Bankers' Anti-Glass-Steagall Campaign Is a Flim-Flam

by Paul Gallagher

Sept. 3—Since the introduction into the U.S. Senate in July of a second bill to restore Glass-Steagall and the increase in the number of bipartisan Senators sponsoring these bills to 10, Wall Street has publicly "gone to war" against the growing prospect that Glass-Steagall may be enacted.

In brawls provoked by Wall Street bankers in the Delaware Senate, the Atlanta convention of the National Conference of State Legislatures, the California House of Delegates, in op-eds in national and regional newspapers, and of course in the Congress, the American Bankers Association (ABA) has led the mobilization to stop Glass-Steagall.

ABA has over 9,000 banker members, but in each of the cases named above—and others as well—it has been bank lobbyists from the "Big Six" Wall Street banks, and their representatives in the Wall Street "securities industry" associations, who have been fighting Glass-Steagall. The organization is actually headed by conservative Republican ideologues who have never worked in a bank. CEO Frank Keating, Jr., former Oklahoma governor, in the circle of the Koch brothers, did not let his lack of experience in banking stop him from writing to the *Financial Times* Aug. 25 against FDIC vice chairman and Glass-Steagall advocate Thomas Hoenig. The ABA's chief operating officer, William Hunter, is Keating's former Oklahoma secretary of state and long-time political factotum. Keating has said in interviews over the past two years that he is "involving the big banks more" in running ABA—he's specifically named JPMorgan Chase, Goldman Sachs, and Morgan Stanley.

Threats and Falsehoods

In addition to threats of pulling jobs from states and campaign funding from Members of Congress, the ABA and Wall Street have used four basic arguments in their "anything but Glass-Steagall" campaign:

- Restoring the Glass-Steagall Act is a campaign of Lyndon LaRouche and LaRouchePAC, and so, it is implied, Members of Congress or legislators who sponsor Glass-Steagall can come under attack by Wall Street for supporting LaRouche;
- The greatly increased size and "diversity" of the big Wall Street and regional banks after Glass-Steagall's repeal, "strengthened the U.S. financial system";
- The Gramm-Leach-Bliley Act which repealed Glass-Steagall allowed large commercial banks to "support" [or buy] investment banks before and during the 2007-08 bank panic, and allowed large Wall Street investment banks to become bank holding companies during the panic, and thus Gramm-Leach-Bliley saved the Great Recession from becoming a new Great Depression through a complete crash of all major banks. Glass-Steagall, this argument goes, would have left the investment banks on their own to collapse, and thus *caused* a Great Depression;
- The Dodd-Frank Act, and particularly the Volcker Rule, have succeeded in removing much of the risk and abuse in the banking sector which triggered the 2007-08 panic, and Glass-Steagall will interfere with the action of the Dodd-Frank Act, thereby increasing systemic risk in banking.

The threadbare flim-flams which these "Wall Street talking points" really are, should signal to elected officials who hear them that the big banks think Glass-Steagall can pass Congress—driven by the banks' own continuing criminal behavior—and are freaked out. As noted, these "arguments" are being supplemented by economic and/or political threats against elected officials in most of the instances which *EIR* has investigated.

The fact that the ABA is increasingly "leading with the LaRouche argument" makes clear that they fear the momentum for Glass-Steagall, and don't trust their own arguments against it to have any force with an aroused section of the citizenry which has informed itself about Glass-Steagall over the past three years. Since early this year, the ABA has clearly been stalking LaRouchePAC's Glass-Steagall campaign in state legislatures, tracking its results and trying to belittle them to legislators in Maryland in April and Delaware in June, among others.

The "LaRouche argument" first went public in the press in South Dakota after that state's legislature had overwhelmingly passed a resolution for Glass-Steagall directed to Congress. It was ridiculed by both journalists and letter writers to the newspapers: The bankers found that the LaRouche campaign for Glass-Steagall was common knowledge among politically informed citizens throughout the state, and certainly well known to the legislators.

The LaRouche campaign actually locates Glass-Steagall restoration as simply an opening step to restoring Alexander Hamilton's approach to credit and banking policy, making credit available for great projects such as the revived North American Water and Power Alliance (NAWAPA XXI), to drive a real productivity and skilled employment recovery. Members of Congress in states where the Glass-Steagall campaign has moved state officials, are aware of this as well. Wall Street banks are resorting to both threats and campaign largesse to try to keep Congress away from a Hamiltonian credit policy which will bankrupt Wall Street. South Dakota Sen. Kristi Noem, asked about Glass-Steagall at an August town meeting, proceeded to talk about the NAWAPA plan, as something she hadn't decided to support!

The Significance of 'Swaps'

The ABA's second argument is patently false: The big banks' escape from Glass-Steagall bank separation and regulation, far from "strengthening the financial system," directly blew it up within less than a decade. Two destructive processes after the mid-1990s are enough to make this clear: the big banks' plunge into "shadow banking," and the global explosion of financial derivatives—expecially the devastating interest-rate swaps—once the biggest London and Wall Street banks took complete dominance over global derivatives exposure.

Where 20 years ago, commercial banks usually aspired to be "loaned up," with 95% of their deposits out in commercial and household loans, today the figure for the whole U.S. banking system is 72%—a record low. For the reason, try JPMorgan Chase's figure—31%, only a few points below the rest of the "Big Six." And their lending has continued to fall from 2008, until the most recent quarter, even while community banks have raised their lending in the last year. The situation is even more extreme in London and the EU, where Glass-Steagall-modelled laws were repealed by the 1980s, if they existed. Deutschebank Morgan Grenfell, the world's biggest derivatives bank, has 11% of its assets in loans.

