# To Restore Glass-Steagall: Dump Barney Frank Now!

by Jeffrey Steinberg

June 21—In response to a direct challenge from LaRouche Democrat Rachel Brown, who is running against him for the party's Congressional nomination in the Sept. 14 Massachusetts primary election, Rep. Barney Frank (D-Mass.) lied through his teeth. Brown has focussed her campaign on the reinstatement of the Glass-Steagall Act, the FDR-era law that created a wall of separation between the commercial banks, and investment banks and insurance companies. Brown has also called for the impeachment of President Barack Obama, and for an expansion of the NASA manned space program, which President Obama has shut down, with Frank's support.

Appearing together before the Brookline Democratic Club June 13, Brown accused Frank of being one of the engineers of the destruction of Glass-Steagall, and one of Wall Street's and London's key defenders on Capitol Hill.

In response to Brown, Barney blustered, like the slimy sophist he is, that he had voted against the repeal of Glass-Steagall, and that the "financial reform" bill now working its way through the House-Senate conference would be the strongest banking reform bill since the New Deal.

About the only true thing that Barney said was that he did, strictly speaking, vote against the Gramm-Leach-Bliley bill, the 1999 Financial Services Modernization Act that repealed Glass-Steagall—but he fully supported the core section of the bill which destroyed the FDR firewall.

## 'Everything the Banks Asked for'

In fact, the record shows that Frank explicitly supported the provisions of the 1999 bill which repealed Glass-Steagall, praising the portions of the Gramm-Leach-Bliley Act which allowed the merger of investment and commercial banking. Speaking on the floor of the House on July 1, 1999, during the debate on H.R. 10 (then known in the House as the "Leach bill"), Frank explained that he was only voting against the bill because of its failure to strengthen the Community Reinvestment Act—the anti-redlining law which required banks to invest in low-income communities.

But "on the subjects that it deals with, it does a good job," Frank said. "It is a good piece of legislation for setting forth the conditions for the financial services industry, central to capitalism. It is a good situation in which the intermediation function of the financial services industry can go forward"—using the codewords for the tools of the speculators such as hedge funds and derivatives.

"We go forward and we provide the conditions and improve the conditions for wealth to be generated, and I am for that," Frank continued, adding that, "*I would vote for this bill if we were talking simply about these conditions and no other were relevant,*" but explaining



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LPAC-TV videograb

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*LaRouche Democrat Rachel Brown (shown here at a Boston town meeting in January) has cornered Bailout Barney, more than once, about his toadying for the Wall Street and London banks. Here, Frank tries to fend off angry questions from constituents last August.*

that he cannot vote for this bill "while at the same time we refuse to address the serious problem of poverty in the inner cities" (emphasis added).

Referring to the "tragedy of this bill," Frank declared: "It is a good bill in what it does, but it is a bad bill in what it does not do." He congratulated those who had worked up "the banking provisions that deal specifically with financial services."

When the House voted on Nov. 4, 1999 on the final bill (S. 900) as embodied in the Conference Report, Barney repeated his support for the provisions repealing Glass-Steagall. Calling it "half a bill" for what it did not do, Barney lavishly praised what the bill *did* do. "It does a very good job of creating the conditions in which the capitalist institutions can flourish, and that is a good thing," Frank gushed. "We want capital to move freely. *We give the financial institutions everything they have asked for*" (emphasis added).

## For the Banks, Not the People

And since the Nov. 4, 1999 repeal of Glass-Steagall, Barney Frank has been a powerful and consistent advocate of Wall Street interests—against the interests of the vast majority of Americans.

• In 2007, Frank, as chairman of the House Financial Services Committee, boasted that he had played a central role in blocking any consideration of the Homeowners and Bank Protection Act (HBPA), the emergency law proposed by Lyndon LaRouche, and endorsed by hundreds of city councils, state legislatures, and leading politicians and labor leaders throughout the United States, that would have put an indefinite freeze on home forclosures, and placed the banking system under bankruptcy protection, under revived Glass-Steagall standards.

