Russian Experts: Economy Can't Recover Without Glass-Steagall

by Rachel Douglas

June 3—The discussion in Russia of the need for Glass-Steagall banking separation has picked up steam, following a conference President Vladimir Putin held May 23 in Voronezh with 90 leading businessmen from around the country. As the business daily *Vzglyad* put it, Putin "called on the Central Bank to think about how to saturate the banks with cheap credits, to enable the latter to extend credit to the economy." It is crucial, Putin added, that the result be "the actual expansion of financing, rather than merely increased revenues and superprofits for the banks."

Coverage in Russia's leading economic weekly, *Expert* magazine, featured the views of a Moscow analyst who pointed out that Putin's credit-to-industry goals cannot be met, without the implementation of an equivalent of Glass-Steagall banking separation to prevent resources from being siphoned into speculative operations. Next, on May 30, Prof. Valentin Katasonov of the Moscow State Institute for International Relations (MGIMO), the prestigious Foreign Ministry university, issued an overview of the history and current international fights around Glass-Steagall, arguing that without it, "all discussions of financial stability will be empty chatter."

Also on May 30, the weekly newspaper *Zavtra* published a full page of coverage of the Schiller Institute's April 13-14 conference in Germany, highlighting the conference resolution on Glass-Steagall (see next article). As we reported last week ("Russians Welcome Glass-Steagall Fight," *EIR*, May 31), "Glass-Steagall" has become a well-known concept in Russia in recent times, thanks to the LaRouche movement's campaign for this crucial first step in replacing the existing crisis-ridden, murderous, global financial system. Lyndon LaRouche's speech at the Frankfurt conference, emphasizing Glass-Steagall as "the fundamental law of the United States," has been viewed online by thousands of Russians.

The Voronezh consultation was the latest of several held by Putin to address the severe contraction of economic growth in Russia, which stagnated to an annual rate of 1.1% in the first quarter of 2013. (A slight improvement during April is attributable largely to increased energy generation during unseasonably cold weather.) At a late April economics colloquium in Sochi, Putin staged an open debate between Minister of Economics Andrei Belousov, who said the economy was being starved by high interest rates and other tight money practices, and outgoing Central Bank head Sergei Ignatyev, upholding dogma about "fighting inflation."

At several of the meetings, Putin himself expressed concern that Russia will experience even more of a downturn because of the crisis in Europe, which accounts for 50% of Russian foreign trade.

The Kremlin's search for improvements in economic policy is complicated by the continuing presence of former Finance Minister Alexei Kudrin amid the upper echelons of power. Putin had invited Kudrin, who was fired in the Fall of 2011 after making public derogatory remarks about then-President Dmitri Medvedev, as an in-studio guest to discuss the economy during Putin's April 25 national call-in broadcast. The President praised Kudrin as a brilliant finance minister, recognized as such by leading European financial publications, and revealed that he had offered to return Kudrin to an official post, which offer he said the latter had refused.

In an interview with *Banki* magazine on May 6, Russian Academician Sergei Glazyev strongly criticized Kudrin as a monetarist, whose policies were detrimental to Russia's economic development. Asked by *Banki* if Kudrin were his chief adversary, Glazyev said, "He is not my adversary, he is the adversary of our economic development." Glazyev is also an advisor to the Russian President. Concerning Kudrin's latest warnings that any increase of credit availability within the Russian economy risked triggering inflation, Glazyev said, "This is exemplary of the linear, mechanistic thinking of a person who has no idea how today's economy is constructed. Monetarists like him have the

Prof. Valentin Katasonov's article on the return of Glass-Steagall is posted here on the website of Svobodnaya Pressa, with a photo of President Franklin D. Roosevelt signing the bill in 1933.

notion that the economy is an array of disembodied economic agents, each seeking to maximize profit.... The scholasticism of our monetarists, including Alexei, strongly reminds me of the political economy of socialism. Both are divorced from reality. Each one serves as an apology for the policies of certain people.... The theory of market equilibrium, and monetarism as its most radical version, justifying non-interference by the state in economic processes, is an apology for oligarchical capital. To understand the views of an economist, you have to see whose interests they reflect. The views of our monetarists reflect the interests of oligarchical capital."

