Glass-Steagall vs 'bail-in' debate heats up in Europe, USA

By Richard Bardon

On 16 February, Italy's Chamber of Deputies (equivalent to Australia's House of Representatives) approved several motions filed by members of the ruling Democratic Party-led coalition, calling for a review of the EU's bank bail-in rules, the so-called Bank Recovery and Resolution Directive (BRRD). Although that sounds like good news, it was in fact a "soft" action to evade debate on opposition motions to either suspend BRRD in Italy, or scrap it altogether. Other motions passed called for allowing bank bailouts through government-backed deposit guarantee funds (currently considered state aid by the EU and therefore forbidden) and for a quick approval of an EU-wide, single Deposit Guarantee Fund—the European equivalent of Australia's Financial Claims Scheme, and just as inadequate. Shamefully, the government even used its numbers to change the schedule so as to avoid having a delegation of victims of last December's bail-ins present in the visitors' gallery during the debate, as had been planned.

Dep. Alessio Villarosa, spokesman for the opposition Five Stars Movement (Movimento 5 Stelle, M5S) reminded the Chamber that before Italy's savings banks were privatised and its Glass-Steagall-style regulations lifted, there was no need for bail-outs or bail-ins. "Who paid before 1993?" he demanded. "Which banks failed? Was there a systemic crisis? Mr Chairman, lawmakers here do not know legislation, because before 1993 banks did not fail, because they protected deposits, used our deposits and issued credit; they mediated credit, did not purchase the junk with which they created a crisis in 2008 which has lasted until today. Separate investment banks from commercial banks, it is very simple. It is very simple!"

Italian Prime Minister Matteo Renzi had himself advocated reinstating "a clear-cut separation between commercial banks and investment banks" back in November 2012, when he was mayor of Florence and campaigning for the position he now holds. His opponents accused him of opportunism—and, true to his neo-liberal economic credentials, he has constantly stifled the Glass-Steagall debate ever since. The EU may, however, have finally pushed him too far with its proposal—generated by Germany's finance ministry—to bail in government bonds held by collapsing too-big-to-fail banks (page 3). In a heated Senate debate on 17 February, Renzi said: "The bank crisis concerns the first and the second largest German banks. Instead of dealing with sovereign bonds, *one should be courageous and say that there are too many derivatives in the banks!*" (Emphasis added.) Renzi then threatened "an Italian veto against the proposal of a quota for sovereign bonds in banks' portfolios."

Senator and former austerity-mongering PM Mario Monti, though himself a member of the government bloc, hysterically attacked Renzi for "destabilising" his beloved EU: "you never miss a chance to slander the concrete ways of existence of the European Union, through a systematic destruction, with spikes and chisel, against everything the EU has meant so far", he ranted. Italian daily *Il Foglio* reports that diplomatic circles are already speaking of an EU plot to dump Renzi, akin to that which brought down Silvio Berlusconi and installed Monti in 2011. Even the name of Renzi's putative successor is being circulated: Tito Boeri, a Malthusian economist and technocrat who is head of the Italian Pension Fund, and Scientific Director of anti-welfare, anti-state think tank the Rodolfo Debenedetti Foundation.

Minneapolis Federal Reserve President Neel Kashkari wants to turn large banks into public utilities! Photo: Neel Kashkari YouTube channel

TARP director: time to break up the banks

In the US, Minneapolis Federal Reserve President Neel Kashkari, the former Goldman Sachs executive turned US Treasury official who ran the US$700 billion Troubled Asset Relief Program (the original Wall Street bailout) under Treasury Secretaries Hank Paulson and Tim Geithner, said in a 15 February speech that nothing had been solved since 2008, and that the Dodd-Frank Act—which purports to remedy too-big-to-fail (TBTF) with "bail-in" instead—won't work. "No rational policymaker would risk restructuring large firms and forcing losses on creditors and counterparties using the new tools … in a crisis environment like we experienced in 2008", he told Washington, DC think tank the Brookings Institution. "They will be forced to bail out failing institutions—as we were. We were even forced to support large bank mergers, which helped stabilise the immediate crisis, but *that we knew would make TBTF worse in the long term*." (Emphasis added.) The way to prevent another financial crisis, he said, is by "breaking up large banks into smaller, less connected, less important entities", and "turning large banks into public utilities by forcing them to hold so much capital that they virtually can't fail". He added, "Options such as these have been mentioned before, but in my view, policymakers and legislators have not yet seriously considered the need to implement them in the near term."

Kashkari did not mention Glass-Steagall, nor the bills presently before Congress to restore it; but his statements echo those of Federal Deposit Insurance Corporation Vice-Chairman and prominent Glass-Steagall advocate Thomas Hoenig, who has been warning for four years that in the event of another crisis with multiple large Wall Street banks in trouble, no workable alternative to bailing out Wall Street with taxpayer money has yet been created by Congress.

The Minneapolis Federal Reserve Bank first popularised the term "too-big-to-fail" with a 2004 book of that name by two of its economists. That book, just six years after Glass-Steagall's repeal, said that the "no bail-out" pledges made by elected officials at that time were meaningless when dealing with the rapidly growing Wall Street megabanks. Kashkari said that the Minneapolis Fed is now embarked on a year-long project, which will include "a series of policy symposiums to explore various options from expert researchers around the country", to produce an alternative to Dodd-Frank. Except Franklin Delano Roosevelt beat them to the punch by 83 years. Glass-Steagall, to break up and shut down the TBTF banks' speculative operations, is the only workable action, despite Wall Street's ferocious hostility to it.