Looming June Crash Demands Glass-Steagall Now!

by Jeffrey Steinberg

June 14—The entire global financial system is headed towards a total collapse, that could very well hit full force, by the June-July period. While no one can predict the date of a crash with certainty, by the middle of the Summer, leading governments around the world will definitely be confronting the reality of their dismal failure, since the initial eruption of the present phase of the crisis, in the Summer of 2007, and the need for an immediate radical change in policy. This reality is being further driven by the fact that, throughout the world—the U.S., in particular—a mass strike process has gripped the population, manifested in a fury at the looting by leading financial interests, and the abject failure of the current political leadership to act responsibly, on behalf of the vast majority of suffering citizens.

It is this dynamic process, not the actions of the U.S. Congress or President Barack Obama, which is determining the choices on the table at this moment. Regardless of the outcome of the ongoing House-Senate conference on the final version of the so-called financial reform bill, the reality is: Unless the United States returns to the Glass-Steagall standards of regulated commercial banking, forcing a bankruptcy reorganization of the present, hopelessly bankrupt post-Bretton Woods system, the U.S.A. will plunge into an existential collapse, and bring down the rest of the world with it. It is this process—these fundamental choices—that will dominate the attention of all serious people, whether they are currently prepared for that reality or not. This is the Summer of reckoning.

Other Voices Join LaRouche

Lyndon LaRouche is not alone in the assessment that the June-July crisis period is already upon us, and that a radical change in policy and behavior is required.

Former President Bill Clinton stunned Wall Street in April, when he went on national television, in an interview with ABC-TV's George Stephanopoulos, to acknowledge that, while in office, he had underestimated the danger posed by derivatives, and had been poorly advised by Larry Summers and Robert Rubin. The identification of derivatives as the principal source of global systemic risk, by the former President, was followed soon thereafter, by his intervention into the Arkansas Democratic Senate primary, in support of Sen. Blanche Lincoln. Lincoln was targeted by London and Wall Street for her derivatives legislation, incorporated into the Dodd bill, which would force commercial banks to decouple their derivatives trading units. (Although Sen. Chris Dodd has done his best to weaken the enforcement mechanisms.)

Billionaire hedge-fund manager and dope legalizer George Soros had poured massive amounts of money into the campaign coffers of Lincoln's rival for the Democratic nomination, Lt. Gov. Bill Halter, in what was widely understood to be a blatant effort to kill Lincoln's derivatives ban. The successful Clinton intervention—he made a number of crucial campaign appearances for Lincoln in the final weeks before the June 8 runoff primary, helping her to secure a decisive victory, outpolling Halter by 5%—was motivated by a strategic commitment to assure that the derivatives ban sticks.

LPAC videograb

LaRouche Democrat Rachel Brown exposed the utter incompetence and corruption of her opponent, Rep. Barney Frank, in a candidates debate in Brookline, Mass. June 13. She is pictured here addressing the meeting.

Had Lincoln been defeated, Wall Street would have undoubtedly succeeded in wiping out the derivatives language from the still-pending financial reform bill. Now, the outcome is in doubt.

In another break with "go along to get along" tradition, Lincoln has also been publicly backed by two powerful regional Federal Reserve Bank presidents, Dallas Fed chief Richard Fisher and Kansas City Fed chief Thomas Hoenig. Both men issued letters to Senator Lincoln on June 10, endorsing her derivatives ban, and "reinstatement of Glass-Steagall-type laws to separate higher-risk, often more levered, activities of investment banks from the commercial banking system."

One senior U.S. intelligence source confirmed in discussions with *EIR* this week that, "there are significant numbers of people at the Fed, and even at the Treasury Department, who support a return to Glass-Steagall." He added that, if the ongoing House-Senate conference fails to produce a financial reform bill with real teeth, "the backlash could be overwhelming, and could be the driver for Glass-Steagall being implemented, sooner than most people think possible." He added that the Obama Administration, along with the top leadership of both the Democratic and Republican parties, are oblivious to the "French Revolution alert"—what LaRouche refers to as the "mass strike."

It would appear that some of the recent attacks on TBTF ("too big to fail") institutions are driven by the fear that Wall Street and London will prevail on the House-Senate conference, and kill the Lincoln anti-derivatives provision, and block any serious inclusion of Glass-Steagall. On a deeper level, some relatively sane economists are bracing for another major financial blowout, very soon. This was the explicit message in two articles by former IMF chief economist Simon Johnson, circulated by Roubini Global Economics. On June 7, Johnson gave an extensive account of a June 3 speech by Dallas Fed president Fisher, at the Southwestern Graduate School of Banking, in which he declared that the TBTFs had to be broken up, and that no amount of regulation would work without that.