'The Return of Glass-Steagall'

Expert on May 24 reported the Voronezh meeting under the headline, "Putin Tells Central Bank To Give the Banks Cheap Money and Force Them To Lend to the Real Economy." The magazine interviewed Yelena Chernoletskaya, chief analyst at the Moscow Markets Center, who said that the only way to accomplish that was by Glass-Steagall measures.

"First and foremost," warned Chernoletskaya, "if the banks receive cheap liquidity for the express purpose of lending to the real sector, they must be deprived of any opportunity to divert that money back into the financial market." She noted that there have been various attempts to impose such restrictions in other countries, focussing on the "tougher, older [than current exercises like Dodd-Frank] measure, which is not currently in effect, but may be reinstated—the Glass-Steagall law." She explained, "The essence of the idea is simple: reduce risk in the financial system, provide consumer protection, and closely monitor the system's core financial institutions. One of the measures is the separation of investment bank services, private capital, and hedge funds from direct lending. The Glass-Steagall law provides for an outright separation between investment and direct banking operations."

Added Chernoletskaya, "Perhaps this kind of mechanism could help boost bank lending to the Russian economy.... There is not yet any indication, however, that the Russian Central Bank is prepared to adopt such measures."

Katasonov's article, titled "The Return of Glass-Steagall?", appeared on the website of the Strategic Culture Foundation (www.fondsk.ru) May 30. Using extensive quotations from LaRouche, Katasonov led with the news of Sen. Tom Harkin's introduction of Glass-Steagall reinstatement bill, S.B. 985, on May 16, the 80th anniversary of the introduction of the original act.

The MGIMO professor situated the original Glass-Steagall within President Franklin Roosevelt's overall anti-Depression economic program, noting that the Wall Street banks had inflated the speculative bubble of the "Roaring Twenties," which had to be stopped in the national interest. He then recounted the persistent drive to weaken and ultimately abolish Glass-Steagall, from 1956 up through its success in 1999. The roles of Paul Volcker, Alan Greenspan, the Fed as an institution, and JP Morgan were noted.

Examining the results of the abolition of Glass-Steagall, Katasonov extensively cited the 2011 Angelides (Financial Crisis Inquiry Commission) report, including its conclusions that "the main reason for the crisis was the attempt over the past three decades to get rid of the measures for the defense of the citizenry, instituted by Franklin Roosevelt in the mid-20th century, including the Glass-Steagall law." Instead of Glass-Steagall, Katasonov observed, the United States went for bailouts.

Katasonov cited "the well-known American nonconformist Lyndon LaRouche," who from the moment of the 2008 bailout of Bear Stearns said that these measures were a violation of the body of law adopted under FDR. He quoted at length LaRouche's September 2008 warnings, when then-Treasury Secretary Henry Paulson was pushing through the TARP bailout, that "there had never before been a case in which a government bailed out the worthless paper of foreign investors," and that "Paulson was making American taxpayers rescue his British and European friends, something criminal and unconstitutional." LaRouche warned at that time, Katasonov writes, that this policy would lead to "genocide."

Reporting on the battle to resurrect Glass-Steagall, Katasonov cited statements by former Kansas City Fed chief Thomas Hoenig, who is now a director of the FDIC, and others. Noting the "pro-Glass-Steagall" remarks of Volcker and other Obama-connected figures, the Russian analyst observed that "there's quite a lot of rhetoric, and even a dose of hypocrisy," quoting LaRouche on the "uselessness" of the Dodd-Frank Act. Nonetheless, he wrote, "Even granting the accuracy of such caveats, it must be recognized that a favorable atmosphere is being created in the USA for those who genuinely want to reinstate Glass-Steagall."

Katasonov reviewed the history of the fight in the U.S. Senate around the Cantwell-McCain legislation in 2010, and the introduction of the Kaptur-Jones H.R. 1489/H.R. 129—with its 62 supporters in the House of Representatives—followed by Senator Harkin's measure. He quoted LaRouche's welcoming of Harkin's move as "a very important step," and noted the spread of pro-Glass-Steagall resolutions in U.S. state legislatures.

In conclusion, Katasonov wrote: "At the G7, G8, and G20 summits, and other world forums where financial stability and reforming the world financial system are constantly discussed, the issue of separating deposit/lending from investment banking is approached very gingerly. Specialists understand, however, that without solving this fundamental problem, all discussions of financial stability will be empty chatter."