MOBILIZATION UNDERWAY

We Have Arrived at a Glass-Steagall Moment

by Nancy Spannaus

May 22—After a hiatus of nearly five months, a mobilization for the restoration of Glass-Steagall banking regulation as an emergency measure is finally underway in the United States. The "impressive but inadequate" political motion, as Lyndon LaRouche dubbed it, has led to a number of new signers on Rep. Marcy Kaptur's long-stalled H.R. 1489, a mass petition campaign by Massachusetts Democratic Senate candidate and media sensation Elizabeth Warren, and a broad sweep of economists and economic journalists coming forward to demand that casino banks like JP Morgan Chase be cut off from the public teat, and the FDR-era regulation reinstituted as a basic sanitary measure.

Exemplary is the excellent *St. Louis Post-Dispatch* editorial of May 15, which has since been reprinted in papers around the nation. Entitled, "What was wrong with the Glass-Steagall Act, anyway?," the editorial notes: "Under Glass-Steagall, the nation enjoyed nearly 50 years of prosperity. Commercial banks loaned money. Investment banks did deals. Securities firms sold stocks and bonds. Insurance companies sold insurance. It worked."

After reviewing the 2008 collapse, and how politicians of both parties are beholden to the big banks today, the editorial concludes: "Here's a campaign slogan: 'Bring back Glass-Steagall.' It was good enough for FDR. It was good enough for 50 years of prosperity. The money that is churning through international finance these days is doing just that—churning, creating profits, not jobs. It makes food and fuel and most everything else more expensive. It is an outsized Ponzi-scheme that enriches the few at the expense of the many."

In fact, bringing back Glass-Steagall *is* the campaign slogan of the national slate of LaRouche candidates, and now of Senate candidate Warren. Immediate action on it is not only feasible, but absolutely essential to restore order in a global bankrupt financial system. Once enacted, Glass-Steagall regulation will immediately call the question on creating the necessary *credit* to revive the U.S. and world economy, a credit system necessarily organized around the implementation of LaRouchePAC's proposal for the massive water engineering project, NAWAPA XXI.

Bankruptcy Looms

While the immediate trigger for the current mobilization was JP Morgan's $2 billion (although estimates now run as high as $8 billion or more) derivatives fiasco, what was highlighted in that event was the corrupt process which permeates the entire bankrupt trans-Atlanatic financial system. Even as the Morgan losses themselves mount, the systemic disaster which underlies the current financial system has come increasingly to light.

At the center of this bankruptcy crisis is the European debt crisis, which hangs on the utter insolvency of

LPAC-TV

There is an upsurge of visible support for reviving FDR's Glass-Steagall banking regulation, in the wake of the JP Morgan fiasco and the ongoing European debt crisis. And not a moment too soon. Shown: LPAC organizing for Glass-Steagall in Washington, D.C., May 2011.

its major banks. Despite trillions in bailouts, and an austerity regime which is leading to the brutal murder of its citizens, as in the nation of Greece, the European banks are floundering, and demanding more and more bailouts from their equally bankrupt national governments. The "solution" being presented today—as in the global system since 2007—has been more of the same: more austerity, more money-printing, and the elimination of national sovereign governments which might resist the bankers' diktats. All it's produced is more bankruptcy.

Yet the monetarists are locked into this pattern. Hear former British Prime Minister Gordon Brown, in a *New York Times* op-ed today: "The specter of unstoppable runs on banks will hang over everything until there is decisive action." The decisive action he mentions is another *$1 trillion bailout.*

Ditto, of course, for the U.S. side of the Atlantic, where British puppet Barack Obama is implementing his version of the same program, while pouring Federal Reserve money into the European financial corpse, and demanding more murderous budget-cutting in return. As the case of JP Morgan underscores, the trans-Atlantic banking system is one bankrupt whole (or should we say "hole"?), which is teetering on the brink.

Take the derivatives trade, for example, which would have been banned by the Glass-Steagall law which Congress repealed in 1999. The recent JP Morgan loss was the third time in a little over a decade that the completely unregulated London office of a financial institution, whose dangerous size or even existence would have been impossible under Glass-Steagall enforcement, brought on financial crisis and bailouts. The first was LTCM in late 1998-early 1999; the second, AIG Financial Products in late 2008; the third, JP Morgan Chase's "chief financial office" now. In each case, commercial bank deposits and loans, or insurance premium revenues, were used to feed huge casino speculations which blew up—which would have been illegal under Glass-Steagall.

Yet, along with Barack Obama, the political leadership in all the European nations, and with the possible exception of the newly elected French President François Hollande—insists that "free markets" and hedging are essential to maintaining their system. In fact, they are, which is why their system is killing people, and must be replaced. There is no solution without the illegitimate debt being cancelled, and a new credit system established.

