed banking policy conference, there were several strong supporters of restoring President Franklin Roosevelt's Glass-Steagall Act present, including one, Bank of England (BoE) official Andy Haldane, who made a notable presentation at Jackson Hole.

With deep economic contraction spreading from European economies to the United States, food and energy inflation already taking off, central banks' renewed multi-trillion money-printing to buy bonds and prop up securities markets now threatens an irreversible hyperinflationary explosion.

Restoring Glass-Steagall and enforcing it in the United States, U.K., and then in continental Europe, ending the failed global "bailout policy" and restoring national credit and banking, is the diametrically opposed policy to the danger of hyperinflation. With a bipartisan Glass-Steagall bill in the House of Representatives, and a written but not-yet introduced Senate companion, a U.S. breakout for restoring Glass-Steagall could come at any time—*if* the intense opposition of the Obama White House and Geithner Treasury is defeated or collapses. And in the U.K., indications continue to surface of a fight among political and banking circles to get Glass-Steagall brought into the House of Commons.

Bernanke's Successful Failure

At Jackson Hole, on Aug. 31, Bernanke admitted the economic failure of the past four years' money-printing of $8.5 trillion (and short-term liquidity loans of another $15 trillion) by the central banks of the U.S., U.K., European Union, Switzerland, and Japan. Unemployment, in real terms, including the forced shrinkage of work forces, is above 15% across Europe, and 12% in the United States, and still growing in both. Governments do not invest in real economic infrastructure; major banks do not lend to the real economies.

Bernanke claimed that large-scale central bank money-printing is a success historically, theoretically, and in the recent financial crash—but a failure for the economy. He also appeared to be promising more money-printing from the Fed in the near future. European Central Bank (ECB) chief Mario Draghi has proclaimed over the last month, repeatedly for extra market effect, that the ECB will resume large-scale money-printing—bond purchases from banks—after its Sept. 6 meeting.

Bernanke reviewed all the many trillions of liquidity facilities for, and asset purchases from, the banks since August 2007, to prove: We have done the money-printing, on a grand scale. He reviewed at length, the theoretical economic literature on central bank money-printing, to prove: It *should* have worked. And he reviewed the financial effects, 2007-12, insisting that the great good of higher asset prices and lower long-term interest rates had been achieved across the board, including in the stock market. This was to prove: It was successful.

But, Bernanke then acknowledged, it has failed. The state of (Obama's) economy is "far from satisfactory," he said. "We have seen no net improvement in the unemployment rate since January. Unless the economy begins to grow more quickly than it has recently [and

U.S. Treasury

A U.S. breakout for Glass-Steagall could come at any time—if the intense opposition of the Obama White House, the Geithner Treasury, and Bernanke's Fed, is defeated.

actually, he noted, the very low growth is now slowing down further—ed.], the unemployment rate is likely to remain far above levels consistent with maximum employment for some time. This is a grave concern not only because of the enormous suffering and waste of human talent it entails, but also because persistently high levels of unemployment will wreak structural damage on our economy that could last for years." Also, "The unemployment rate remains [far] above what most FOMC [Federal Open Market Committee] participants see as its longer-run normal value, and other indicators—such as the labor force participation rate and the number of people working part time for economic reasons—confirm that labor force utilization remains at very low levels."

Bernanke added that the U.S. housing sector has remained in depression for five years, and that there is no government spending or employment against the collapse at the Federal, state, or local level. He placed blame on Europe, where the same policies have produced an even worse "debt spiral" plunge of economies.

But Bernanke concluded by promising more of the same "quantitative easing." "The costs of non-traditional policies, when considered carefully, appear manageable, implying that we should not rule out the further use of such policies if economic conditions warrant." He is likely to go for hyperinflation at the Fed's Sept. 12 meeting, with Draghi's ECB resuming the same failed policy.

The stuff of tragedy.

Against 'The Tower of Basel'

In contrast, the speech at Jackson Hole of the Bank of England's executive director for financial stability, Andy Haldane, directly reflected the serious fight in Britain to substitute the tough, simple, and effective anti-speculative Glass-Steagall Act for separation and regulation of banks, for the thousands of pages of nonsense, unenforceable Dodd-Frank regulations, Vickers Commission rules, and "Basel III" bank capital rules.