In place of lending, when freed from Glass-Steagall limitations already by the mid-1990s by Alan Greenspan's Fed, the big commercial banks plunged into the securities and derivatives markets like investment banks, acquired investment banks, and loaned huge sums to investment banks and hedge funds. One of those hedge funds, Long-Term Capital Management (LTCM), came within a desperate Fed bailout of setting off a global bank panic already in 1999.

The big banks used the "repo" markets (hypothecating securities to issue further securities and derivatives) to throw their deposit bases into the speculative markets. They loaned to money-market mutual funds, which in turn, became large, uninsured "shadow deposit banks," and loaned back to the commercial banks to feed their securities operations. They plunged federally insured deposit bases into direct ownership of commodities like metals, electricity, oil—previously done by investment banks and barred to commercial banks by Glass-Steagall—in order to speculate in commodity indices and derivatives.

All of the securities-market collapses of 2007-08 resulted from this plunge of multi-trillion-dollar deposit bases of the biggest commercial banks into securities and derivatives speculation, after the takedown of Glass-Steagall. The Federal Reserve's $3.5 trillion money-printing for the big banks has simply been used by them as the cash-reserve basis for escalating the speculation.

All of the criminal activities of the banks exposed since the crash, had the same origin. Worst has been the looting of literally tens of thousands of cities, states, pension funds, and companies across the United States and Europe by the infamous "interest-rate swaps"—sold by banks which were prohibited from doing so by Glass-Steagall. Libor-rigging helped fix those swaps to be destructive to virtually every municipal agency in the world which bought them.

The city of Detroit's unelected "manager" is now trying to cancel its employees' pensions while getting ready to pay $225 million, on Oct. 31, to UBS and Bank of America on such a "swap." Detroit has already paid out a year's worth of its total revenue on these rigged, losing bets in the past eight years; and this is typical of cities and municipal agencies across the United States.

These are the results of the Gramm-Leach-Bliley Act's "improvement of the financial system" from the late 1990s, claimed by the ABA in its anti-Glass-Steagall campaign.

'Anything But Glass-Steagall'

The ABA's third argument—"bank mergers saved us from a second Great Depression"—appeals to pure fear, and lack of understanding of Hamiltonian credit and banking. Look at *Fortune* senior economic columnist Alan Sloan's Sept. 1 syndicated column: "One proposed magic bullet gaining currency these days is to solve the system's problems by bringing back the Depression-era Glass-Steagall Act.... I sympathize with this proposal more than you can imagine.... [But] reimposing Glass-Steagall would inflict regulatory whiplash. In 2008, as the world melted down, regulators begged Chase to buy Bear Stearns, leaned on Bank of America to complete its then-pending purchase of Merrill Lynch and begged Wells Fargo to buy Wachovia, which had major brokerage operations. All those deals, done at the behest of regulators, would be reversed [with Glass-Steagall's restoration]."

Those mergers, illegal under Glass-Steagall, were in fact imposed by Wall Street, acting through such figures as Goldman Sachs' then-Treasury Secretary Hank Paulson. They were followed by a deep economic collapse into mass unemployment and plunging household income, which is still under way five years later. Wall Street demanded that the biggest commercial banks buy failing investment banks and securities broker-dealers, to which those commercial banks had become completely exposed by their own securities/derivatives speculations since the end of Glass-Steagall! The big banks themselves survived the process by being recapitalized with government bailouts.

The process, and its disastrous results, proves the current argument of the FDIC's Hoenig for Glass-Steagall: If the mega-banks are not separated *completely* now—broken up, with only their commercial banking units protected by Federal insurance, etc.—then, when crisis hits them again, "they will merge" failing institutions, no matter what regulators think will happen.

Restoring Glass-Steagall will allow Wall Street institutions to fail while protecting commercial banking. The process, as President Franklin Roosevelt understood when he did precisely this in 1933, exposes the lack of credit and bank lending in the economy. It is a first step to issuing national credit for major advances in economic productivity, exemplified by the NAWAPA infrastructure program.

The ABA's and Wall Street's most comtemptible argument is their recent public embrace of Dodd-Frank against Glass-Steagall. JPMorgan Chase CEO Jamie Dimon, who called Dodd-Frank "idiotic" in Summer of 2012, embraced it as "all we need" in an Aug. 11 interview with the *Oklahoman*. The ABA's Frank Keating followed with a letter to the paper strongly praising Dodd-Frank, and particularly its yet-unwritten Volcker Rule.

Wall Street has clearly seized control of the writing of the myriad regulations of Dodd-Frank, exempting from regulation everything from foreign-exchange derivatives to subprime mortgage securities. They are using it as "their" club against Glass-Steagall; it allows them to grow still larger, more complex, and more speculation-dominated while it torments the community banks.

And the greater danger: Dodd-Frank's Title II "bank resolution" scheme allows the Wall Street banks, when their securities speculations fail again and wipe out their capital, to default on their tens of millions of depositors, seizing their deposits as "new capital"—the deadly Cyprus-style "bail-in." The Swiss banking regulator FINMA's version of this, published three weeks ago, is typical: It allows for the seizure of up to $650 billion in depositors' funds to "recapitalize" just two giant banks, UBS and Credit Suisse.

This is truly, "anything—including broad and murderous austerity—but Glass-Steagall."