Editorial

Voices of Sanity Demand Glass-Steagall

On Jan. 16-17, two prominent voices within the American financial establishment delivered blunt warnings to Federal Reserve Board Chairman Ben Bernanke that his "quantitative easing" policy of continuing to bail out the too-big-to-fail banks with hot air liquidity was bringing the United States and the world financial system to the brink of catastrophe.

Richard Fisher, the President of the Dallas Federal Reserve Bank, speaking at the National Press Club in Washington, drew the historical parallel between America's War of Independence from British colonial rule, and the current battle to free the American people from the ruinous defense of the too-big-to-fail banks at the expense of the real economy. Fisher pronounced the Dodd-Frank bill—the 3,000-page law passed by Congress in 2010, to ostensibly "reform" the banking system following the crash of 2007-08—a total failure which actually consolidated the dominance of a dozen TBTF banks by guaranteeing their continued protection with taxpayers' money.

Fisher called for the breakup of the megabanks and the restricting of Federal Deposit Insurance Corporation (FDIC) protection to commercial banks only.

It was a declaration of war against Bernanke and President Obama's hyperinflationary madness, and sources within the Federal Reserve System say that there is now a majority on the policy-setting Federal Open Market Committee (FOMC) who will move to block any further efforts by Bernanke to turn on the printing presses at the Fed to pump unsupported liquidity into the U.S. and European super-banks.

Thomas Hoenig, the recently retired dean of the regional Federal Reserve bank presidents, and now, the vice chairman of the FDIC, on Jan. 17, delivered an even more explicit warning to Bernanke and company by calling explicitly for the reinstatement of Glass-Steagall, FDR's 1933 act that broke up the Wall Street banks and established an absolute separation between commercial and investment banks.

Hoenig penned a signed article for *The American Banker*, a widely read trade paper of the financial services industry, openly demanding Glass Steagall. "To realistically address the problem of too-big-to-fail," he wrote, "these activities must again be separated. Commercial banking companies should be confined to operating the payments system and engaging in lending and traditional activities that follow from this basic role.... At the same time, placing broker-dealer activities outside of the safety net will reduce the direct risk to the taxpayer and lower the multibillion-dollar subsidy that economists now estimate these activities currently enjoy."

There is little doubt that the efforts of Fisher and Hoenig were, to some degree, coordinated, as the two men have a long history of collaboration, beginning when both served on the FOMC.

Congress—particularly Republican members—should take careful note of the warnings delivered on their doorsteps by the gentlemen from Dallas and Kansas City. Now is the moment to pass Glass-Steagall on an emergency basis, before the United States falls over the fiscal cliff that is a guaranteed consequence of Bernanke and Obama's hyperinflationary madness.

On the first day of the 113th Congress, Reps. Marcy Kaptur (D-Ohio) and Walter Jones (R-N.C.) reintroduced their bill to reinstate Glass-Steagall, as H.R. 129. The Senate has been stalling long enough in bringing to the floor an identical bill.