

repeal of that Act in 1999 has created a tremendously unstable environment for individuals at the hands of banking institutions, political alliances, governments, and central banks.

And also how some of the remedies that have been proposed in the wake of the 2008 subprime crisis, including the Dodd-Frank Act, and its allegedly most important component, the Volcker Rule, are really ineffective at combatting this risk; and what we really need to do is go back to a time, and go back to a policy, and continue to use the real strength of the Glass-Steagall Act and a new Glass-Steagall Act, in order for us to be safe going forward. And when I say “us,” I mean everybody in this room, I mean the population of the United States, I mean the populations throughout the globe.

Because what we have today, and what we’ve had in the wake of the repeal of the Glass-Steagall Act, is an environment where the largest banking institutions have been able to increase the concentration of their capital, of their influence, of their power, and this has been subsidized and substantiated by political forces within the White House, the Treasury Department, the Federal Reserve, governments throughout the world—in particular, throughout Europe, the ECB—and it’s something that we really need to contain and look forward to changing, if we want to have more economic stability for the greater citizenry at large.

Nomi Prins

Glass-Steagall: An Idea Whose Time Has Come Again

*Nomi Prins is an economist, journalist, and author of several books, including “All the President’s Bankers: The Hidden Alliances that Drive American Power” (2014). Prins was a managing director at Goldman Sachs, a senior managing director at Bear Stearns in London, a strategist at Lehman Brothers and an analyst at Chase Manhattan Bank. She is currently a Senior Fellow at the policy thinktank Demos. She delivered these remarks to the conference by video-recording.*¹⁰



Schiller Institute

Economist and author Nomi Prins

First of all, thank you very much for inviting me to speak to you here today. It’s really quite a great honor.

I want to talk about a few things, one of which is the Glass-Steagall Act, and what it meant to our country’s history, why it was passed, how it helped. How the

How the Glass-Steagall Act Came To Be

So, going back a little bit in time, to how the Glass-Steagall Act came about. We had a major crash in 1929. It was the result of a tremendous amount of speculation, and also rigging of markets by the larger financial institutions, as well as things called trusts, which were small components of these institutions, that were set up in order to bet on various industries, and collections of companies within those industries, and so forth, as well as to make special bets

on foreign bonds in foreign land; as well as to make bets on the housing market, which is something that we’ve seen and been familiar with quite recently.

Also, a lot of the activity that was done, in particular, by the Big Six banks at the time—which included National City Bank and First National Bank, which today we know as Citigroup; the Morgan Bank and the

10. See the Jan. 24, 2014 [EIR](#) for an interview with Nomi Prins.

Chase Bank, which today we know as JPMorgan Chase; as well as two other Big Six banks—got together in the wake of the crash in 1929, which they had helped to [perpetrate], and decided that they needed to save the markets, as they were deteriorating very quickly.

And the reason they wanted to save the markets was not because they wanted to protect the population at the time; it was because they wanted to protect themselves. But the way they chose to do that, was to put in \$25 million each, after only a 20-minute meeting that occurred at the Morgan Bank on Wall Street, No. 23 Wall Street, which was catty-corner from the New York Stock Exchange at the time. And after this 20-minute meeting, which was called together by a man named Thomas Lamont, who was a major banker at the time, and the acting chairman of the Morgan Bank, these six bankers, they broke, they went out into the streets, the press heralded them as heroes who would save the day, and in particular, heralded the Morgan Bank as an institution that would yet again save the economy from virtual catastrophe.

It [the press] compared the decision that was made after that 20-minute meeting to something that had happened after the Panic of 1907, when J.P. Morgan, the patriarch of the Morgan Bank, had been called upon by President Teddy Roosevelt, to save what was then a situation of deteriorating markets, and of deposits being crushed, and of citizens losing their money because of rigging of markets that had happened back then.

So this was a repeat of something very similar.

After the meeting, the decision was to buy up stocks. And the stocks that were bought were the ones in which the Big Six banks had the most interest, and that is what they did. The market rose for a day, which is why the newspapers were so happy. It was why President Herbert Hoover, at the time, decided he might actually get re-elected, as opposed to facing not just un-election, but also, a bad historical legacy. And everybody was quite pleased with the results.

Unfortunately, as we know, after the market rose, after that day, after they put in the money to buy those stocks, it crashed by 90% over the next few years, and the country was thrown into a Great Depression. Twenty-five percent of the individuals in the country were unemployed. There was a global depression that was ignited because of this. Foreclosures skyrocketed, small businesses closed, thousands of smaller banks, and the country was in very, very dire straits.

