Revive the Glass-Steagall Principle: First Step To Solve Financial Crisis

Longtime leader of the LaRouche political movement, and leader of LaRouche PAC on the West Coast, Phil Rubinstein gave this interview on Oct. 7, to Alicia Cerretani of LPAC-TV, on the Glass-Steagall principle. The discussion can be viewed at http://larouchepac.com/lpactv.

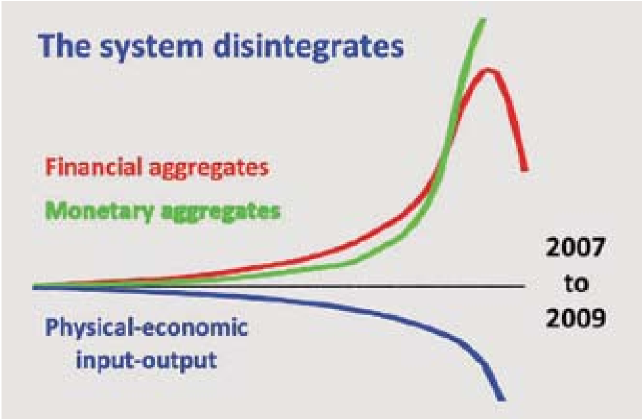
Alicia Cerretani: Today, we want to talk to you about banking. As of this moment, the Obama Administration has committed the American people to a $23 trillion debt, while at the same time, presiding over record job losses in some of our most productive industries. We're in a period in which the only precedent is the hyperinflationary collapse of Weimar Germany in 1923, where the imposition of an impossible reparations debt broke the back of Germany, and created the conditions for fascist austerity.

However, back then, the Reichsmark was not the world's reserve currency, so that collapse was relatively contained, compared to the situation we're facing today.

The other fundamental difference, is that today, unlike Germany, we have the authority to wipe off the fictitious debt before it blows up and takes the entire dollar-denominated system down with it.

So, Phil, not only do we have the precedent of Weimar Germany to illustrate the situation, but we also have Lyndon LaRouche's Triple Curve Function (**Figure 1**). Could you say a couple things about the triple curve?

FIGURE 1
LaRouche's 'Triple Curve'



Rubinstein: We're in a situation as LaRouche has described it, where you have one integrated function covering three aspects of the way the economy functions, in terms of credit, the issuance of currency, and the productive aspect of the economy, which should be the critical aspect: the physical economy.

What we've had now, and what you referred to in Weimar Germany, is a situation where the monetary aggregates—money—has been the determinant: the uncontrolled, unregulated determinant of everything else. So we have a situation where, over the recent decades, since 1987 in particular, we've had a complete deregulation. Which means that the monetary emissions govern everything. They govern financial instruments, which are, at least in some way, tied to some income stream from the physical economy. So, the period we've entered into, is one with an *un*controlled emission of monetary aggregates, in an effort to prop up a collapsing financial aggregate, which ultimately demands something from the physical economy—income streams.

A couple of years ago we saw the effort to grab Social Security; we see now massive cuts in health care, which is the essence of the Obama Nazi health-care reforms.

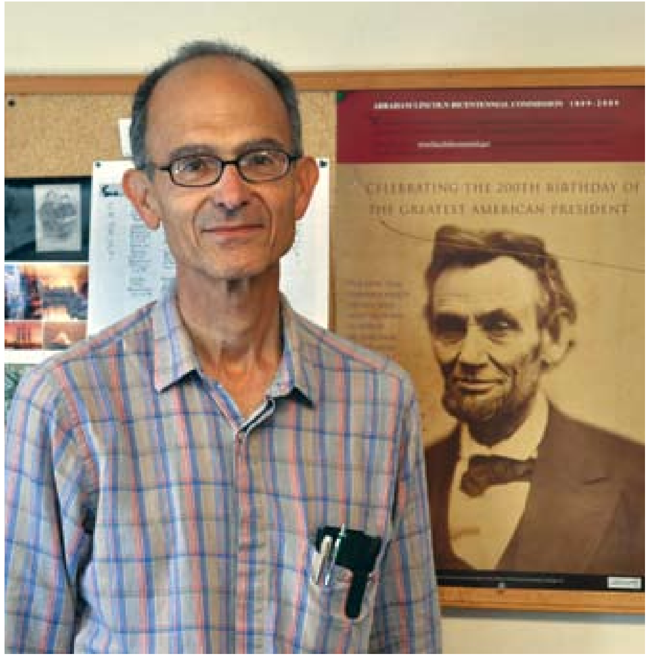
And so, when you look at this picture, what you see is hyperinflationary, soaring monetary emissions, financial aggregates which are tending to collapse, and have collapsed, and are now being pumped up by issuance of currency, of monetary aggregates, and an increasing rate of looting of the real physical economy.

