

Why Wall Street Must Be Shut Down

by Leandra Bernstein

This is the text of a July 31 LaRouchePAC [TV program](#).

When Glass-Steagall is re-enacted, the U.S. government will orchestrate the largest market crash in human history. We have the authority to do it on the basis of national security; we have the power to do it in an orderly way; and we must do it to defend the nation from an axis of modern-day fascists centered in London and on Wall Street.

Banks and non-banks operating in the U.S. will have a period in which to choose: Either they divest themselves of their gambling operations and receive Federal protection as commercial banks under the Federal Deposit Insurance Corporation (FDIC), or their investments, securities, and other speculative operations will be cut off from the government safety net, and they will fend for themselves on the free market. Most of them will fail as hopeless bankrupts, but no one of relevance will shed a tear.

At the time of its enactment, every asset, every X-, Y-, and Z-backed security that the Federal Reserve and U.S. Treasury have financed through a government/taxpayer guarantee, will be either called in for repayment, or allowed to *float* on the market, inducing the fiercest margin call Wall Street could ever have imagined. This action of removing the government backstop on Wall Street losses will not be another Black Monday, or a Black Tuesday—it will be *White*, that is, lower Manhattan will be the epicenter of the detonation of a financial H-bomb.

At that time we, the U.S. government, will gain the

upper hand, and have options to maintain the functioning of society. For example, we will be responsible for stabilizing and guaranteeing the means of existence, which had been traded as gambling chips on Wall Street and in other shadow markets. Therefore, the day Glass-Steagall is enacted, we *shut down Wall Street*. To avoid a bloodbath, or a mass-murderous selling spree, we simply shut down trading for the day, and the day after, and the day after that—and indefinitely. Prices will be frozen until further notice. Nobody moves. Wall Street takes an indefinite Bank Holiday.

The people, the companies, and the institutions which relied on the free market (which we now know is a euphemism for the *rigged* market), will be supported under Glass-Steagall. Enacting Glass-Steagall in this way, and *only this way* will ensure that material goods and services are priced within reach, to promote continued economic activity, on a rational exchange, established by sane government officials, which fixes prices on the basis of physical costs to producer and consumer. We are going back to what Franklin Roosevelt did and what worked. And we're going to do this, because if we don't, millions of Americans will die—just as they are slated to die in Detroit.

A Systemic Failure

The idea that we have to prevent a crash of global systemically important financial institutions (G-SIFIs) is over. The days of G-SIFIs blackmailing governments, by arguing that their failure would lead to the unravelling of the whole economy, are over. The econ-



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The day that Glass-Steagall is enacted, we will shut down Wall Street. Here, Detroit political leader LaMar Lemmons III joins LaRouchePAC organizers at the Capitol to demand the restoration of Glass-Steagall.

omy is already shot. And the day of the crash of these institutions will inevitably come—no system could preserve them. FDIC Vice Chair Thomas Hoenig made a crucial point in testimony to the House, when he said that there won't be a situation where a single G-SIFI fails; it will be a systemic failure. And that is what we are facing right now.

The fact is, Wall Street and its international partners have known that, as a cold hard reality, since 2007-08. Lyndon LaRouche forecast that in July 2007. When it came to the bailout, these institutions were already bankrupt. The bailout was simply a way to rope the *nation* into the collapse, to bring the government and the people down, while trying to save Wall Street. And the blackmail has worked, so far, to keep that system going under the two complicit presidencies of Bush and Obama.

There are still some people who believe that the Wall Street bankers didn't plan for this day. Frankly, their foot-dragging and self-consoling delusions are the reason the United States will lose everything; the reason you lost your high-paying job; the reason your family member was cut off from health care; the reason your neighborhood is rotting. You see, Wall Street already has a plan—actually it's a law. It's called the Dodd-Frank Act, and it endows the Executive Branch, through the FDIC and the Financial Stability Oversight Council (FSOC) to enact ad hoc crisis-management rules, which have not been defined in law, to ensure “financial stability.”

As LaRouchePAC has reported in other locations, what is meant by financial stability is: The people, the

depositors, the pensioners, the government workers, anything but the hyperinflated financial instruments, will be liquidated. The banks and financial institutions will be resolved and allowed to stay in operation, and the United States of America will be sold for scrap to finance it.

Now, if you want to die, then say: “We can't shut down Wall Street. We *ne-e-e-e-ed* the free market. Give Dodd-Frank time to work. The government has no place in the economy! We have to respect the investors!”

If you want to live, we are prepared to run the American economy. And we are prepared for

the outcome of reenacting Glass-Steagall.