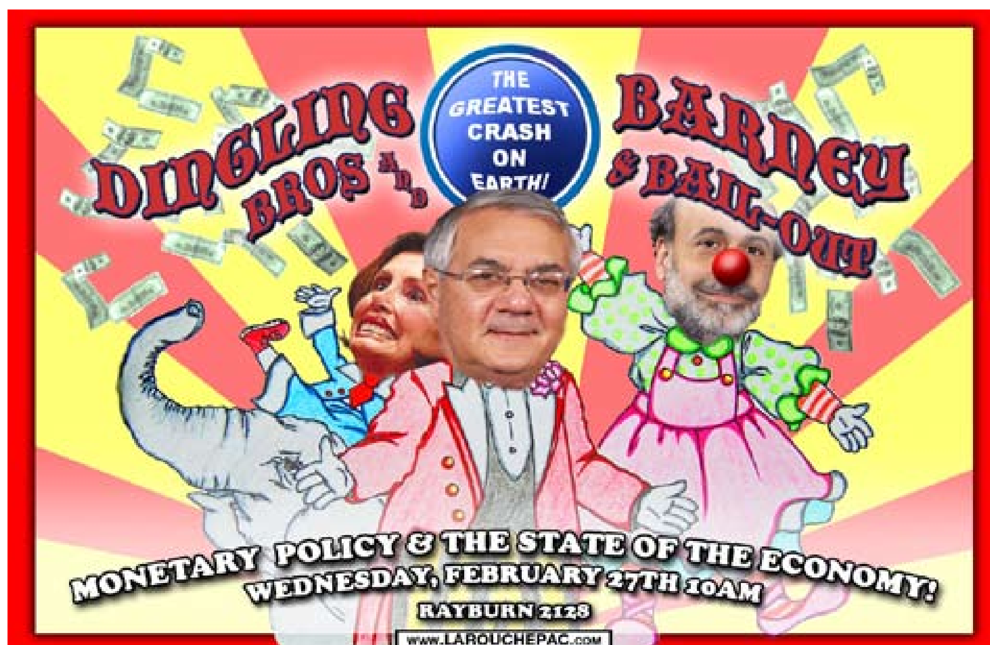
• In the ongoing deliberations on a banking reform bill, Frank blocked any House consideration of Glass-Steagall, by preventing two House bills, introduced by Reps. Maurice Hinchey (D-N.Y.) and John Dingell (D-Mich.), from coming up for debate and vote. Both bills were referred to Frank's Financial Services Committee, and Frank tossed them in the trash can. He also blocked the Hinchey bill from being added to the House version of financial reform as an amendment.

• Now, Frank continues to bat for Wall Street, in the effort to remove an amendment, incorporated into the Senate bill, under the sponsorship of Sen. Blanche Lincoln (D-Ark.), that would force banks to divest their derivatives trading desks. The Lincoln amendment, now Title 7 of the Dodd bill, is under massive attack from Wall Street's super-banks, and Barney has made clear which side of the barricades he is on.

On May 21, following a meeting at the White House, Frank publicly trashed the Lincoln amendment, declaring that it went "too far," and immediately, stock prices for Goldman Sachs and other mega-

banks that would be hard hit by the derivatives ban, shot up.

When a group of New York Congressmen, led by Rep. Gary Ackerman (D), sent a letter on June 14, to Speaker of the House Nancy Pelosi, House Majority Leader Steny Hoyer, Rep. Colin Peterson, and Frank, demanding that the Lincoln amendment be killed, Frank boasted that he had encouraged the New Yorkers to keep pressing for its removal. In a June 15 interview with the *Huffington Post*, he stated: "It's a legitimate concern of theirs, and I told them they should keep arguing."



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*Barney and the Bailout Clowns, Nancy Pelosi and Ben Bernanke.*

Ackerman had flagrantly threatened to defeat the bill if the Lincoln provisions remained intact, boasting that the entire 26-member New York delegation would defend Wall Street at all costs. "Wall Street is one of our umbilical cords, it's the oxygen," he told the *Huffington Post*.

But, the dark secret that Barney Frank desperately wishes to keep hidden, especially as the election campaign heats up, is that he has been, for the entire time he has served in the House of Representatives (beginning January 1981), Alan Greenspan's boy-toy.

A review of the 15-year Wall Street and City of London drive to kill Glass-Steagall tells the story.

## JP Morgan Declares War

In December 1984, JP Morgan, the Wall Street investment houses with the longest British pedigree, circulated an internal pamphlet, prepared by a team of in-house economists led by William C. Dudley. The pamphlet, "Rethinking Glass Steagall," was a call for an offensive to break the Glass-Steagall Act, and return to the pre-FDR era of unbridled financier cartelization. At the time, Greenspan was a JP Morgan director, and he would go on to be the single most important player in the takedown of Glass-Steagall.