This is something that's been going on, really, for four decades, but accelerated in 1987, when you had an actual depression collapse of the financial system. And, Alan Greenspan came in, as LaRouche has identified, with a completely insane, monetarist approach, with no qualifications.

Cerretani: Right. But what Greenspan did, he could only do with the repeal of the Glass-Steagall Act, which was set up by Franklin Roosevelt—the slow, sort of stripping away of what the Glass-Steagall did.

Rubinstein: In fact, Greenspan was one of the leading, if not *the* leading proponent of getting rid of Glass-Steagall. When he came in, technically, Glass-Steagall still existed. There had been a couple of moments of chipping away at it, which we can look at a little bit. But, he was the one, in '87, who moved to break Glass-Steagall completely, and this was worked on throughout the 1990s, and indeed, they chipped away at it.

Finally, in '99, with Larry Summers as the Secretary of the Treasury, who's now in the Obama Administration, Glass-Steagall was repealed. And, at that point, the barn, the horse, the cows, everything was gone.



EIRNS/Sam Dixon

Phil Rubinstein explains that the constitutional principle behind the New Deal, and the Glass-Steagall Act as part of it, is what Lyndon LaRouche means when he talks about a "credit system."

The Glass-Steagall 'Firewall'

Cerretani: So, what exactly was the Glass-Steagall Act, then?

Rubinstein: Glass-Steagall was part of the First Hundred Days of the Roosevelt Administration. Now, Glass-Steagall refers to two Congressmen: Sen Carter Glass (D-Va.) and Rep. Henry Steagall (D-Ala.), who promoted the bill. This was called the National Banking Act, which included the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, and in this case, Glass-Steagall basically separated, or put up a *firewall* between speculative [commercial banking and] investment banking, that is, the kinds of things that investment banks get involved in: speculation on commodities, speculation on what I would call, a secondary market in debt.

In other words, you take a financial instrument, and you speculate on its value, day by day, quite apart from, given the time scales, anything going on in the real economy.

So, what the Glass-Steagall Act said is, a commercial bank, a bank that holds citizens' deposits, for example, and then uses those deposits for certain kinds of investments in the real economy—mortgages, etc.—that kind of bank cannot engage in speculative investments. And a series of regulations specified that they can have no proprietary role—in other words, the bank doesn't use the savings of citizens to make money on its own investments.

So, it's a complete firewall. There are two separate kinds of banks, and one can't engage in the activities of the other. They also put in certain controls over interest rates, that certain banks could pay, for example, savings & loans. They had something called Rule Q, so that, up until 1980, when this was overturned by Sen. Phil Gramm, really, savings & loans were regulated as to the nature of investments and the amount of interest that they could pay.

This was a very rigorous regulation, constraining commercial banking, that is, state and Federally chartered banks. It also had a certain separation between Federal and state banks. So that these things were completely regulated, that the banks had to be oriented toward investments in the real economy, and relatively limited. As I said, no secondary market in debt. You couldn't sell the mortgages and securitize then, the way we have today, and turn them into instruments that people speculate on.

Glass-Steagall was the complete separation of these

President Franklin D. Roosevelt signs the historic Banking Act of 1933, which included Glass-Steagall. To his immediate right and left are Sen. Carter Glass and Rep. Henry Steagall.

kinds of banking. And that's what Greenspan wanted to break. So you could take, effectively, the assets of commercial banks, and use them for the most wild-eyed, unregulated speculation.