Glass-Steagall, Not the Volcker Rule

While the LaRouche candidates have been consistent voices for restoring Glass-Steagall, and LaRouchePAC the driving force behind bringing the Congressional supporters for H.R. 1489 up to 62, the JP Morgan blowout has emboldened numerous economic experts to come forward.

On May 14, Massachusetts Senate candidate Warren, a bankruptcy law expert, posted an Internet petition and broad appeal for the re-establishment of a new version of Glass-Steagall. "It's time for Congress to put Wall Street reform back on the agenda. We support passing a new Glass-Steagall law to prevent too-big-to-fail Wall Street banks from taking huge risks with people's life savings—and then expecting taxpayer bailouts," she wrote. Over 24 hours, more than 50,000 people signed; the numbers now stand at about 88,000, and growing.

Warren's call came simultaneously with a number of opinion pieces in favor of Glass-Steagall by longtime advocate, former Labor Secretary Robert Reich.

Both Warren and Reich have not only hammered away at the need for banking separation, but they have competently ripped apart one of Wall Street's favorite rejoinders, which is that all that has to be done is to strengthen the Volcker Rule in the Dodd-Frank "financial reform" bill.

In an NPR "Market Place" radio interview on May 16, Reich said, "Let's stop hoping Wall Street will mend itself. And stop pretending the Volcker Rule, with its giant loophole, will be adequate to separate the casino of investment banking from commercial banking's necessary role of taking in savings and lending them out. We need Glass-Steagall back."

Interviewed by the FireDogLake blog site May 17, Warren, who had supported enforcement of the "Volcker Rule," was asked whether the Volcker Rule and Glass-Steagall are two ways to get at the same problem. She said, "They aren't the same. Complexity surrounded the implementation of the Volcker rule. JP Morgan Chase is teaching the entire world right now about the consequences of complicated approaches to regulation. If it's true that the Volcker rule can't adequately manage the risks that the largest banks are determine to take on, then the right answer is Glass-Steagall. A modernized Glass-Steagall. Separate commercial banking from Wall Street."

This new wave of promotion of Glass-Steagall has not gone unchallenged, of course. Known anti-regulation economists, like Peter Wallison, and anonymous ones have come forward to try to ridicule the obvious. In the May 28 "Morning Money" feature, Politico columnist Ben White reports: "[A] Lot of push-back to the Elizabeth Warren interview in yesterday's Morning Money ... One top policy expert and former Federal Reserve Official, who requested anonymity due to ongoing dealings with regulators: 'Warren made an assertion that has been repeated so often in recent years that it risks becoming conventional thinking—and yet is completely and dangerously wrong. Ms. Warren called for the return of Glass-Steagall, stating that "banking should be boring. Risk-taking should be separated from ordinary consumer banking...." The problem with Ms. Warren's reasoning is that it bears no relation to financial reality. The inconvenient truth is that 'plain vanilla' lending is far and away the riskiest activity any financial institution can engage in. Virtually every financial crisis in history—including the most recent one—was caused principally by lending-related losses.

"...Banks are in the risk-taking business. Their job in the economy is to take risks...."

On to NAWAPA

Did you perhaps think that banks had a purpose other than gambling? Like, maybe, investing in the physical economy? That was the conception Alexander Hamilton and America's other Founding Fathers had, and it's an idea embedded in our Constitution. It's an idea which has been lost during the post-FDR period, when we began "making money" rather than producing real wealth.

Producing real wealth requires *credit*, which is not money, but the mobilization of labor and machine power for the real work of building infrastructure, physical goods, food, and the like. Issuing credit is a commitment of resources to create a future—as Franklin Roosevelt did with the TVA, and John F. Kennedy did with NASA. People are put to work to build something entirely new, with the backing of the "full faith and credit" of the Federal government.

Indeed, such credit creation is going to be essential to get out of the current bankruptcy crisis. Once the gambling money has been cleaned out of the banking system with Glass-Steagall, there is not going to be sufficient accumulation left to invest. Investment is going to require government-backed credit for a specific huge project—in this case, the unprecedentedly massive project called the North American Water and Power Alliance (NAWAPA).

LaRouche and LPAC estimate that an immediate 4 to 6 million people can, and must, be put to work in order to construct NAWAPA. Those productive jobs will form the basis to mobilizing government and private credit, to restart the economy, and put the U.S. on the road to recovery. (For more on this concept, see NAWAPA XXI at www.larouchepac.com.)

Glass-Steagall is just the beginning of a total revival of the U.S. economy, which cannot be delayed.