FDR's Bankers

Into that, came President FDR, and something that's very interesting historically, that I did not even know before I did my latest book, *All the President's Bankers*, is that FDR had friends, and they were bankers. And two of the friends that he had that were bankers, were men named James Perkins, who ran the National City Bank after the Crash of 1929, and Winthrop Aldrich, who happened to have been the son of Nelson Aldrich, who happened to have been a Senator at the time that the Federal Reserve Act, or its precursor, was created at Jekyll Island in 1910.

And so these were men of pedigree. And these were men of power. These were men of wealth. And these were men who were friends of FDR.

And even before the Glass-Steagall Act that we know today was passed in the year of 1933, and signed into law, these men worked with FDR, because they believed that if they separated the institutions that they were now running, their banks, some of the biggest banks in the country at the time, from keeping deposits of individuals safe and divided from speculative activities, and the creation of securities that can go sour very quickly, and tank not only their banks but the general economy—they believed those two things should be separate.

That was the theory behind the Glass-Steagall Act: It was that if you separate risky endeavors, and risky practices, and concentration of that risk, from individual deposits and loans, that you create a more stable banking system, you create a more stable financial market, you create a more stable population, and create a more stable economy.

FDR believed that, and the bankers believed that. That's something we don't have today.

So, before the Act was passed, Winthrop Aldrich, James Perkins—they had meetings in the first 10 days of FDR's administration, in which they promised FDR they would separate their banks even before the legislation was passed. And that's why it was more than just legislation. It was a political/financial alliance at the time. It was policy at the time to stabilize the economy and to stabilize the system, so that everybody could benefit.

And those men did benefit. Their legacies benefited. The National City Bank that was run by James Perkins, the Chase Bank that was run by Winthrop Aldrich—those banks exist today. But the Glass-Steagall Act at the time enabled them to grow in a more stable aspect. Winthrop Aldrich and James Perkins chose to

keep the deposit-taking and the lending arms of their banks. They separated them before, as I said, the Glass-Steagall Act was passed. They promoted the Glass-Steagall Act. FDR promoted the Glass-Steagall Act. Congress, in a bipartisan fashion, unilaterally and enthusiastically, passed the Glass-Steagall Act.

So, it was very much a national platform on every level.

The Take-Down

What we've had since—and it started to a large extent in the late '70s, and accelerated throughout the Reagan Administration, the Bush Administration, the Clinton Administration, and the ramifications through the second Bush Administration and the Obama Administration, is a disintegration of the idea of that Act. The idea that risky endeavors and deposits should be kept separate in order for stability to exist throughout.

In the '80s, banks were allowed to merge across state lines. In the '90s, banks were allowed to increase their share of financial services by re-introducing insurance companies, brokerages, the ability to create securities that we now know today can be quite toxic, as well as ultimately to do trade in derivatives and other types of more technologically complex, but nevertheless, even more risky, securities, all under one roof.

And in 1999, under President Bill Clinton, at the end of the year, an act was passed, the Gramm-Leach-Bliley Act, that summarily repealed all the intent of the Glass-Steagall Act. And what it created in its wake, was a free-for-all, merging and concentration and consolidation of these largest banks, into ever-more powerful and influential entities: influential over our capital; influential over our economy; influential with respect to the White House.

And this is not something that the bankers pushed on the White House. We should realize this. This is something that Washington, under several administrations, under bipartisan leaderships throughout, under different types of Treasury secretaries that came from the very same banking system that they were supposedly going to be in public office to watch over—they all collaborated to repeal this Act.

In 2002, 2003, 2004, when rates started to be very low, and subprime loans started to be offered, these banks, that now had much more concentration over deposits, over insurance products, over brokerages, over asset management arms, were able to create securities out of a very small amount of loans. Out of a half a tril-

lion dollars worth of subprime loans, extended to individuals, they were able to create a \$14 trillion mountain of toxic assets. And they were able to leverage that mountain, \$14 trillion, to \$140 trillion of risk, by virtue of their co-dependencies of the Big Six banks, by virtue of the derivatives that were involved in the securities, that were laced with these mortgages, and by all sorts of complex different types of financial engineering.

As we know, that concluded in 2008, and the result of that implosion was *not* to chop off the arms of these banks. It was *not* to have men at the top of these banks, like Winthrop Aldrich, say, "You know, this was a bad idea. We screwed up our banks, we screwed up the markets, we screwed up people, we screwed up the economy—let's separate. Let's go back to a time that wasn't simpler, but that was saner."

