AN APPEAL TO CONGRESS

Glass-Steagall Is Urgent To Save Detroit, the Nation

Aug. 31—In a letter released on Aug. 28, President of the Detroit Board of Education LaMar Lemmons III called on Congress to immediately reinstate Glass-Steagall. The letter reads as follows:

"As President of the Detroit Board of Education, Member of the Detroit Library Commission and former State Legislator, I am deeply concerned about the bankruptcy of the City of Detroit and stand in opposition to it. I would rather see Wall Street bankrupted than have pensions cut or eliminated for firefighters, teachers, policemen, municipal employees, and retirees.

LaMar Lemmons

"That is why I am calling upon members of the United States Congress to pass H.R. 129, the bill to reinstate the Glass-Steagall Act in the House, and S. 985/S. 1282 in the Senate. This was law for 66 years until its repeal in 1999. H.R. 129 was introduced in January 2013 and currently has 74 bipartisan co-sponsors.

"Since the repeal of Glass-Steagall, and related measures that removed regulation and restraint on financial speculation, the financial system has been turned into a casino. It collapsed in 2007-2008, and is on the verge of collapse again today, with even more devastating results. The top five Wall Street banks are now holding over $300 trillion in derivatives and other bad securities on their books, which are 'the elephant in the room.' Over the last several years, the Federal Reserve has bailed out these banks by extending over $3 trillion in purchases of Treasuries and Mortgage-Backed Securities from them. This was supposed to stimulate lending into Main Street, yet during the same time, the amount of lending has *gone down* by $1 trillion. In the 1990s, 95% of bank deposits were lent out; today, 72%.

"There is now a tremendous debate over Glass-Steagall. Since the Senate bills were filed, many top economists and officials have come out in support of Glass-Steagall, including Thomas Hoenig, Vice-Chair of the FDIC, Simon Johnson of MIT, Prof. William Black, who helped administer the Resolution Trust Corporation, and many more."

The Dangers for Detroit, and Beyond

Lemmons then zeroed in on the dangers faced by the City of Detroit, due to the policy change that was implemented with repeal of Glass-Steagall.

"As well, with the bankruptcy filing in Detroit, this battle has taken on a sense of urgency. The contested filing is demanding substantial losses be incurred by bondholders and pensioners, while banks who sold the city interest rate derivatives on over $1 billion of bonds, will be paid 80 cents/dollar. Pension plan recipients are offered 10 cents/dollar.

"Every city, state, and trade union is now facing the same situation. Philadelphia cannot pay its teachers. Chicago just laid off nearly 4,000 school employees, and it is still lurching toward bankruptcy. Counties throughout Michigan cannot borrow to run their communities due to the shock effect of the Detroit bankruptcy.

"This is the tip of the iceberg. Only the immediate restoration of Glass-Steagall, which will bankrupt the derivatives and many Wall Street banks, can save the nation. The imposition of Glass-Steagall and a return to a high-technology, industrial economy, will solve the financial crisis. We will do this at the expense of Wall Street, not Main Street. The restoration of Glass-Steagall will be the entry point for large-scale FDR-type development projects, making Detroit, with its skilled labor force and machine-tool sector, an engine for national progress once again.

"Since the takedown of Glass-Steagall, from 2000 onward, 72 schools in Detroit, 40% of all public schools in the city, have been closed. Just since 2006, 64 schools shut down. Half of all teaching jobs have been eliminated in the same time period; education of children cannot succeed under conditions of economic collapse.

"Unlike various other proposals, Glass-Steagall worked for 66 years, and prevented any banking collapse like the one we recently experienced. It is 37 pages and simple. It separates commercial banking from investment banking and all forms of gambling schemes. Only commerical banking will receive Federal protection and FDIC insurance. The government will no longer be on the hook for the gambling debts of the large Too Big To Fail banks. It is structural; it does not require cumbersome regulatory schemes; and it works.

"Nothing summarizes the need to go back to Glass-Steagall more than the principles in its succinct preamble: 'To provide for the safe and more effective use of the assets of banks, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes.'

"Join me in this fight in defense of Detroit and the nation."

How It Worked

In previous issues (see *EIR* Aug. 2), *EIR* has presented a thorough case on how Detroit and other cities have been systematically looted over recent decades, starting with the takedown of productive industry (which destroyed the tax revenue base), and continuing with various looting schemes, including the sale of derivative products, which would have been prevented by the Glass-Steagall Act. As the fight heats up over Detroit's fate (a hearing on the legality of the bankruptcy filing is pending on Sept. 18, and a community hearing has been called by Congressman John Conyers for Sept. 6), the basic facts if tge swaps swindle are worth reviewing.

From 2005 on, the city, and then its Water and Sewerage Department, began large, billion-dollar-plus borrowings and refinancing of borrowings, primarily from the Swiss giant UBS Bank and Bank of America. Those banks convinced Detroit to issue variable-interest-rate bonds for the loans, and to buy derivatives on those loans—so-called "interest-rate swaps," or bets on whether interest rates would rise or fall in coming years. These so-called "interest-rate protection products" proved ruinously expensive to the city.

The Glass-Steagall Act had prohibited banks from concocting these financial derivatives "products." Had Glass-Steagall remained in force after the late 1990s, hedge funds and investment banks could certainly have offered these "financial weapons of mass destruction" to municipalities. But the overwhelming evidence from around the world is that very few—if any—cities and states would have been trapped into such "swaps" products, had they not been sold them, at the same time, by the same big banks that were buying and/or syndicating the municipalities' bond offerings.

Without Glass-Steagall, UBS, Bank of America, and SBS could and did sell "swaps" bets to Detroit and its Water and Sewerage Department. As has subsequently been exposed, those bets were "Libor-rigged"; the banks that had bet the municipalities on the direction of interest rates, were also manipulating the Libor base rates.

Since 2006, Detroit has paid an annual average of $107 million in "negative value" payments to the banks on the derivatives products, including a single $536 million payment by Detroit Water and Sewerage.

When combined with the city's loan- and loan-refinancing "fees," totalling over $200 million since 2005, it is clear that *non-principal, non-interest, securities payments* to banks have robbed Detroit of approximately *one full year's revenue* out of its last eight years, through 2012.

Interest-rate swaps on $3.8 billion in Detroit debt are still outstanding.

Implement Glass-Steagall, and those swaps become illegal again—paving the way for a real recovery based on reviving Detroit's machine-tool industry, for NAWAPA and beyond.