GLASS-STEAGALL

The Constitutional Solution To Goldman Sachs' Criminality

by Nancy Spannaus

May 3—Franklin Delano Roosevelt would have cracked one of his broad, infectious smiles, had he been present at Sen. Carl Levin's (D-Mich.) interrogation of four Goldman Sachs executive shysters on April 27. Having invoked the image of the dramatic 1933 Pecora Commission the previous day, Levin proceeded in the same spirit as the feisty Ferdinand Pecora, pulling out document after document which demonstrated the systemic, sleazy criminality of the investment bank—which, incidentally, had succeeded in eluding successful prosecution back in 1933. Levin kept Lloyd "Doing God's Work" Blankfein on the stand for nearly four hours, exposing his arrogant, sanctimonious attitude toward the criminal looting which Goldman carried out against the American population.

Equally pleasing to FDR, our last President imbued with the principles of the American System of Economics, would have been the news on the following day, that the Securities and Exchange Commission (SEC), which the previous week initiated civil charges against Goldman Sachs and its employee Fabrice Tourre for violating the Securities Act of 1933, had referred the case to the Federal authorities for criminal prosecution. Goldman Sachs is definitely on the ropes.

But, as Lyndon LaRouche has been fond of saying recently, "Die Hauptsache ist der Effekt" ("The main thing is the effect"). What will be the result of the aggressive Senator's assault on this obviously criminal behavior, which does, after all, characterize the functioning of the entire world of finance today? Indeed, what is the intention of those backing the Senator's belated campaign to expose Wall Street's gouging of the population? How far, and where, do they intend to go? Will their actions be sufficient to stop the implosion of a bankrupt monetary system, which has brought us to the edge of a New Dark Age?

FDR, in his time, knew precisely where he was going, and where the principles for achieving the necessary changes in the nation's financial system originated. Relying on his family connection to the anti-British fight of our first Treasury Secretary, Alexander Hamilton, through his great-great-grandfather Isaac Roosevelt, who collaborated with Hamilton at the Bank of New York, FDR was determined to reinstitute the constitutional principle of sovereign control over national credit, in defense of the general welfare—both at home and abroad. This was essential, he knew, to defeat the *imperial* monetarist system which Great Britain dominated, and which, if it were not buried, would lead to continual wars, even after the impending World War II was won.

The concrete implementation of that intention lay in FDR's full legislative agenda, but especially the Glass-Steagall Act of 1933, and the establishment of the Bretton Woods institutions in 1944. Although sabotaged by the British and their stooges in their implementation, especially after the President's death, the principles behind these measures provide the only constitutional means for superceding the horrors which British-controlled Wall Street has wrought—and threatens to am-

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Sen. Carl Levin's interrogation of four Goldman Sachs executive shysters on April 27, would have made President Franklin Roosevelt very happy. Levin (shown here druing the hearings) and his fellow Senators hammered Goldman CEO Blankfein for nearly four hours, exposing his arrogant, sanctimonious contempt for the Congress and the American people.

plify in the days ahead—and for building a future worthy of mankind.

FDR's Intention

As this is being written, LaRouche PAC's video team has begun a crash project to produce an historical feature series on the principle of action that FDR applied to create Glass-Steagall and the Bretton Woods system, and which must be taken up again today. While the video presentation will be the most effective form of communication of these concepts, especially for the age group between 25 and 50, the following outline introduces the essential principles involved.

In his third Fireside Chat, on July 24, 1933, in the wake of the passage of Glass-Steagall Act and other major legislation of the First Hundred Days, FDR presented what he called the "fundamentals" of his economic program. He asserted boldly—and contrary to most historians, pro and con, today—that "all of the proposals and all of the legislation since the fourth day of March have not been just a collection of haphazard schemes, but rather the orderly component parts of a connected and logical whole."

The content of that unified program—the program of the New Deal—was described explicitly by the President in his introduction to the second volume of his public papers. "The New Deal was fundamentally intended as a modern expression of ideals set forth one hundred and fifty years ago in the Preamble of the Constitution of the United States—'a more perfect union, justice, domestic tranquility, the common defense, the general welfare and the blessings of liberty to ourselves and our posterity.'"