Cerretani: In a way, if you didn't have that firewall between the consumer banking and the investment banking, the investment bank's debts would have nothing to back them up, if it wasn't for something that they could loot from the physical economy.

Rubinstein: And, frankly, they wouldn't have the assets on which to base it. Like, what they do with mortgages—some of this stuff, I think, people react to it, and say, "Well, it *couldn't* really be like that, because it sounds so insane." But, it is like that, and it is insane!

So, for example, a mortgage-backed security is not really a mortgage. They don't hold the mortgage. You bundle a bunch of mortgages together, and you give them different credit ratings, and then, you bet on the value of that security, which is not the mortgage. In a sense, you could say, well, maybe it's backed up by the mortgage, eventually. But it's not the mortgage. It's just how much people are willing to pay for these securities instruments, these new financial instruments. And then, they bet on the value of that, and of course, the betting can be very short term. These things can turn over, overnight. Whereas, if you hold a mortgage, you hold the mortgage for 20 or 30 years. And that's your investment.

Government for the General Welfare

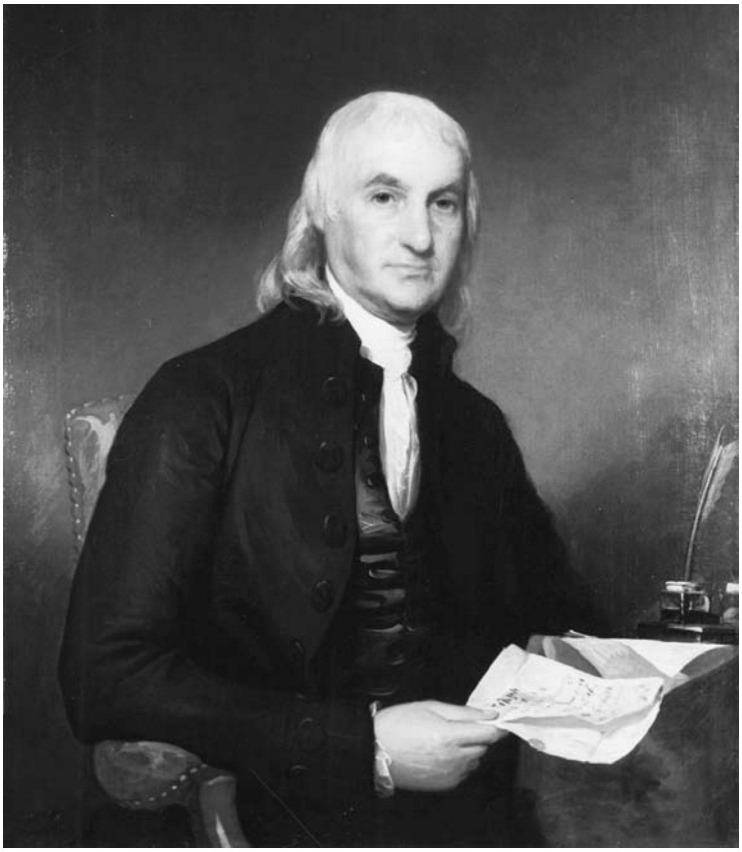
Cerretani: Franklin Roosevelt had said, I think it was to J.P. Morgan, "Look, you can be either a commercial bank, or you can be an investment bank, but you can't be both." What is it that Roosevelt understood, or his administration understood, about banking? What becomes obvious, when you look back at Roosevelt's history, or when you look at the effect of this sort of deregulation on the physical economy, is that this isn't just irresponsible monetary and financial behavior. It's got a political objective, it has physical implications for people's lives in the future. So what was it that Franklin Roosevelt understood when he put this whole package of banking regulations in effect, in 1933?

Rubinstein: He understood that the government existed for a purpose, that it existed to reflect, at least, some protection of the future development of the economy for the population as a whole. So, he started from principles.