That wasn't the decision that was made. What was made instead was a decision at the highest levels of Washington, the Treasury Department, the Federal Reserve, the New York Federal Reserve, to coddle this very banking system, and to subsidize it, to sustain it, and all its flaws, and with all the risks that permeated around the entire population in the United States, and throughout the world, with trillions of dollars of loans, of cheap money, a zero-interest-rate policy which is now going into its fifth year of existence, which means these banks can continue to be liquid, even though they are very unhealthy.

A quantitative easing program, not just in the U.S. Federal Reserve, but now it's potentially going to grow in Europe as well, because those banks are also co-dependent on the U.S. banks, and because they are so unhealthy, they need institutions on the central banking level, and in the U.S. government, and in the Treasury departments, and in Federal Reserves and other treasury arms of different countries, to sustain their activities, to back their bad debts, and to promote their interests over the interests of the wider stability of the population.

Dodd-Frank: The Banks Are Bigger Than Ever

The Dodd-Frank Act that was passed and signed into law by President Obama in July 2010. President Obama, then-Treasury Secretary Timothy Geithner, then-Federal Reserve Chairman Ben Bernanke, as well as many pundits in the media, said it would be the thing that would dial back this immense risk, that would get us back to the sweeping type of regulation that was like it had been in the Great Depression.

But it has done absolutely nothing of the kind. In the

wake of the 2008 crisis, the big banks are bigger. JPMorgan Chase was able very cheaply [to acquire] Bear Stearns and Washington Mutual, to become the largest bank in the United States again. This ties back to the legacy of J.P. Morgan in the 1907 Panic, throughout the decisions that were made at its request in 1929, in the wake of the 1929 Crash, and so forth.

Citigroup has managed to survive. Goldman Sachs, Morgan Stanley, Wells Fargo—all of these banks, the Big Six today, which are largely variations of the Big Six banks, historically, 100 years ago, with a couple of additions and many mergers along the way—have been able to sustain themselves in the wake of government policy that has enabled them to grow, and to sustain themselves, and to continue to promote risky types of practices that can be very dangerous to all of us.

The Dodd-Frank Act doesn't separate those banks. It doesn't make them smaller. It doesn't diffuse their derivatives concentration. The Big Six banks today in the United States, control 96% of all the derivatives trading in the United States. They control 45% of all the derivatives trading throughout the globe. They control 84% of the FDIC-assured deposits throughout all of the

banks in the United States, and 85% of the assets throughout all of the banks in the United States. So their concentration, their power, is immense in the wake of the 2008 crisis, in the wake of this alleged remedy to the crisis, which is the Dodd-Frank Act.

And the final component of that Act, which is supposed to at least reduce their riskiest trading practices, what's called proprietary trading: The Volcker Rule is an "892 Rule," which is 55 pages of definitions and rule, and all of the rest is exemptions to that rule. So the banks can continue to make markets, to hedge, to provide hedge funds and private equity funds, just under different language, to keep their insurance arms, to keep their brokerages, to be co-dependent, to create complex securities that are so interlocked that if one fails, the rest of them fail. And if the bank that has the most of them fails, the other banks in this entire system will fail as well.

So, nothing has been done in that language of the Volcker Rule in the Dodd-Frank Act to change anything.

Resurrect Glass-Steagall!

What we need is a resurrection of the Glass-Steagall Act. We need to realize it wasn't just a law, it was a policy of stability. It was a political and financial alliance between the White House and the biggest bankers of the time, and the population, and that's what we need to have come back today. That's what we need to press, and that's the *only* thing—a complete separation of risky endeavors from our money, from normal lending practices—that can even start to foster a more stable financial system, banking system, and economic environment for all the rest of us.

So, that's the take-away from what I wanted to tell you about today. There's more information about it historically, particularly the lead-up to the Glass-Steagall Act that was passed, the swipes at it over the time, the Presidents that were stronger, and the bankers that were stronger, and caring about the population as well, as the ones who didn't care at all about it with respect to financial stability at the hands of the banking system. And that can all be found in my book *All the President's Bankers*, which I also urge you to check out, simply to get more knowledge about the reasons for why we have that Act, and the reasons why it's more necessary than ever, to resurrect it today.

So, thank you very much again for listening. Thank you for your time, and the rest of the conference today is fantastic.

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"The point is, we need Glass-Steagall immediately. We need it because that's our only insurance to save the nation.... Get Glass-Steagall in, and we can work our way to solve the other things that need to be cleaned up. If we don't get Glass-Steagall in first, we're in a mess!"
—Lyndon LaRouche, Feb. 11, 2013