Six Steps

The following six detailed steps drafted by *EIR* economist Paul Gallagher, are a preliminary course of action that will be taken by us in enforcing the reestablished Glass-Steagall law:

First: Prosecute Wall Street and Eurozone banks for crimes of looting the public.

- The fraudulent sales of interest-rate swap derivatives to cities, counties, and states, must be prosecuted as securities fraud against unsophisticated investors, namely, the public agency officials who were induced to buy the swaps;

- Prosecute the looting through commodity and service price hyperinflation. For example, the JPMorgan scheme in California, which involved selling California power operators electricity at \$999/MWe, when the going price was \$12/MWe.

Second: End the bank holding company status of Goldman Sachs and Morgan Stanley.

- The derivatives, MBSs [mortgage-backed securities], and other instruments come off their commercial banking units, and must be taken on the books of their investment banks and other securities divisions. This means there is *no* possibility of bailout or bail-in for these securities.

Third: Enforce the legislative section that bans banks or holding companies from putting non-bank-qualified securities—including derivatives and

MBSs—on their insured commercial bank’s books.

- This prohibits the U.S. government from using Federal credit from the Fed or FDIC to lend against or buy these securities. Again, this means no bailout or bail-in for these securities.

- It also means the Federal Reserve will not be allowed to hold its current \$1.3 trillion in MBSs. There will be a put-back to the Wall Street banks which sold them to the Fed at the price the Fed paid for them. The obvious question is: Do those banks have \$1 trillion or more to buy back their trash?

Fourth: Enforce the legislative section prohibiting commercial banks/bank holding companies from owning commodities, commodities broker-dealers, like MFGlobal, or commodities production or transportation infrastructure.

- This means JPMorgan Chase has to sell JPMorgan Ventures Energy Co. and its various other commodities-trading divisions; Barclays, Goldman Sachs, Morgan Stanley, Citigroup, State Street Bank, and other big banks, will all have to do the same. Without the liquidity from the commercial banks, it is highly unlikely that these divisions will survive.

Fifth: Enforce the closure of branches of banks

whose parent banks or holding companies are outside U.S. banking law, and thus have investment practices that can’t be limited by the U.S. Glass-Steagall law.

- With this step, the Federal Reserve must close all liquidity loans to U.S. branches of European banks, and must demand put-back of MBSs and U.S. Treasury securities it has bought from these European banks during QE1-4.

- Further, nearly all U.S. operations of the large European banks have to be shut down or immediately reorganized as completely separate companies.

Sixth: Break up the largest U.S.-based bank holding companies.

- Under the law, Citigroup will have to break off all nine divisions (including hedge funds, private equity funds, etc.) of its Securities and Banking Group; its Institutional Portfolios Division; and its Brokerage and Asset Management Division.

- Wells Fargo will have to divest from Wells Capital Management Division, Wells Fargo Securities investment bank, Wells Fargo Advisors, and Wells Capital Management.

- Bank of America will have to divest from Merrill Lynch, Countrywide Financial, Bank of America Equities, and its investments in various hedge funds.

- JPMorgan Chase will have to divest from JPM Investment Banking Division, JPM Hedge Fund Services, JPM Partners; Worldwide Securities Services, and Bear Stearns Investment Bank.

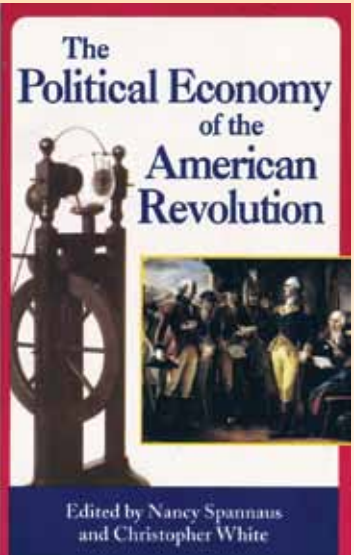
- Morgan Stanley-Smith Barney will have to give up the bank holding company status it was granted by the Treasury and the Federal Reserve when it took on the TARP bailout, because it has no commercial banking business. The same will apply to Goldman Sachs.

The Hard Facts

These are the hard truths of Glass-Steagall that are not being discussed, even by those who are the greatest champions of the Act. The American people have a right to know the benefits and security they will be guaranteed through the restoration of Glass-Steagall; and Wall Street has a right to know how they are going to be shut down.

We are at a crossroads, either we stand and fight with this knowledge, and demand our representatives in Washington do the same, or we prepare to sacrifice everything, our lives, our fortunes, and our sacred honor, to our enemy.

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