

Down to the Wire To Restore The Glass-Steagall Principle

by Nancy Spannaus

Oct. 30—A testament to the fraud that is the U.S. Presidential election campaign, is the fact that the bankruptcy of the North Atlantic financial system, and the growing movement for reimposing Glass-Steagall regulations, have not even been mentioned in the official debates and campaign ads. Like the overriding issue of the British-Obama drive toward thermonuclear confrontation with the Russians, the restoration of FDR's Glass-Steagall principle is a matter of life-or-death for the American population. And it stands within the core of principled issues required for a non-partisan U.S. Presidency to rebuild the economy.

As shown by the fight waged by Senators Maria Cantwell (D-Wash.) and John McCain (R-Ariz.) back in 2010, the Glass-Steagall dictate for strict separation of commercial and investment banking, with its de facto denial of bailouts to the investment banks, is a bipartisan cause, and a highly popular one at that. Over the Summer of 2012, top bankers who had previously fought to overturn Glass-Steagall, including members of the London elite, also joined the campaign to restore Glass-Steagall, making it clear that the refusal to do so was creating the danger of a new, even more devastating financial blowout in the trans-Atlantic economy. Eighty-two Congressmen, including a number of Republicans, have signed on to Rep. Marcy Kaptur's (D-Ohio) HR 1489, which would reimpose banking separation.

Up until last week, however, the Presidential candidates remained silent on the issue.

Then, on Oct. 25, *Rolling Stone* published an interview of President Obama with reporter Matt Taibbi, who asked the President about banking reform, and the Dodd-Frank bill. Obama replied by defending his bill, and noting that *Rolling Stone* had previously criticized him for not going with Glass-Steagall. He said:

“But there is not evidence that having Glass-Steagall in place would somehow change the dynamic. Lehman Brothers wasn't a commercial bank, it was an investment bank. AIG wasn't an FDIC-insured bank, it was an insurance institution [both banks were allowed to go bankrupt—ed]. So the problem in today's financial sector can't be solved by re-imposing models that were created in the 1930s.”

So, for the first time publicly, Obama rejected Glass-Steagall. Romney headquarters, contacted by this news service for the Republican candidate's view, did not respond by deadline.

Obama's Lying

Obama's argument for rejecting Glass-Steagall is a popular, and a lying one, as exposed by one of the leading banker proponents for its restoration, former Kansas Federal Reserve president Thomas Hoenig. In an interview with Bloomberg radio June 26, Hoenig explicitly answered the charge that the mixture of the commercial and investment banking did not cause the blowout of 2007-08, but that mortgage companies, investment houses, and insurance companies did. Hoenig responded:

“Well, remember now, you’re talking about the end. If you think about it, though, the commercial banks, while they may not have originated some of the derivatives, but many of them, the bank holding companies that they were part of, did—credit default swaps, CDOs—they sponsored the institutions and then they gave lines of credit to those very groups that they had sponsored for derivatives activity. That ended up coming back on their books, so, yeah, they were part of the problem. They did encourage the risk-taking, by mixing their banking activities with investment activities, there’s no question about it.

“Now, on the other side of it, that’s why I say, you have to also address money markets and repos, because, yes, the Bear Stearns, the Lehmans, were acting like commercial banks. They were issuing very short-term liabilities, overnight repos and money markets, and then funding long-term assets, real estate activities, CDOs, and so forth, putting that in their book, and that, in fact, exploded on them.

“So, it was part of the problem of ending Glass-Steagall, separating out, then allowing, these shadow banks through money markets to arise that caused the problem. So they all are linked, and we can’t forget that.

“So I don’t think saying that they weren’t the source of the problem, that is, commercial banks weren’t the source of the problem, is accurate at all.”

The second fraud of Obama’s comment, of course, comes in on the other end—the bailout. No matter who or what caused the crisis, if Glass-Steagall were in effect, the Federal government would *not* back up and bail out the gamblers, like Lehman and AIG. And the health of the banking system would be the better for it.

But as the LPAC [documentary](#), “Indictment of Barack Obama: Part Two,” shows, Obama is dead-set against cutting the gambling banks loose. He opposes Glass-Steagall because it will hurt his financial controllers.

Some Republicans Will Move

On the contrary, the motion for Glass-Steagall among some banking layers, ranging from the Bank of England to independent community bankers in the United States, is continuing to grow. As former Fed chief Hoenig, now a commissioner on the FDIC, has said recently, the danger of the financial blowout is growing along with the galloping hyperinflationary bailouts—and only reimposing Glass-Steagall can begin to stem disaster.

Former Reagan Treasury Secretary and Secretary of State under George H.W. Bush, James Baker III, was the latest prominent Republican to express his support for reinstating Glass-Steagall. Following a Baker’s speech on “Civil Discourse and the Grand Bargain,” Oct. 23, *EIR*’s Bill Jones asked him about whether Glass-Steagall wasn’t the kind of issue “around which Democrats and Republicans could be brought together, perhaps under a Romney Administration, in order to begin to put the economy back on track?”

The moderator, Woodrow Wilson Center president and former Rep. Jane Harman, asked Jones, “Why don’t you tell people what Glass-Steagall is?” Baker replied, “It would separate the commercial banks from the investment banks.” Jones added, “This would relieve the commercial banks of all the debt piled upon them when the investment banks moved in on them, and would save the commercial banking sector which provides the life-blood to our industries.”

Baker then added, “What it said was that if you are in investment banking, you cannot do commercial banking, and vice versa. I don’t think that Romney would be in favor of Glass-Steagall. But reinstating it would be a great idea. When I was Treasury Secretary, we worked under Glass-Steagall. Too big to fail is still with us today, and taxpayers may again be called upon to foot the bill. I would very much like to see a reinstatement of Glass-Steagall...”

James Baker III is a very senior member of the Republican establishment, but he is not optimistic.

Would Romney support Glass-Steagall? It is true that his chosen running mate, the otherwise rabid budget-cutter Paul Ryan responded affirmatively to an interviewer last November, on whether he would support Glass-Steagall banking separation, and Ryan has railed against Dodd-Frank and bailouts. However, he admitted to “setting aside his principles” in voting *for* TARP, and was one of those who voted to repeal Glass-Steagall in 1999. And he has not signed on to HR 1489.

The issue is coming down to the wire, not because of the election, but because of the reality of the global economic blowout. International support for Glass-Steagall is growing, for example, in Iceland, where a bill has been introduced in the parliament. But the lead has to be taken in the United States, still implicitly the world’s leading economy. And that means the next Presidency must be brought on line for Glass-Steagall, and American patriots, in or out of government, have to make it happen.