Thus, the Federal government's commitment to promote the general welfare and secure of blessings of liberty to the American people and its posterity, was the overarching principle behind all FDR's actions. Government intervention was specifically to be pitted against what FDR called "blind economic forces and blindly selfish men." He asserted that "I have no sympathy with the professional economists who insist that things must run their course and that human agencies can have no influence on economic ills."

FDR knew, from the get-go, that he had to reestablish the constitutional power, and principles, of the Federal government over the economic "market" forces which had laid low the United States, and the world. And he knew quite well that those "blind forces" were actually guided by the financial imperialism being exercised from London, as was shown in the actions he took against Britain's, and Wall Street's, attempts to use the gold standard against the United States in the Spring of 1933. To fight that sabotage, he used the Trading-with-the-Enemy Act to seize control of the gold market for the government. He also submitted *all* banks—including the arrogant J.P. Morgan et al.—to his Bank Holiday closure, which brought with it a thorough audit of the obligations and assets of those institutions.

The President also asserted the principle that the general welfare of the nation comes before international concerns, refusing, for example, to attend the London World Economic Conference in the Spring of 1933, because there could be no currency stability without establishing economic stability first.

The Pecora Process

In his July 24, 1933 Fireside Chat, FDR said that the *sine qua non* of his efforts to bring about a recovery was "in preserving and strengthening the credit of the United States government," because without that, no leadership was possible. Concretely, this meant taking on the

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FDR's deep family connection to the American System of economics informed his determination to reinstitute the Constitutional principle of sovereign control over national credit, in defense of the general welfare—both at home and abroad.

nation's top bankers—the Morgans, the Mellons, and the like—for their exercise of virtually dictatorial power, and their pursuit of profit at the expense of the welfare of the nation, including that of productive industry and agriculture, and the population's standard of living, and reasserting sovereign power over credit.

As FDR put it in his public papers: "Because the American system from its inception presupposed and sought to maintain a society based on personal liberty, on private ownership of property and on reasonable private profit from each man's labor or capital, the New Deal would insist on all three factors. But because the American system visualized protection of the individual against the misuse of private economic power, the New Deal would insist on curbing such power."

On March 29, 1933, FDR proposed and rammed through, on the strength of Pecora's vigorous exposure of the Wall Street bankers' arrogant criminality, the Securities Act, which gave the Federal Trade Commission (later the SEC) the power to supervise issues of new securities; required each new stock issue to include a statement of relevant financial information; and made company directors civilly and criminally liable for misrepresentation. (You can see here how the shoe fits Goldman Sachs.) Then he moved to pass the Glass-Steagall Act.

The preamble to the Glass-Steagall Act, which runs a mere 37 pages, is simple, if low-key. (Beware those 1,500-page monstrosities, like Sen. Chris Dodd's current "financial reregulation" bill—they are simply obfuscatory roadmaps for maintaining the bankers' power.) It read: "To provide for the safe and more effective use of the assets of banks, to regulate interbank control, to prevent the undue diversion of funds into speculative purposes, and for other purposes."