Since the *Financial Times* started editorializing for Glass-Steagall in the U.K. on July 3, many bankers and political leaders have urged that it is five minutes to midnight for the financial system, if this is not done. On Aug. 30, the *New Statesman* revealed that opposition Labour Party leader Ed Miliband wanted "to support a full Glass-Steagall-style separation of retail and investment banking," but had been blocked by his party's so-called "shadow Chancellor," Ed Balls; the magazine demanded Miliband overcome this obstacle. The *Financial Times* is demanding the same from Labour.

Also on Aug. 30, Britain's influential Investment Management Association announced that "certain of our members consider there should be full [bank] separation" by Glass-Steagall.

Haldanes was unambiguous about the need for Glass-Steagall. He compared regulators trying to enforce the coming 60,000-page "Tower of Basel," or the likely 30,000-page (including regulations) Dodd-Frank Act, to a dog having to know the laws of physics before running to catch a frisbee. Such systems are doomed to failure, and more bank crashes, Haldane said, and continued: "Contrast the legislative responses in the U.S. to the two largest financial crises of the past century, the Great Depression and the Great Recession. The single-most important legislative response to the Great Depression was the Glass-Steagall Act of 1933. Indeed, this may have been the single-most influential piece of financial legislation of the 20th Century. Yet it ran to a mere 37 pages."

Glass-Steagall, Haldane said, prohibits or restricts the *quantity* of risk commercial banks can take, rather than crazily trying to build the big banks' own speculative, frequently failing "risk models" into government regulations! "Simple, quantity-based restrictions are the equivalent of a regulatory commandment: 'Thou shalt not.' These are likely to be less fallible than: 'Thou shalt, provided the internal model is correct.' That is one reason why Glass-Steagall lasted for 60 years longer than Basel II," Haldane concluded.

'Big Banks' Arguments' Refuted

Phil Angelides, former chairman of the Congressionally appointed Financial Crisis Inquiry Commission, was quoted Aug. 31 on a Wharton School blog characterizing the mobilization for Glass-Steagall, for which Lyndon LaRouche's movement has been the catalyst. " 'It's no longer a small movement,' said Angelides. The list includes at least three former CEOs of top banks or brokerages, Republican and Democratic Congressmen who voted to break up Glass-Steagall, several heads or governors, past and present, of regional Federal Reserve Banks, a former chair and a current board member of the FDIC, a former chief economist for the International Monetary Fund, a Republican presidential candidate and the governor of the Bank of England."

In *USNews & World Report* for Aug. 27, another well-known Wall Street voice emphatically called for Glass-Steagall restoration, in the person of James Rickards, an investment manager, government consultant, and lawyer for 35 years, and author of the 2011 book, *Currency Wars*. "Repeal of Glass-Steagall Caused the Financial Crisis" was the headline of Rickards' op-ed. "If there is any hope of avoiding another meltdown, it's critical to understand why Glass-Steagall repeal helped to cause the crisis," he wrote.

Rickards took on the arguments of Tim Geithner and fellow Wall Street apologists against Glass-Steagall, precisely those by which they pressure members of Congress not to move the Glass-Steagall legislation, H.R. 1489.

"One bank supporter says you cannot blame banks for fraudulent loan originations because that was done by unscrupulous mortgage brokers. This is nonsense. The brokers would not have been able to fund the loans in the first place if the banks had not been buying their production. Another apologist says the fact that no big banks failed in the crisis proves they were not the cause of the problem. This is also ludicrous. The reason the big banks did not fail was because they were bailed out by the government. . . . Yet another big bank spokesman says that nonbanks such as Lehman and Bear Stearns were more to blame for the crisis. This ignores the fact that nonbanks get their funding from banks in the form of mortgages, repurchase agreements, and lines of credit. Without the big banks providing easy credit on bad collateral like structured products, the nonbanks would not have been able to leverage themselves."

Rickards concludes, "Without the banks providing financing to the mortgage brokers and Wall Street while underwriting their own issues of toxic securities, the entire pyramid scheme would never have got off the ground. It was Glass-Steagall that prevented the banks from using insured depositories to underwrite private securities and dump them on their own customers. . . . Now, when memories are fresh, is the time to reinstate Glass-Steagall."

Either this mobilization succeeds, or in the not-too-distant future, the renewed massive money-printing promised by Bernanke and Draghi will trigger a hyperinflationary blowout.