

Will Congress step up to a Glass-Steagall moment?

10 Jan.—The German “poet of freedom” Friedrich Schiller wrote of the failure of the French Revolution, that “a great moment found a little people.” Schiller’s words should be echoing through the Halls of Congress now, as the trans-Atlantic financial system is in its death throes, and Glass-Steagall banking separation becomes ever more urgently necessary.

Entering the second session of the 114th Congress of the United States, there are bills in both the House of Representatives and the Senate to reinstate the *Banking Act of 1933* (Glass-Steagall Act), under which commercial banks and investment banks were totally separated, bringing about 66 years of relative financial stability. Glass-Steagall was repealed in 1999, with passage of the *Financial Services Modernisation Act* (Gramm-Leach-Bliley Act), which ended bank separation. In the opening days of the 2016 session, several House members added their names to the bipartisan bill introduced by Representatives Marcy Kaptur and Walter Jones, bringing the total of sponsors in the House to 70.

The moment is ripe for reinstating Glass-Steagall. Financial turbulence has rocked the entire trans-Atlantic region since the first day of business in 2016, with stock markets falling globally. The fundamental causes of the market turbulence are not the events in China that newspaper headlines have featured, but the way the trans-Atlantic financial sector itself is organised, mired as it is in enormous debts and derivatives obligations. In the United States, and now in Europe as of 1 January, bank “bail-in laws” are in effect, meaning that bank shareholders, bondholders, and even large depositors are liable if their banks get in trouble. There have already been bank runs in Italy and Portugal, a pattern that will certainly spread.

One of the most telling signs of the crisis is that not a single euro’s worth of corporate bonds was purchased during the first week of 2016. Major banks, such as two of the City of London’s “Big Six”, Santander UK and Standard and Chartered, were forced to withdraw bond offerings because they did not sell or potential bids were too low. In each of the previous two years, 14 billion euros in bond sales took place in the first week of the year.

In the United States, corporations all last year were buying back their own stocks with free cash, feeding an unprecedented asset bubble. It is universally recognised that most US stocks, led by those of banks and other financial institutions, are overvalued and due for a major correction. The too-big-to-fail banks of Wall Street are sitting on significant amounts of non-performing debt, particularly linked to the shale oil and gas sector. That debt bubble alone amounts to \$5 trillion.

As financial markets opened for the year on 4 January, the US territory of Puerto Rico defaulted on US\$37.3 million of its US\$1 billion in bond payments, due on 1 January. Congress had failed to act in December to permit Puerto Rico to seek bankruptcy protection. Puerto Rico has a total debt of over US\$72 billion. Speaker of the House Paul Ryan and Democratic Minority Leader Nancy Pelosi have promised Puerto Rico’s governor that Congress will take action by the end of March.

Under these conditions of economic and financial uncertainty, intersecting the military-strategic turmoil in Southwest Asia as described in the article above, Glass-Steagall is more urgent than ever. And there is at least a growing chorus of recognition of this fact.

On 5 January, Democratic Presidential pre-candidate Bernie Sanders, speaking at Town Hall in Manhattan, pushed for Glass-Steagall and lambasted his rival Hillary Clinton for rejecting the need for the bank separation. Clinton, under the advice of former Rep. Barney Frank, who headed the House Banking Committee, has denied that the repeal of Glass-Steagall in 1999 had anything to do with the 2007-09 crash. Barney Frank co-authored the deadly Dodd-Frank bill, the inaccurately named “Wall Street Reform and Consumer Protection Act”, which established bail-in as the law of the land for any future 2008-style or worse bank collapse.

In the wake of Sanders’ speech, hundreds of articles appeared in newspapers across the United States, taking up the debate over the need for Glass-Steagall. The anti-Wall Street mood in the country, manifested in the support for Sanders, his fellow Democrat former Maryland Governor Martin O’Malley, and the GOP populist rabble-rouser and reality TV star Donald Trump, offers a perfect opportunity for Congress to finally do the right thing.

A Glass-Steagall moment has arrived. There is no way that the turmoil on global financial markets and in the trans-Atlantic banking system will be calmed, never mind resolved, short of full implementation of Glass-Steagall banking separation—starting in the United States.

If a “great Glass-Steagall moment” finds a “little Congress”, the consequences will be far worse than the disasters of the Napoleonic Wars that followed the failure of the French Revolution. It was the British who hijacked that Revolution and turned it into the first modern fascist dictatorship, and today the same City of London and its Wall Street allies are out to hijack and kill the Glass-Steagall moment. A Glass-Steagall victory in the United States will doom that financial empire, which is why the stakes are so high.