"Rethinking Glass Steagall" was subtitled, "The case for allowing bank holding company subsidiaries to underwrite and deal in corporate securities." The report summary was explicit: "Fundamental changes in our economy, important shifts in the demand for financial services, and the resulting competition among different classes of financial institutions in recent years have produced what is aptly termed a revolution in the financial services market. In this environment, competitive inequalities inherent in the rigid segmentation of the financial services industry provide another compelling reason to rethink Glass-Steagall.

"This study analyzes the major issues raised by proposals to allow bank holding company subsidiaries to underwrite and deal in corporate debt and equity securities. It first examines the arguments most commonly made to justify preservation of artificial barriers to competition imposed by Glass-Steagall and finds these arguments have little merit."

The conclusions that Morgan reached come as no surprise: "The study concludes, and Morgan believes, that there is no valid reason to preserve the securities industry's protected position in capital markets." In other words, Glass-Steagall had to go.

## Morgan's Greenspan Takes Charge of the Fed

Three years after JP Morgan concluded that Glass-Steagall had to be crushed, Alan Greenspan took over the Federal Reserve. In short order, Greenspan began

to implement the takedown of Glass-Steagall, precisely as it was spelled out in the Morgan blueprint.

One of the tools that Greenspan employed, in illegally destroying Glass-Steagall years before the formal 1999 repeal, was the discretionary authority vested in the Fed chairman, based on a provision written into the Bank Holding Company Act of 1956. The bill was intended to strengthen regulation of bank holding companies, and restrict interstate banking. However, the added powers vested in the Federal Reserve Board were abused by Greenspan, to allow banks to engage in securities trading.

Prior to Greenspan's arrival at the Fed, banks were only allowed to generate 5% of their earnings from non-commercial banking activities. Through the early 1990s, according to economic historian Charles Geisst, among others, Greenspan steadily boosted the percentage, to the point that, by 1996, banks were allowed to generate up to 25% of their earnings by investment banking.

EIRNS/Claudio Celani

*Alan "Dracula" Greenspan, beginning as a director at JP Morgan, through his chairmanship at the Fed, was the single-most important player in the takedown of Glass-Steagall.*

However, under Glass-Steagall, which was still in force, commercial banks were barred from owning brokerage houses or insurance companies, despite the fact that they were allowed now to engage in significant amounts of securities marketing.

Those barriers were smashed by Greenspan, in 1988, when he granted a waiver to Travelers Insurance Company, then headed by Sanford Weill, to buy Citibank. Travelers owned Salomon Smith Barney, a large investment bank. The Travelers-Citibank merger, for the first time since the passage of Glass-Steagall in 1933, allowed a single bank holding company to own a commercial bank, an insurance company, and an investment bank.

It was a clear violation of the law, but Greenspan, in his zeal to kill Glass-Steagall, granted Travelers and Citibank a two-year waiver. In that two-year period, Weill and company would either be forced to break up the mega-bank that had just been created—or repeal Glass-Steagall, once and for all.

In the run-up to the Travelers-Citibank merger, Weill had conferred directly with Greenspan and others at the Fed, and had been assured that his efforts were in line with their own commitment to smash Glass-Steagall.

Weill launched a massive lobbying campaign, to get Congress to repeal Glass-Steagall before time ran out on the waiver. Citibank alone spent $100 million in lobbying the Congress, and other major Wall Street banks, led by JP Morgan, joined the effort.

In early 1999, both the House and the Senate introduced versions of financial reform legislation that would kill Glass-Steagall. All of the arguments, presented from the floor of the Congress, and in the backroom sessions with Wall Street lobbyists, came directly from the 1984 JP Morgan pamphlet. Greenspan had been an avid participant in the preparation of that document, and, as a Morgan director, had given it his personal imprimatur. As Geisst told a PBS-TV Frontline interviewer several years ago, without Alan Greenspan and his role at the Fed, the repeal of Glass-Steagall would never have taken place in 1999.

