Only Glass-Steagall Can Save the U.S. from Another Epic Crash

By Pam Martens, 31 January 2017

Allowing the largest Wall Street banks to brazenly loot the public is now the official policy of Congress. Following the worst financial crash since the Great Depression in 2008, Congress and the Obama administration engaged in the greatest legislative hoax in history in passing the Dodd-Frank financial reform legislation. Rather than reforming the corrupt and dangerous practices of the biggest Wall Street banks, the Dodd-Frank legislation actually allowed the biggest banks to expand their global loan-sharking operations, engage in ever more brazen crimes, while giving their lapdog regulator, the Federal Reserve (whose derelict oversight had led to the 2008 crash) expanded supervisory powers.
That the legislation was a hoax on the public is no longer debatable. Here's how we know:

The Vice Chairman for Supervision of the banks that President Obama was mandated to put in place at the Federal Reserve as part of Dodd-Frank legislation never got appointed. From Dodd-Frank's passage in 2010 until he left the Oval Office in 2017, President Obama simply thumbed his nose at this mandate.

In February 2015, five years after the passage of Dodd-Frank, the U.S. Treasury's Office of Financial Research released a report showing that two of Wall Street's biggest banks, JPMorgan Chase and Citigroup, pose the greatest interconnected risk to the U.S. financial system. In May of the same year, both banks admitted to criminal felony charges, for the first time in their century old existence, for rigging foreign currency markets.

The so-called Volcker Rule section of Dodd-Frank, which was to stop the banks from trading for their own accounts and force them to exit hedge funds and private equity funds, still has not been fully implemented. The biggest Wall Street banks are still allowed to operate Dark Pools. These are unregulated, quasi stock exchanges where the banks trade stocks, including their own and competitors' bank stocks, in the dark.

The most important facet of Dodd-Frank, to force the Wall Street banks to "push out" their risky derivatives from their taxpayer insured, deposit-taking bank unit, was repealed by Citigroup in 2014 by effectively forcing an amendment onto the government's must-pass spending bill in 2014.

The amount of derivatives held by the six largest Wall Street banks has been allowed by bank regulators to grow in actual size and in terms of concentration since those derivatives played a major role in blowing up Wall Street in 2008. On September 30, 2016, the six largest derivative banks held $211.7 *trillion* in derivatives versus $179.1 trillion on the same date in 2008. Citigroup, which imploded in 2008 from its irresponsible gambles in derivatives and subprime debt has gone from holding $38.2 trillion in notional derivatives (face amount) at the time of its crash in 2008 to $51.8 trillion today – an increase of 36 percent.
Citigroup has increased its high-risk footprint while simultaneously being charged with ever more brazen looting of the public. Its serial crimes against the public have ranged from charges and settlements over lying to its shareholders about the extent of its subprime mortgages to engaging in bank foreclosure fraud to rigging interest rate benchmarks and selling mortgages it knew to be toxic to investors.

Many of Citigroup's charges of defrauding the public (as well as those made by regulators against other big Wall Street banks) have been for actions that occurred after the passage of the Dodd-Frank reform legislation – leaving no question that Congress realizes that Wall Street was never reformed.

Just two years after the passage of Dodd-Frank, JPMorgan Chase was caught with its hand in the cookie jar to the tune of hundreds of billions of dollars. It was using the insured deposits of its bank customers to make high risk derivatives bets in London. After an in depth investigation of this travesty, known as the London Whale scandal, the U.S. Senate's Permanent Subcommittee on Investigations held a hearing on March 15, 2013. Senator John McCain, Ranking Member of the Subcommittee at the time, made the following remarks at the opening of the hearing:

"This investigation into the so-called 'Whale Trades' at JPMorgan has revealed startling failures at an institution that touts itself as an expert in risk management and prides itself on its 'fortress balance sheet.' The investigation has also shed light on the complex and volatile world of synthetic credit derivatives. In a matter of months, JPMorgan was able to vastly increase its exposure to risk while dodging oversight by federal regulators. The trades ultimately cost the bank billions of dollars and its shareholders value.

"These losses came to light not because of admirable risk management strategies at JPMorgan or because of effective oversight by diligent regulators. Instead, these losses came to light because they were so damaging that they shook the market, and so damning that they caught the attention of the press. Following the revelation that these huge trades were coming from JPMorgan's London Office, the bank's losses continued to grow. By the end of the year, the total losses stood at a staggering $6.2 billion dollars."

The legitimate purpose of Wall Street investment banks is to function as efficient allocators of capital to grow new businesses and industries in America in order to keep the nation competitive and expand good jobs. But since the Glass-Steagall Act was repealed in 1999 under decades of pressure from Wall Street lobbyists, Wall Street's biggest banks increasingly make their profits by targeting the financially unsophisticated. In what has become a highly efficient, wealth transfer mechanism, billions of dollars each month move from the pockets of those least able to protect themselves from financial abuse to the coffers of the one percent in America who sit in the executive offices of these banks.

Under the Glass-Steagall Act of 1933, banks holding insured deposits were not allowed to be affiliated with Wall Street investment banks and brokerage firms — which have a long sordid history of stock frauds, abusing their customers, and blowing up. That protection was removed when President Bill Clinton signed into law the Gramm-Leach-Bliley Act on November 12, 1999, the legislation that repealed the Glass-Steagall Act. After protecting the nation for 66 years, it took just 9 years after its repeal for Wall Street to crash, taking down century old iconic names on Wall Street along with the U.S. economy and forcing the largest taxpayer bailout in the history of markets.

The Glass-Steagall Act served this country incredibly well for 66 years until its repeal. It worked because of its simplicity – and its threat of five years of jail time for those who violated its key provisions.

The provisions banning deposit-taking banks from being engaged in the securities business (Sections 16, 20 and 21) are elegant in their simplicity. Unlike Dodd-Frank, there are no 900 pages of rules to be studied and debated for a decade before enactment. The key provisions of those three sections all took effect one year after the enactment of the legislation in 1933.

Section 16 said that "The business of dealing in investment securities by the [banking] association shall be limited to purchasing and selling such securities without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities."

Section 20 mandated that "After one year from the date of the enactment of this Act, no member bank shall be affiliated in any manner described in section 2 (b) hereof with any corporation, association, business trust, or other similar organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities."

Section 21 reaffirmed the provisions of Sections 16 and 20, noting: "(a) After the expiration of one year after the date of enactment of this Act it shall be unlawful— (1) For any person, firm, corporation, association, business trust, or other similar organization, engaged in the business of issuing, underwriting, selling, or distributing, at wholesale or retail, or through syndicate participation, stocks, bonds, debentures, notes, or other securities, to engage at the same time to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor."

The Dodd-Frank legislation was a complex maze of legal verbosity whose clear intent was not to reform Wall Street but to *stall* reform of Wall Street.
Both the Democratic and Republican Platforms of last year urged restoring the Glass-Steagall Act. The U.S. is left with only a small window of time to get that job done before Wall Street has completely looted the country and left the next generation with a dystopian society of Wall Street overlords.

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