Don't Wait for Statistics: It's Glass-Steagall or Die

Special to EIR

Nov. 26—The evidence is pouring in, throughout the trans-Atlantic region, that the economic policies of the past 50 years are increasing the death rate in multiple ways. Poverty, depression-induced suicide, declines in public health, declines in birth rates, and an increased incidence of new and old infectious diseases are killing the people of the United States and Western Europe. A Senate hearing Nov. 20, devoted to explicating the way poverty acts as a "death sentence" in sections of America, and the graphic presentation by LaRouchePAC on the takedown of the physical economy in its Nov. 15 webcast, explored only the proverbial tip of the iceberg.

Horrible images and stories of people needlessly dying may arouse compassion—but they will not stop the killing. What must be addressed is the *cause* of the crisis, which lies in the policies of a financial system which has become a raging predator, consuming and destroying the living standards, industries, and incomes of populations, in the name of "making money." To stop the killing, the power of that financial system, centered in Wall Street and the City of London, must be destroyed through very specific government policies, starting with reimposing Glass-Steagall.

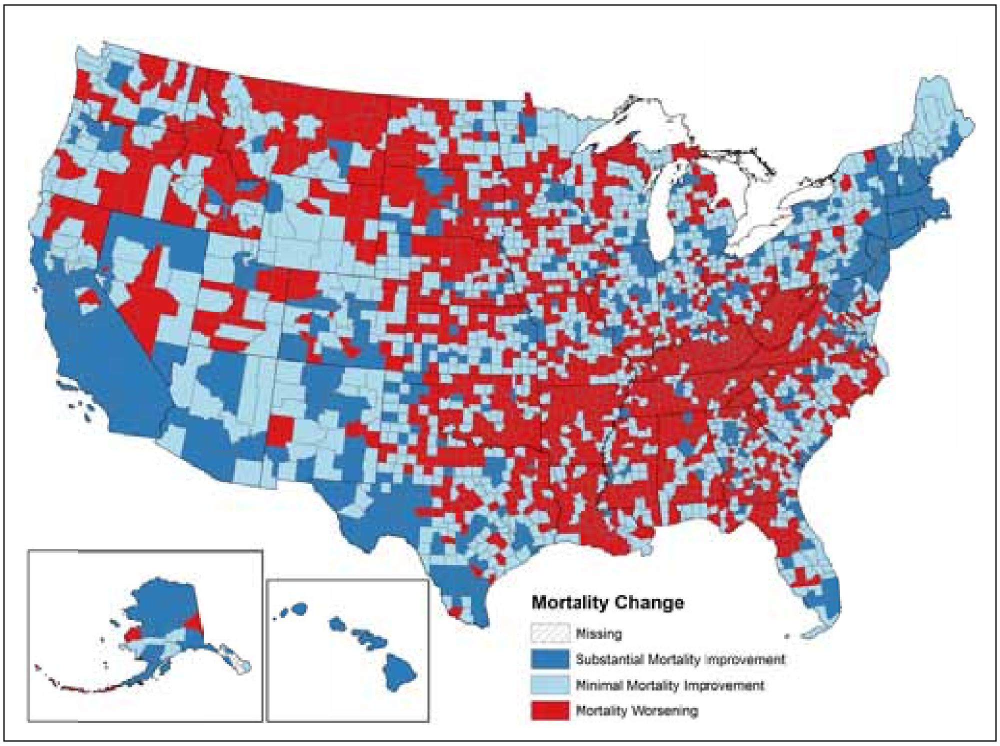
What Glass-Steagall Will Do

Even among those many Congressmen and bankers who support Glass-Steagall, there is little understanding of the crucial role which it did, and must again, play in righting the actual economy. This is doubly evident when Congressmen tell LaRouchePAC organizers that they cannot afford to push more aggressively for Glass-Steagall, because they have to address immediate crises such as food stamp cuts, or other devastating austerity measures.

As long as the U.S. banking system, with government support and protection, is allowed to continue its current speculative practices, these horrors will only increase. Bank lending into the productive economy, as documented even by such institutions as the San Francisco Federal Reserve, is rapidly dropping, while hundreds of billions of dollars are being poured *from the government* into the coffers of the Wall Street banks. Such a process *guarantees*, the further shutdown of productive activity in the economy, lower government revenues for supporting the remaining safety net, and, ultimately, another debt blowout that will bring the entire financial and economic system to a halt.

Glass-Steagall will immediately halt this process, as it did, in combination with President Franklin Roosevelt's bank holiday, in 1933. It will result in an immediate "margin call" against those banking institutions which have been looting the system, as outlined in LaRouchePAC's groundbreaking July 31 video. It will clean up the banking system, creating the need for immediate emergency credit for basic essentials of life for many—but, with that credit being directed to *productive* activity, not gambling, it will put the country on the actual road to recovery.

FIGURE 1
Changes in U.S. Mortality Rates for Women, 1992-2006



Source: Kindig, D. and Cheng, E.

Back to Basics

In early 2013, *EIR* economics editor Paul Gallagher provided a step-by-step primer on how Glass-Steagall would function to save the economy, by enforcing the return to a banking system based on credit, not money per se. With the crisis now dramatically worse, and new ratchets of austerity and blowout staring us in the face, it is time to master the principle that underlies these measures.

First of all, Glass-Steagall mandates that bank holding corporations, bank conglomerates, and those other financial firms which have been calling themselves banks, divest themselves of all non-commercial banking units. And no cross-management can remain between the commercial banking unit and those other units, and no cross-ownership can remain.

Secondly, the original Glass-Steagall, having created, so to speak, "clean" commercial banks again, set a limit through each of the regional Federal Reserve banks, which were charged to enforce this in their districts. Each commercial bank, so separated, could not use more than 2% of its capital and surplus at any time for the creation or sale or distribution of securities. If you imagine 90% loans and 2% investment in securities, that gives you what was actually being enforced for more than 60 years as the practice across the country, why this worked, and why there were not bank panics. We must do it again.

Thirdly, the law, through a series of regulations, prevented commercial banks and bank holding companies from making loans of their depositors' assets or their own liabilities, their depositors' money, into such vehicles as would support the creation and circulation of securities. You might think in terms of a bank creating a hedge fund, which is nearly a universal practice in the last 20 years. That kind of use of bank loans to support securities was forbidden.

Lastly, and very importantly, no securities of low, or potentially low value, could be placed by a bank in its insured commercial bank units. This is the anti-bailout core of the Glass-Steagall provisions that would have prevented the movement of huge derivatives portfolios of the major banks now, and will do so again.

The current Glass-Steagall legislation in the House (HR 129) and the Senate (S 985 and S 1282) would essentially reinstate these rules. They would *stop* the $85 billion a month in QE and other bailouts, and cut Wall Street adrift to fend for itself. Cities like Detroit, now being bankrupted to pay derivatives debts, will be freed of that obligation. Our priorities will change—from "saving the banks," to saving the people.

The crisis won't be over. As FDR did through various means, the Federal government will have to issue credit to maintain and expand productive activity in the economy. But we will be on our way—and the killing being carried out by the Queen's men on Wall Street and in London will stop.