The 1999 Gramm-Leach-Bliley Act was bought and paid for by Sandy Weill, JP Morgan, and the other big Wall Street looters. On the Hill, as the bill pushed through conference for a final vote on Nov. 4, 1999, it was commonly referred to as "the Citi-Travelers bill," or, even, more personally, as "Sandy's bill."

## The Impeachment Factor

Without Greenspan's manueverings at the Fed, Glass-Steagall could still be the law of the land today. Without the impeachment drive against President Bill Clinton, the Gramm-Leach-Bliley bill might have gone down with the stroke of a Presidential veto pen.

It cannot be over-emphasized how much the impeachment of President Clinton was tied to the defeat of Glass-Steagall. The targeting of Clinton was strategic: It came directly from London and London's Wall Street allies, and it had everything to do with the drive to repeal Glass-Steagall.

Beginning with the so-called Asia financial crisis of 1997, and extending through the August 1998 Russian default on the GKO government bonds, triggering the near collapse of the Long-Term Capital Management (LTCM) hedge fund, President Clinton, along with Treasury Secretary Robert Rubin, came to realize that the unregulated flows of short-term capital, brought on by the wave of deregulation that began in the mid-1970s, shortly after the Bretton Woods fixed-exchange-rate system was abolished, were reckless and destructive, and could bring about a systemic collapse. Rubin also warned sharply against the "moral hazard" of bailing out financial institutions that were "too big to fail." His famous diktat, "not one nickel to bail out the banks," resounded on Wall Street at the time.

In January 1997, Lyndon LaRouche launched an international campaign for the convening of a New Bretton Woods conference, to reconstitute a global fixed-exchange-rate system, and to eliminate the very speculative capital flows that were about to gut the economies of such nation-states as Malaysia, Indonesia, South Korea, Russia, and Brazil, over the course of the next two years.

While it would be an exaggeration to say that Clinton and Rubin fully embraced LaRouche's plan for a return to FDR's Bretton Woods, there is no question that the impact of LaRouche's forecasts, and his proposal for a revival of Roosevelt's anti-colonial policies of global economic development, were felt strongly within the Clinton inner circle.

Beginning in early 1998, Clinton and Rubin were determined to formulate a "new global financial architecture." A combination of G-7 advanced sector and G-15 emerging-economy nations formed the G-22, to study alternatives to the unregulated global system. Representatives of the 22 nations met in Washington, D.C. in the Spring of 1998, and established a series of working groups, to come up with plans for a new, more regulated international financial system.

These moves by Clinton and Rubin stood in stark opposition to the Greenspan-JP Morgan-Weill drive to bust up the last vestiges of restrictive bank regulation in the U.S.A.

When, in September 1998, President Clinton traveled to New York City to deliver a speech before the Council on Foreign Relations, pressing for a "new global financial architecture," with greater regulation and restriction of short-term capital flows, all hell broke loose. Clinton was targeted for impeachment. Wall Street Democrats, led by Vice President Al Gore and Sen. Joe Lieberman (D-Conn.), joined with Britain's *Daily Telegraph* propaganda mill, to press for Clinton's resignation. The House of Representatives voted a bill of impeachment.

The issue was never the Monica Lewinsky affair. The issue was Clinton's publicly announced commitment to overhaul the global financial system, to the detriment of the speculators.

And the punishment was swift. From the time that Clinton delivered his statement of intent to overhaul the global financial architecture at the CFR in late September, to the time that the House of Representatives voted for his impeachment, took less than 90 days. London's demand for Clinton's scalp—because of his threat to re-regulate the global financial system, in cooperation with developing-sector countries that had been viciously looted by speculators—was fulfilled.

There was never a serious question about the outcome of the impeachment trial of President Clinton in the U.S. Senate. The Democratic majority was not about to vote up the articles of impeachment, despite the Gore-Lieberman efforts to seize the Oval Office. On Feb. 12, 1999, the Senate acquitted Clinton.

But the die had already been cast, and the drive for the repeal of Glass-Steagall benefitted enormously from the Clinton impeachment distraction, which killed off any efforts for a new global financial architecture. On May 12, 1999, Rubin resigned as Treasury Secretary, effective July 1 of that year. His replacement, Larry Summers, was fanatically committed to "Sandy's bill," repealing Glass-Steagall. On Nov. 4, 199, both the House and the Senate passed the Glass-Steagall repeal. A broken and distracted President Clinton signed it into law days later.

*Edward Spannaus contributed to this article.*