See, I think part of the problem is if you think of it as banking, as such; you get involved with the technical details of banking—"What about this case?" and "What about that case?" But you have to operate by a principle.

And to understand Roosevelt: Roosevelt's great-great-grandfather Isaac Roosevelt worked with Alexander Hamilton, in setting up the First National Bank. Now, that really gives you an idea: Roosevelt had an idea of national banking, that the government had a role in using, in the case of Hamilton, the state debts that were incurred during the Revolutionary War. And, extending them over time, to use them as the basis for investment in physical economy: infrastructure, technology, everything that Alexander Hamilton wrote about in the "Report on Manufactures," and so on.

Roosevelt, as a young man, wrote a short paper en-



Franklin D. Roosevelt Library

President Franklin Roosevelt's great-great-grandfather Isaac Roosevelt (1726-94) (shown here) worked with Alexander Hamilton in setting up the First National Bank. Portrait by Gilbert Stuart.

dorsing his great-great-grandfather and Alexander Hamilton. So that was his idea of banking.

Cerretani: This wasn't just the government trying to tell people what to do?

Rubinstein: No. See, I think one of the things you have to get to is, what's the argument that Hamilton makes in the *Federalist Papers*? *We need a union*: We need a union of states that forms one nationally sovereign country which is going to, particularly, control its credit. Control the issuance of credit, which is credit for physical activity into the future. And that that's based on the Federal government's unified decision, based on political processes, and so forth, as to what we're going to do.

Now, that's what LaRouche means by a "credit-based system." You don't issue money, and then have people speculate on the value of money, and then, based on that free-market speculation, something might get invested. You start by using the needs of the population, as determined by some political discourse, to issue credit, and that's all that the national currency will back up. That's the only emission of currency that's organized by the Executive, and approved by the Congress.

So that was really where Roosevelt was coming from.

Now, Roosevelt, also, I think, had a very direct experience of this as the governor of the state of New York, because he fought intensively against the public utilities holding companies, where you'd just set up a shell holding company, which would then, take the income from the utility, throw the losses, really, onto the utility, and then, pump up the value of the stock of the holding company, based on these income streams. So it was a perfect example of a speculative shell, which would then invest this money to pump up its own stock values, looting the utilities.

Cerretani: Right, at the expense of the real, physical economy.

Rubinstein: And, indeed, Roosevelt was engaged in trying to integrate the electrical grid of New York State—this was something he did later, as the President. So he saw this, *explicitly,* and fought against it as the governor of the state of New York, against the monopolies, electrical utilities, and so forth.

So, he also applied exactly the same principles nationally, because the Public Utility Holding Company Act of 1935 did essentially the same thing for utilities. It said, you can't have a holding company and a utility, and have the holding company take the income from the utility, and invest it financially. The utility has to reinvest its income in the infrastructure of the utility.

So he's applying a physical-economic principle that goes back to Hamilton. And I think he saw it very much as his own heritage. He did some studies on this when he became a victim of polio. But I think what's important, see, is that this is a principle that founded the country.

The Basis of the Union

Remember: The Constitution was 1787 to 1789. The Revolution ended in '83. We had the Articles of Confederation in the meantime. The country was falling apart, because it was falling prey to the free-market interventions of British Empire. So, the Constitutional Convention was to *form a Union*, where the Federal government represented a universal principle; the states had rights within that.

The same thing comes up in the Civil War. Lincoln fought for the Union. Without the Union, we don't have any sovereignty. In effect, the Banking Act of June 16, 1933, was a reimplementation of Federal, national sovereignty over the economy of the United States, with perfect respect for private property, private investment, and so on and so forth. But, there's a universal principle that governs the issuance of currency, which falls under the credit principles. I think that that's really where Roosevelt was coming from.

Cerretani: And since that time, it's been taken back down. When LaRouche looks at the situation we're in today, he says, really, we've written a blank check to the international financial powers that be, and if the American people have to make good on that promise, we will have to impose some sort of fascist austerity on the population.