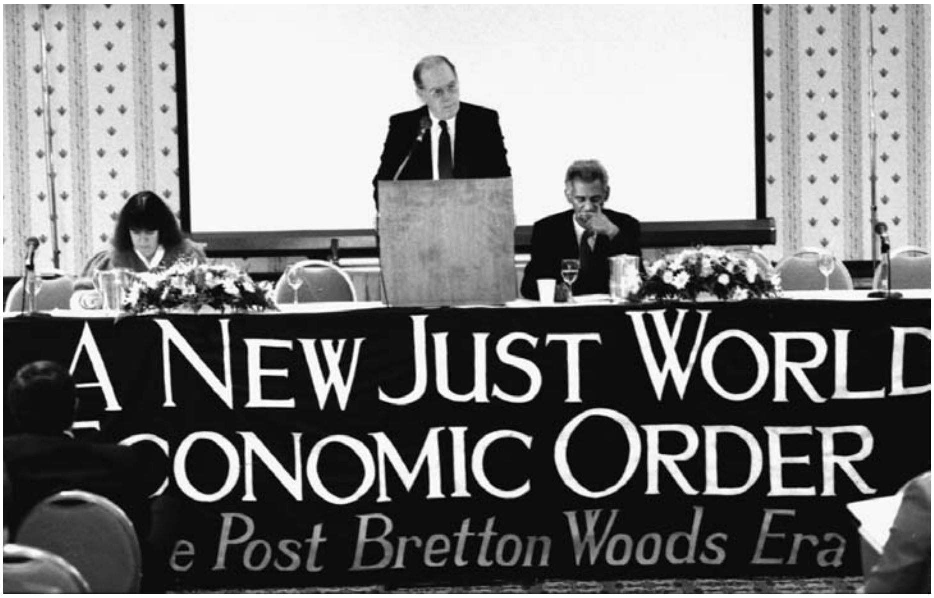
To accomplish these purposes, Glass-Steagall dictated the establishment of a *firewall* between commercial banking and investment banking. A commercial bank, a bank which holds citizens' deposits, for example, and then uses those deposits for investments in the real economy—industry, agriculture, small business, housing—cannot engage in speculative investments. It cannot use the savings of citizens to make money on the banks' own investments. The law also put in certain controls over interest rates that commercial banks could pay.

In other words, Glass-Steagall banned commercial banks from getting involved in a secondary market in debt—where you take a financial instrument, or your client's money, and speculate on its value, day by day, quite apart from, given the time scales, anything going on in the real economy. Commercial banks couldn't sell the mortgages and securitize them, the way we have today, and turn them into investments that people speculate on. They were to be linked to the physical economy, where long-term, low-interest loans—the quick buck—was the requirement.

To underscore the point, the Federal Deposit Insurance Corporation, which was also created by the bill, applied only to deposits in commercial (i.e., regulated) banks.

The enforcement of this principle was crucial, FDR knew, not only for protecting the welfare of the common man, but for permitting the buildup of the physical economy so desperately required for the coming war against Hitler, a war he hoped would be the final horror generated by the British imperial system.

It's not hard for people today, in the wake of the collapse of the speculative bubble led by mortgages in 2007-08, to agree that FDR was right to attack speculation. But, what has to be seen is the *principle* involved here, specifically the implementation of the constitutional mandate that *Congress* control the creation of currency for investment in the productive economy—rather than permitting private financial interests to use the power of the government (the Federal Reserve, etc.), to generate untold speculative money and debt, which can only lead to the ruin of the nation.



EIRNS/Philip Ulanowsky

The Bretton Woods system, as conceived by FDR, was intended to provide a framework for ending all imperial systems, in favor of cooperation among sovereign nation-states for economic, scientific, and technological progress. Here, LaRouche addresses a conference in January, 1988. With him on the podium, Helga Zepp-LaRouche and the former foreign minister of Guyana, Fred Wills.

It was precisely because Glass-Steagall maintained such limits that British-controlled Wall Street fought to lift them, in a process that went from 1971 to 1999, with their formal burial in the Graham-Bliley-Leach bill which repealed Glass-Steagall that year.

National Sovereignty

A true historical understanding of the fight for the American Constitution—from the founding of the Massachusetts Bay Company forward—requires another fundamental principle which Franklin Roosevelt also deeply grasped, the principle of national sovereignty. FDR's assertion of the Federal government's power over credit, and in defense of living standards, was taken in direct implementation of this principle. And, unlike many other American Presidents who "talked the talk," FDR passionately defended the right to national sovereignty for all other nations as well, be they great or small.

What he understood is that the sovereign nation-state—as opposed to empire, and specifically the British Empire—was crucial for developing the physical and moral conditions of life for the people of the world. He knew that it was the imperial system itself that had led to the current world war, although he was forced to ally with Britain to defeat Hitler. But then, the British Empire itself had to be dismantled. FDR had visited Gambia and was shocked by the immiseration the British had created while extracting wealth from that colony; he understood from his own family history what the British had done to the American colonies. He knew that economic prosperity for any country depended upon the economic prosperity of all, and that this could only be implemented through a system of nation-states.

