Glass-Steagall or bust as bail-in plan falters

Recognition is spreading that none of the post-2008 financial regulations (Basel III, Dodd-Frank et al.) will prevent another GFC—and in particular, that "bail-in", the practice of stealing bank deposits, bonds etc. and converting them into equity to stave off bankruptcy, is a non-starter. As a result, more high-profile figures in the business and financial world are coming to realise that the system itself is the problem, and this in turn has led to discussion of the thing the financier oligarchy most fears: Glass-Steagall.

Mervyn King, Governor of the Bank of England in 2003-13, has written a new book, *The End of Alchemy*, that is getting a lot of publicity—indeed, it is being serialised in *The Telegraph*. King notes that "The Dodd-Frank Act passed … contained 2,300 pages, with many thousands of pages more expected to cover the detailed rules that will follow", and that "In Britain, the Prudential Regulation Authority and the Financial Conduct Authority have combined rulebooks exceeding 10,000 pages." Despite all this "frenetic activity", he argues, "nothing fundamental has changed. The alchemy of our banking system remains." In stark contrast, "the *Glass-Steagall Act* of 1933, which separated commercial and investment banking, covered a mere 37 pages." King has advocated an international Glass-Steagall system since 2010. "Only a fundamental rethink of how we, as a society, organise our system of money and banking will prevent a repetition of the crisis that we experienced in 2008", he says; otherwise, "another crisis is certain … sooner rather than later."

Philip Aldrick, economics editor of the London *Times*, expressed identical sentiments on 23 February. The promised post-2008 regulatory "storm", he writes, came to nothing: "for all the noise, regulation has not remade the banks in the way that Glass-Steagall did after the Great Depression of the 1930s. … Mark Carney, the Bank of England governor who doubles as the world's chief banking regulator, [has] told lenders that they can relax."

Aldrick does not say so, but that is because Carney is an architect of the EU Bank Recovery and Resolution Directive (BRRD) bail-in regime designed to impose losses on everyone *but* the banks. But, as Aldrick notes: "Bail-in rules that came into force this year to … [dump] losses on banks' bondholders did not start well. Creditors of a bust Portuguese bank were bailed in, sparking a local bond market sell-off that infected Italy's weak lenders.

"Deutsche Bank posted a huge loss that caused another bail-in instrument, called CoCos [contingent convertibles], to collapse in value. The CoCo market, which banks tapped for US$275 billion in the past two years, shut to new issuance. As bonds came under pressure, confidence evaporated and share prices fell. Far from protecting banks, safety mechanisms have become a source of instability."

Meanwhile, various trans-Atlantic central bankers spent the past weekend, in and around the Shanghai G20 meeting, warning that quantitative easing is no longer working—but they refuse to give up their monetarist system, and so cannot come up with a replacement.