So when LaRouche proposes that we cancel this fictitious debt, it's really a reassertion of these basic fundamental principles that founded the country, without which, we're not really the United States; without that, we really don't have the sovereignty, the unique sovereignty of the United States is not being exercised.

Let me ask you this then: Do you think that this takedown of the Glass-Steagall, and the bailout today—all of this—do you think this is being perpetrated by the same sort of enemies that Roosevelt faced, and the international banking community that Lincoln was up against, and that we fought a Revolution—

Rubinstein: Yes, absolutely. The destruction of the United States before the Civil War came from the reintroduction of slavery after the Hartford Convention, into the 1820s and '30s. And this is where the issue of secession kept coming up, the nullification that Calhoun of South Carolina said was the right of the states: that they could effectively destroy the Union—and this was before the secession threat.

The economy of the United States was attacked by Andrew Jackson, Martin van Buren, August Belmont, and they were operating from the standpoint of imposing the British free trade of the day, which was looting the South through slavery; and the idea was to destroy the Union, destroy the United States, to split it up. The economy of the United States went through a tremendous crisis after the 1837 takedown of the Second National Bank by Jackson. And the economy collapsed; there was no infrastructure—.

If you look, for example, at the railroad system: There was a certain amount of development in the 1820s, and into the early 1830s, the Baltimore & Ohio, and so on. And then, it stopped. There was no infrastructure development. For example, in Illinois, they tried a huge infrastructure project that collapsed. *But:* the rail and water management grid that was put in under Lincoln, when he was a state legislator, and others, *did* form the basis, ultimately, for the growth of Illinois.

So, all this was attacked, and the United States was essentially collapsing, until Lincoln came in, when finally, push came to shove, so to speak. It was clear that the country was going to be split up. So he came in, and what did he do? He reinstituted some universal principles: the development of the railroad grid, water management, the agriculture and mining schools, the land-grant colleges. And, this led to the industrial explosion of the United States, along with the greenback policy: He had to effectively take control of the currency.

So Roosevelt comes in at the point that, effectively, again, after the creation of the Federal Reserve, the assassination of President McKinley—the industrial policy, the infrastructure policy had been destroyed. U.S. rail has barely grown since the early 1900s—

Even to this day. We probably had almost as good a rail system in 1900—it took about the same amount of time to go from Washington, D.C. to New York by train in 1900 as it does today.