Fisher told the audience, "Regulators have, for the most part, tiptoed around these larger institutions [big banks]. Despite the damage they did, failing big banks were allowed to lumber on, with government support. It should come as no surprise that the industry is unfortunately evolving toward larger and larger bank size with financial resources concentrated in fewer and fewer hands. . . . As a result of public policy, big banks have become indestructible. Big banks that took on high risks and generated unsustainable losses received a public benefit: TBTF support. As a result, more conservative banks were denied the market share that would have been theirs if mismanaged big banks had been allowed to go out of business. In essence, conservative banks faced publicly backed competition."

Fisher added, "The system has become slanted not only toward bigness but also high risk." He further warned, "We know from intuition and experience that any financial institution deemed TBTF will not be allowed to fail in the traditional sense. When such an institution becomes troubled, its creditors are protected in the name of market stability. The TBTF problem is exacerbated if the central bank and regulators view wiping out big bank shareholders as too disruptive, extending this measure of protection to ordinary equity holders." Fisher's ultimate conclusion: The TBTFs must be busted up.

In a second June 10 document, also circulated by Nouriel Roubini, Simon Johnson warned that Wall Street was out to kill the Lincoln derivatives regulation, and that President Obama and the White House team,

EIRNS/Joanne McAndrews

LaRouche PAC's mobilization to restore the Glass-Steagall firewall between commercial and investment banking is garnering support across the political spectrum. Here, an LPAC rally in Washington, May 18, 2010.

led by chief economic advisor Larry Summers—who, as Treasury Secretary in the Clinton Administration was responsible for the repeal of Glass-Steagall—are totally in lockstep with the megabanks. "We will learn a great deal in the coming weeks, not just about the future stability of our financial system, but also for what President Obama really stands."

Obama Is a British Puppet

LaRouche has already clearly shown where President Obama stands: The President is a British puppet, who will do everything in his power to protect the existing British system of pirate offshore finance, and defend the power of the British Crown apparatus. This is why the United States stands zero chance of survival so long as Barack Obama remains in office. He must be forced to step down, through Constitutionally prescribed means—before a June-July collapse hits.

Roubini, in a May 18 interview with TruthOut, was even more blunt than his colleague Johnson, implicitly addressing LaRouche's insistence that an immediate enactment of Glass-Steagall is the unavoidable first step to avert destruction: "My view is that if banks are too big to fail, using higher capital charges and an insolvency regime is not going to work. If they're too big to fail, they're just too big, and they should be broken up.

"If they're too big to fail, they're also becoming too big to be saved, too big to be bailed out, and too big to be managed. No CEO can monitor the activities of thousands of separate profit and loss statements, and the activities of thousands of different bankers and traders. So that's one dimension. We must be capable of going beyond the Volcker Rule, which is essentially Glass-Steagall-Lite. We need to go all the way and implement the kind of restrictions between commercial banking and investment banking that existed under Glass-Steagall."

Asked why he was critical of the Volcker Rule, Roubini explained, "The Volcker Rule goes in the right direction, but in my view, the model of the financial supermarket where within one institution you have commercial banking, investment banking, underwriting of securities, market-making and dealing, proprietary trading, hedge fund activity, private equity activity, asset management, insurance—this model has been a disaster. The institution becomes too big to fail and too big to manage.

"It also creates massive conflicts of interest. If you look at the cases against Goldman Sachs and Morgan Stanley, leaving aside whether there was any fraud or illegal activity—that's for a court to decide—there is still a fundamental conflict of interest. These institutions are always on every side of every deal. That's an inherent conflict of interest that cannot be addressed with Chinese walls [internal company barriers between different aspects of its business]."

The Mass Strike Speaks

These actions by some leading economists are useful, reflecting the deep impact of LaRouche's long-standing forecasts about the demise of the entire system, and the emergency measures required to avert a new dark age—starting with the immediate reinstating of Glass-Steagall. But the outcome of this fight is going to be decided on a different battlefield, one shaped by the growing mass-strike dynamic.

This mass strike factor was clearly demonstrated in Brookline, Mass., on June 13, when LaRouche Democratic Congressional candidate Rachel Brown directly confronted Rep. Barney Frank—chairman of the House Financial Services Committee—in a Democratic candidates debate, charging Frank with sabotaging the passage of Glass-Steagall. Under "normal" circumstances, Frank would never have shown up in the same room as Brown, who nailed him last Summer at a town hall meeting, for his support of Nazi ObamaCare. But Frank is running scared, after having served in Congress since 1980, but is now facing an enraged electorate that is fed up with the Washington sellout, and a serious challenger.