The Volcker Rule Is a Fraud: Glass-Steagall Is Needed Now!

by Nancy Spannaus

Dec. 17—"If it's war or revolution you want, then go along with this fake Volcker Rule," commented Lyndon LaRouche in the wake of the Dec. 10 announcement that all five Federal regulatory bodies had voted up the 71-page regulation alllegedly limiting the "proprietary trading" of the banks. The only serious way to stop Wall Street from looting Americans to death, is to bankrupt it by passing Glass-Steagall, immediately.

From its proposal in early 2010, the Volcker Rule was always intended to be a substitute for Glass-Steagall banking regulation—a fraudulent pretense of bringing the criminal banking sector under control. Faced with increasing momentum for implementing Glass-Steagall now, before a new impending financial blowout, the Obama Administration decided to ram through the Volcker Rule—overriding the objections of two of the Federal regulators.

The fraud is not working. Immediately, there was a firestorm of response, from London to across the United States, in which leading financial commentators and regulators blasted the Volcker Rule as inherently flawed, and incapable of preventing the major Wall Street and international banks from continuing their high-risk trading with depositors' money.

Equally importantly, on Dec. 11, Reps. John Tierney (D-Mass.) and Walter Jones (R-N.C.) introduced a second bill for Glass-Steagall in the House of Representatives. Entitled "The 21st Century Glass-Steagall Act of 2013," HR 3711 is a companion bill to one of the two Glass-Steagall bills already in the Senate, Elizabeth Warren's S 1282, with 10 sponsors. Tierney and Jones are also sponsors of HR 129, the "Return to Prudent Banking Act," which has 79 sponsors, and also has a companion bill S 985 in the Senate.

While Congress is determined to leave town without acting on these vital measures, all four will all be actively on the agenda when the 113th Congress returns in January—to face the growing social and financial crises created by the rapacious global bankers. To stop disaster, Glass-Steagall is their only choice.

An Immediate Backlash

As soon as word got out that the Volcker Rule—which doesn't take effect until 2015, if then—had been ratified, the outcry began.

• A Dec. 11 *Financial Times* editorial titled "A weak hand on casino banking—Volcker rule is justified in principle but flawed in practice," called for Glass-Steagall: "But turning a well-intentioned presidential gesture into a workable law has proven to be a fiendishly difficult task. It took nearly four years for the agencies charged with filling in the details of the so-called Volcker rule to come up with a final draft. Few observers are satisfied with the result.... Zealots have argued that ... regulators have made so many concessions that the rules will have little effect.... It is hardly surprising that they have had difficulty explaining how they will do this in practice. A better way to make banks safer is to ban them from certain kinds of risky activity altogether. This was the approach taken by the repealed Glass-Steagall act, which separated banks from securities firms. While the financial system is now safer than it was four years ago [sic], much work remains to be done. The publication of an ineffective rule should not be mistaken for genuine progress."

• Former Sen. Ted Kaufman (D-Del.) wrote in *Forbes* Dec. 11, under the headline "The Volcker Rule Will Not Work": "After nearly four years and countless hours spent negotiating and writing the rule, the five agencies involved have produced one of the great pieces of Swiss cheese in regulatory history—so riddled with exceptions, contradictions, and foggy language that the major celebrants will be the Wall Street lawyers who have been given the Christmas gift of their dreams."

After reviewing the history of the Volcker Rule, following the defeat of the Glass-Steagall bill Kaufman co-sponsored with Senators Maria Cantwell (D-Wash.)

and John McCain (R-Ariz.) in 2010, and showing that the TBTF banks will cheat and continue proprietary trading under a different name, he concludes, “the tattered remains of the rule Paul Volcker envisioned, as promulgated today, will do very little to stop too-big-to-fail banks from engaging in high-risk trading with FDIC-insured deposits. That will happen only when we establish a strong new Glass-Stegall law that separates commercial and investment banks. The only question is how much damage will be done before that happens.”

- Pam Martens, a longtime advocate of Glass-Steagall, wrote in wallstreetonparade.com Dec. 11 that the Volcker Rule is a sham that “will not take full effect until July 21, 2015.” She quoted a press release issued on Dec. 10 by the Board of Governors of the Fed, justifying the delay, citing the need to give banks sufficient time to figure out which of their activities are covered by the Volcker Rule, which are barred, and how to implement the new regulations. She commented:

“This statement is complete buffoonery. Wall Street firms have known what Section 619 of the law requires since July 21, 2010. Instead of divesting themselves of the improper activities, they’ve spent their time and shareholders’ money fighting the rules.” She concludes, “As a few courageous souls in Congress, led by Senator Elizabeth Warren, have realized, the only thing that will bring safety and soundness to the U.S. banking system and orderly financial markets is the restoration of the Glass-Steagall Act.”

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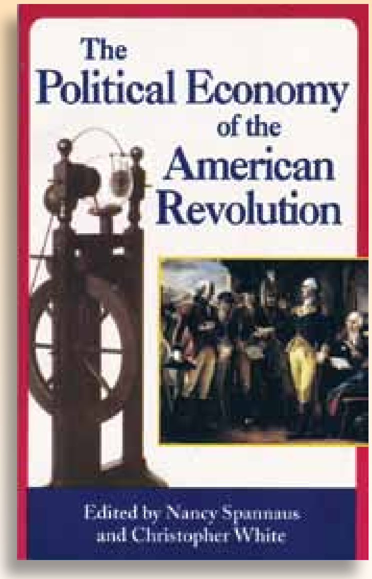

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We Need Glass-Steagall

Nor did the outcry die down in one day.

On Dec. 12, Elizabeth Warren, the most outspoken Senator promoting Glass-Steagall, gave an interview to Bloomberg News, in which she again excoriated the big banks for *increasing* their power over the last five years, and responded to a question as to whether she still thought Glass-Steagall was necessary, after the promulgation of the Volcker Rule:

“I do. I think that Glass-Steagall 2.0, Glass-Steagall for the 21st Century, is something we still need. Because it addresses both ‘too big’ and the risks associated with ‘to fail,’ and so long as we’ve got this much risk in the system, and this much concentration in the system, I’m still pushing for Glass-Steagall. I still think it’s what we need.”

On Dec. 13, two prominent bank regulators, Prof. Bill Black, who was involved in rolling up bankrupt Savings and Loan institutions in the 1980s, and Thomas Hoenig, vice-chairman of the Federal Deposit Insurance Corporation, told international audiences that the Volcker Rule wouldn’t work to curb speculation.

Black gave an interview to the German official international news service Deutsche Welle, in which he said the Volcker Rule “won’t work because it will be too easy to evade.” Besides being too much work for understaffed regulatory agencies, “As soon as you tell the banks they can hedge, against a trillion and a half dollars worth of their portfolio, tell me you couldn’t find something that would be a hedge for. . . . It’s a tragic lost opportunity for real reform. It is worse than nothing.”

As for Hoenig, he told reporters at a conference in Dublin, Ireland that he didn’t think the Volcker Rule will stop the momentum for speculation; in fact, it could eliminate surprises and thus help fuel speculation. Hoenig is prominently on the record for Glass-Steagall, which he reiterated would “help reverse an evolution that has seen the five largest U.S. financial companies increase their share of the industry assets to 55 percent from 20 percent.”