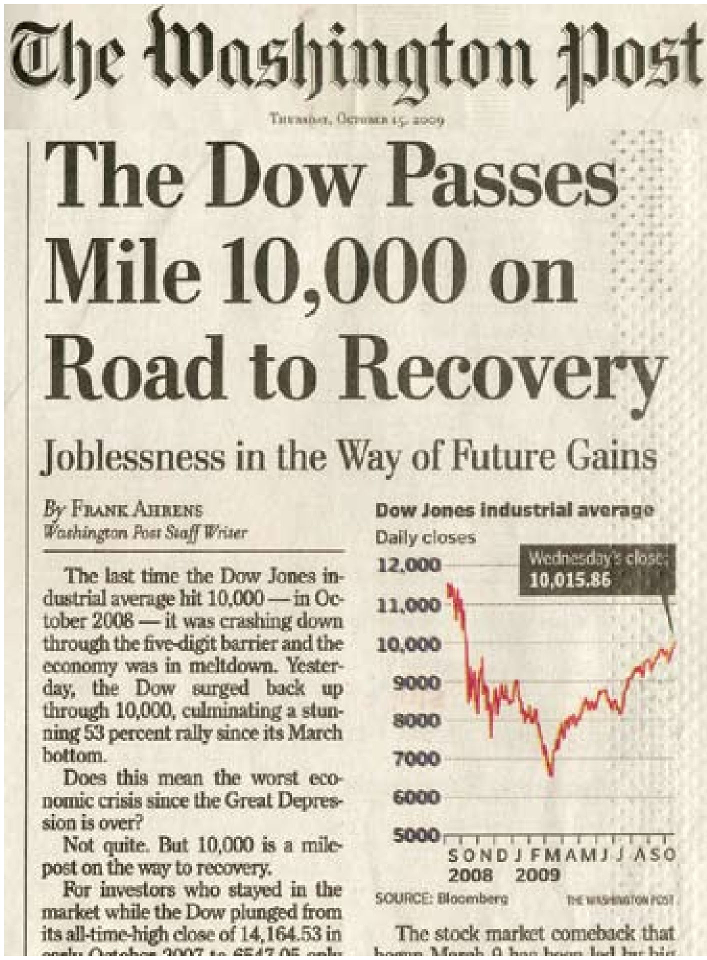
The British Takeover

And, as you mentioned, the Morgan interests were sent here by the British. So we're dealing with the British-Venetian monetarist system, looting the United States, destroying it; massive speculation during the 1920s, total control of the financial system. And Roosevelt came in and stopped that, at the point that we could have gone the same way as Europe: fascism. Roosevelt stopped it.

Now, we've gone through a 40-year period, after Roosevelt died—it began with Harry Truman, with the globalization policy, with the colonial policy. But again, this went through certain upshifts, such as when Kennedy was assassinated, and we entered an Asian war, which has been the British policy since then. One Asian war after another. This introduces a certain inflationary tendency in the economy.

But then, there's the entire takeover of the financial system, the breakdown of the FDR regulations, '80, '90—and then, with the financial blowout of the early 2000s, the early part of the 21st Century—now it's a purely monetary explosion, of purely monetary values. And this almost disembodied circulation of monetary aggregates—which they say is the only way to keep the financial aggregates up—it may prop it up for a short time, but it requires loot from the physical economy, whether it's people paying mortgages, health care; and this is the driver for fascism, as LaRouche has pointed out, over and over again.

And, as long as you have this uncontrolled monetary emission, you have, effectively, hyperinflation. It's sitting there. And today, it may not take the form of a $300 gallon of milk, but it takes the form of the imminent collapse of the dollar.


The Washington Post

Thursday, October 15, 2009

The Dow Passes Mile 10,000 on Road to Recovery

Joblessness in the Way of Future Gains

By Frank Ahrens
Washington Post Staff Writer

The last time the Dow Jones industrial average hit 10,000 — in October 2008 — it was crashing down through the five-digit barrier and the economy was in meltdown. Yesterday, the Dow surged back up through 10,000, culminating a stunning 53 percent rally since its March bottom.

Does this mean the worst economic crisis since the Great Depression is over?

Not quite. But 10,000 is a milepost on the way to recovery.

For investors who stayed in the market while the Dow plunged from its all-time-high close of 14,164.53 in

The stock market comeback that

Whistling past the graveyard, the lead story of the Washington Post *on Oct. 15 hails "the recovery"—as indicated by the stock market. The disembodied circulation of monetary aggregates may keep the financial aggregates up for a time, says Rubinstein, but only at the price of looting the physical economy and living standards.*

What We Need Now Is a Standard

Cerretani: Right. The physical economy has been looted. And LaRouche is warning that this debt has to be cancelled, by holding everything in the entire monetary-financial system up to a Glass-Steagall standard, where you say, "This is fictitious. We're going to cancel it." If that is not done, the legitimate financial claims and debts—for agriculture, business loans, mortgages, people's personal accounts—those are going to go down with the fictitious debts. And the whole financial system, our entire banking, system will sink.

And that's when you have a situation where the population of the planet could be reduced by more than half. We've seen that happen before, what LaRouche refers to is the 14th-Century Dark Age. And what becomes clear, if you look at this from an historical perspective, is that, you're looking at two different systems: You're looking at a monetary system, imposed by an empire, to control the lives of the entire world, versus what the United States was successful in launching, which was a republic, and the sovereign control of its currency, which meant it was the biggest enemy of this monetarist system.

Regarding this Glass-Steagall standard—we have days, maybe weeks to make this happen, because we are in a period where anything can trigger a run on the dollar. People holding our Treasuries can say, "This isn't worth anything," because it's not, and the value could plummet. And then, not only are we holding dollars that aren't worth anything, but the rest of the world is too. And there's a whole blowout.