This concept, along with the concept of constitutional control over money, was thoroughly embedded in FDR's proposal for the Bretton Woods system, which was intended to provide a framework for *ending* the British and other empires, and for rebuilding the war-torn world. While the International Monetary Fund was set up to deal with current account imbalances, FDR conceived of the World Bank as an instrument for funding the infrastructure projects necessary to develop the Third World. The mission of the Bretton Woods system was to be cooperation among nation-states for economic development, scientific, and technological progress.

To do this, FDR understood, just as you could not have commercial banks speculating with people's savings, you could not have international financiers speculating on currencies: That would prevent the long-term investments in development that you required. Thus, there had to be a fixed-exchange-rate system of currencies, agreed upon by the major economic powers in a treaty organization, which would provide the basis for nations working together for the common purposes of all mankind.

While the British, with President Truman's help, succeeded in sabotaging much of this program, the intent remains a model for today.

Where Do We Go from Here?

While bills to revive Glass-Steagall were introduced in both the House and the Senate in December 2009, they have been languishing for lack of the necessary political kick-in-the-ass from the U.S. population. Even Goldman CEO Blankfein testified implicitly to the crucial role that Glass-Steagall would play in preventing crimes such as his, arguing that the removal of the bill was a crucial factor in permitting the firm to act as it did—i.e., commit systemic fraud (see *Documentation*).

To create a true credit system which would eliminate the fraud, and create the basis for productive growth, LaRouche on April 28 specified two immediate but interconnected measures:

"You have a crisis, which is beyond palliatives: You must now make a reform. You must start with the United States, with the Franklin Roosevelt approach, which had two steps to it: The first was the reform, Glass-Steagall; the second one was 1944, the fixed-exchange-rate system. Without the combination of the two, you could not organize a revival of the world economy! If you don't have a fixed-exchange-rate system and a global Glass-Steagall system, you can not revive the world economy! And we never did.

"The world economy has been in an overall, general collapse, since the day after Franklin Roosevelt died! Because the Truman Administration cut back on the potential represented by the industries, which had been war industries; these war industries were the basis for supplying the high-technology-driven things to develop the former colonial nations, and to rebuild Europe, to rebuild the Soviet Union, to rebuild China.

"So, by cutting back on the so-called reduction of the investment in so-called war production at the end of the war, we ensured a general, long-term collapse of the world economy, physically. And that's what's led to this.

"We now have to reverse that. Therefore, we have go back to Roosevelt's intention. And you'll not be able to *do that*, unless the United States initiates that. It's not possible. And if we don't concentrate on the kind of programs which are necessary for that, we're not going to make it."

Phil Rubinstein contributed to this report.

Documentation

Confessions of Goldman Sachs

The fraud carried out by Goldman Sachs against its clients—that of assembling worthless securities in packages to sell, and then betting against the very securities that it was selling—is inherent to the post-Glass-Steagall system. Indeed, the Goldman executives who testified before the Senate Subcommittee on Permanent Investigations, confessed freely to the facts *of what had happened, but defended their actions as legal, in part, because the laws against such fraud have been so weakened, and, in their view, this is the way "the system works."*

We include here one of the salient interchanges, to give the flavor of the arrogance which characterizes this system—which must be eliminated if we are to reestablish an economy based on promoting the general welfare.

Delaware Democratic Sen. Ted Kaufman asked Goldman CEO Lloyd Blankfein: Is it fair to say, in the last 30 years, that Goldman has focused more and more of its own resources and gained more and more of its revenue from trading on its own account, without the need for clients?

Blankfein: We have focused more—we have focused more and more in trading as a principle. . . .

Kaufman: But it's evolved away from kind of the classic investment banking and gotten more and more to trading?

Blankfein: Well, I would say that increasingly—and this is a change in the sociology of the business that took place over the last 15 or 20 years—*I'm not sure if it was precipitated by the fall of Glass-Steagall or it caused Glass-Steagall to fall*, as U.S. institutions had to become more competitive with global institutions.