# Banks Held Off Glass-Steagall In 2013; Nations To Pay Price

by Paul Gallagher

Jan. 4—The big trans-Atlantic banks and their hypocritical regulators ended 2013 "Stumbling Toward the Next Crash," as former British Chancellor and Prime Minister Gordon Brown stated it Dec. 16 in the *New York Times*.

To quote Brown's op-ed so headlined, "The problems that caused the 2008 crash—excessive debt, shadow banking and reckless lending—have not gone away. Too-big-to-fail banks have not shrunk; they've grown bigger. Huge bonuses that encourage reckless risk-taking by bankers remain the norm. Meanwhile, shadow banking—investment and lending services by financial institutions that act like banks, but with less supervision—has expanded in value [of assets—ed.] to $71 trillion, from $59 trillion in 2008." He described "world leaders in retreat" from the threat, but did not specify the reason.

That reason is a barrage of threats, campaign-finance bribes, and propaganda by which the biggest banks and securities industry associations staved off their greatest fear, the re-enactment of Glass-Steagall laws in the United States and several European countries. Those laws would reorganize commercial banks into regulated and protected lending institutions for businesses and households, and separate off thousands of securities-dealing entities, many of them to die in the collapse of the superheated debt bubbles which central banks have been bailing out.

Realizing in early 2013 that they had been "flanked" by a U.S. political mobilization catalyzed by LaRouchePAC and *EIR*, and that Glass-Steagall restoration was becoming a real prospect, the biggest banks counterattacked through the year. Even as they were being fined huge sums almost weekly for the last 15 years' crimes of "securitization," the banksters took to the press while threatening members of Congress and state officials. Their pitch: The U.S. and European economies need banks to be big and "diverse" (i.e., securities broker-dealers and derivatives swappers of every variety); such huge and "diverse" banks had nothing at all to do with the 2008 crash; and if any further elected officials step forward to sponsor Glass-Steagall, the banks will hit them with financial warfare in their state and/or district, killing jobs in any way they can. Bank lobbyists communicated this to many members of Congress; state legislators were openly threatened; national press were ordered to follow the line that "Glass-Steagall has no chance of passage."

For 2013, the banksters held Glass-Steagall off. They overcame widespread public support for this sane solution in the U.S., with bills in both Houses; support for Glass-Steagall among a majority in the U.K. Parliament; votes for Glass-Steagall in the Swiss Parliament's lower house; and had to bring in the entire European Commission bureaucracy and threats by the global banks to stop a move in the Belgian government to put through a Glass-Steagall law after a long mobilization by LaRouche co-thinkers there.

### The Consequences

As a result, the biggest banks ended 2013 incubating a new financial collapse. In what must be called the "financial crime of the century," the Federal Reserve has used "bank excess reserve creation"—quantitative easing, or printing money—to pump $2.2 trillion into the biggest U.S.-based banks, and another trillion into equally large European banks through their speculative U.S. branches.

The Fed has made these too-big-to-fail banks nearly 40% larger, by assets, than they were before the 2008 bank panic. The biggest banks have effectively become the American banking system; the "Big Six" have 65% of all bank assets, and the top eight have 75%, or $15 trillion, nearly equal to the U.S. GDP. Yet the level of lending, to businesses and households, by the 10 biggest U.S. banks has fallen by about $700 billion since 2008. The percentage of these huge banks' assets which represent lending has fallen into the 30-40% range for all but one; the rest of their assets are in the securities and derivatives markets, or supporting the operations of broker-dealers, hedge funds, money-market funds, or the thousands of securities subsidiary units which each one of these giant bank holding companies owns.

In Europe, the situation of the banks is worse; the giant Deutschebank-Morgan Grenfell, for example, has just 11% of its assets from lending; in effect, it has become a giant "shadow bank."

Since government investment makes essentially zero contribution to the development of modern infrastructure and productivity, such a collection of completely dominant, hyperspeculative banks is obviously recreating large debt bubbles which will again collapse. Moreover, they—and the central banks—are starving the trans-Atlantic economies of real credit. Those economies are now characterized by persisting mass unemployment/underemployment, loss of industry, and shifting of GDP away from payments to labor and into profits. They are also hit by a deep general austerity, not only in the "peripheral" countries of Europe which have gone bankrupt bailing out their banks, but everywhere. In the supposedly "recovering" U.S. economy, falling real household income, still-increasing official poverty and food insecurity, declining overall use of health-care facilities, and the threatened general loss of public employees' pensions triggered in Detroit, tell the story.

The general name for this deadly austerity is "bail-in," or "orderly liquidation," the supposed alternative to taxpayer bailouts of failing institutions. The City of Detroit, for example, is not a bank, but is being "liquidated" in a process which directly imitates the Bank for International Settlements' horror-fantasy known as "bail-in." That is a process in which anyone holding legal liabilities of the bank (or, the city) can have assets confiscated, but the protected payments to the *exceptions*—the financial institutions which hold "qualified financial contracts" (financial derivatives, repo agreements)—take priority.

Even some of the strongest proponents of this BIS scheme, such as European Central Bank director Mario Draghi and New York Fed Reserve president William Dudley, have warned that just *planning* it could cause chaotic bank runs by bondholders and depositors. Fevered EU finance ministers' meetings have been unable to escape the fact that bail-in of the biggest banks requires governments to set up large "orderly liquidation funds"—i.e., bailout.

The IMF has published two proposals in the past four months that the entire EU—at least—swiftly impose a "global accounts tax" or "savings tax" of 10%; the confiscation being to reinforce government coffers for handling the debt crisis in the banking system. The September report was "disavowed" by the IMF after causing a furor, but now it has commissioned two well-known Harvard economists, Kenneth Rogoff and Carmen Reinhart, to write a Dec. 30 published report proposing the same thing. They warn that the trans-Atlantic region has built up a debt bubble bigger than at any time in the past 200 years, and that unless there is a massive debt write-down, there will be a new financial explosion soon. The debt bubble, the report's authors warn, "will require a wave of haircuts, either negotiated 1930s-style write-offs, or the standard mix of measures used by the IMF in its 'toolkit' for emerging market blow-ups." The authors warn that the debt bomb could detonate in a "peripheral country," such as Turkey, in Europe.

Against this background, the late-2013 "show" by bank regulators—announcing new capital levels for the biggest banks and promulgating the Volcker Rule on proprietary trading—are like quick-fizzling firecrackers. The capital standard will likely be postponed *beyond 2018* due to bank resistance, and the Volcker Rule is a mass of loopholes, even in the areas where the financial press initially called it tough.

The nations where Glass-Steagall was blocked in 2013, especially the United States, will have much to regret if they don't act fast now.