So, how do we do it?

Rubinstein: See, these things are a lot simpler than people think. You go to Congress, and you say, "We are going to reinstitute Glass-Steagall." Now, that's a standard. In other words, the idea I think that LaRouche is getting at: We need an immediate measure—there's no step-by-step reform that we can take now. A little over two years ago, LaRouche called for the Homeowners and Bank Protection Act, so that by moving on the mortgage crisis, you could effectively shape, and bleed out the system, so to speak. And that would be an example of what to do over time.

But now, with the stimulus program—trillions of dollars thrown in—the system is completely infected with this. And, there's no way you can just pick an area, and say, "Well, if we clean that out, that's a start." So, what we have to do is to take a standard. And the standard is: Anything that will be an investment bank instrument—we put it in the freezer, at best, in one fell swoop. Anything that holds to the standard of what will be separated from a commercial bank under Glass-Steagall, is wiped off. And I tell you, a lot of this probably will be wiped off, not even a penny on the dollar. If they lost on this, speculated on this, it was complete fluff; some of them were electronic overnight transfers to make a tenth of a percent on a zillion dollars. And all the derivatives, which are secondary, and tertiary bets on bets on bets—all this goes.

And the way to do it is, the standard is, anything that would be outside of a commercial bank, by the Glass-Steagall standard, is dubious at best. And so, at one fell swoop, you've changed the banking system, and you've protected the legitimate area of the banking system. So that's how you clean out the hyperinflationary tendency. And all you'd have to do, is repeal the repeal of Glass-Steagall. You could do it in a day. At least you'll begin. And people would know that that's the standard, which is what will protect the value of the dollar.

Cerretani: Which means Larry Summers would have to find another job.

Rubinstein: Yeah, right.

Cerretani: Well, I think we could ask the question, what happens if we don't do this, but I think people can use their imaginations. I think the most important thing is making it happen.

Rubinstein: I think they should look at the serious question of this health-care bill, as a principle. Because what's the principle? "We can't afford," they say—this is what they call "bending the cost curve"—so accountants can be killers, mass killers. These *are* death panels. That's why they're so desperate to say they're not death panels. And that's what it means across a broad front.

Look at the jobs situation: It means, maybe, another 5 million jobs lost in the near future.

A Moral Principle

Cerretani: LaRouche said, in the recent paper, "And Now, October," at the very end of the paper, after going through the Triple Curve, after going through Glass-Steagall, he said, if you look at it from a moral standpoint, it becomes clear what you have to do. And that's where the history of how the country was organized, becomes more clear: what that moral precedent is.

Rubinstein: See, LaRouche, to my mind, represents the American System, but also, in the most advanced form. Because we've been built on great projects of great exploration and development. The West; the United States itself; Columbus's trip over here. Now, we're talking about the development of man in the Solar System as a whole: the Mars project. But what this then means is the greatest development of the human mind, of human creativity, of new elements of human discovery.

And you have to have LaRouche's epistemological conception of what the human mind and human nature is like. And that gives you a sense of a tremendous, real respect for human life, love of human life. Because that quality in humanity which allows it to do these things is the greatest power in the universe.

Cerretani: If you then look back at the banking and financial system, it puts it a little bit more in perspective, what we need to do.

Rubinstein: One good example of that, is what Roosevelt writes, in the introduction to his public papers. (I think, too often, Roosevelt, or Lincoln, are viewed as pragmatists. You know, they just muddled their way through somehow, they had the right instinct, or something.) But if you look at this, he says:

"The New Deal was fundamentally intended as a modern expression of ideals, set forth 150 years ago, in the Preamble of the Constitution of the United States: a more perfect union, justice, domestic tranquility, the common defense, the general welfare, and the blessings of liberty to ourselves and our posterity."

Now, Lyndon LaRouche has made the point that that is the principle, over and over: that's the principle that created the country. What Roosevelt is saying, is that's the principle that was the New Deal. And that's the principle that you have to understand, to understand the Banking Act, Glass-Steagall—this is what a credit system is, as Lyn directs it.