

Fixing the economy requires a banking sea-change

In early July, Bank of England governor Mark Carney warned that “In recent months there has been a sea change in financial markets driven by growing concerns over the global economic outlook”. This idea should be inverted: in reality it is financial markets which have destroyed the economic outlook. As markets have “recovered” from the global financial crisis (GFC), they have resumed their core function of sucking the life-blood from the real economy, and will leave economic devastation in their wake when the debt bubble bursts, as all bubbles do. In the first place, the growth of markets was not underpinned by an expanding economic base; and secondly, as asset bubbles re-emerged banks diverted money away from lending into the real economy in order to get in on the speculative action.

There are signs in both the USA and UK of recognition that the economy has been put at risk by booming financial markets.

Mainstream US news outlets talk about the “longest US economic expansion in history”, but as Reuters qualified on 2 July, it is an expansion “best characterised by the excesses of extreme wealth and an ever-widening chasm between the unfathomably rich and everyone else”. According to Federal Reserve data, the wealthiest one fifth of US citizens own 88 per cent of the nation’s wealth. This figure has been increasing since the GFC. The number of people receiving food stamps is up 40 per cent since 2008, reports Reuters. Costs are rising dramatically. In New York rents have increased twice as fast as wages. This didn’t stop Federal Reserve Chairman Jerome Powell from claiming in a 27 June speech at the Council on Foreign Relations that “The benefits of this long recovery are now reaching these communities to a degree that has not been felt for many years”, which “underscores how important it is to sustain this expansion”.

A study by UK think tank the Resolution Foundation has warned that Britain is facing the greatest risk of a recession since the GFC. It reminded readers that previous recessions have created an economic shock which wiped out £2,500 per household and left a million more people unemployed. Some £8,000 per household would have been lost had the government and Bank of England not deployed quantitative easing (QE), ultra-low interest rates (now at 0.75 per cent), and tax cuts, wrote Michael Savage in the *Guardian* on 14 July. “[M]any of the tools used to fight the last downturn—from big interest rate cuts to £375bn of QE—are either spent or severely blunted”, stated the think tank’s Research Director, James Smith.

Glass-Steagall

A US survey revealed that support is growing for serious government intervention to rein in the banks and create a fair playing field for citizens (as distinct from investors) by introducing legislation to break up the banks, along the lines of the 1933 *Glass-Steagall Act* which prevented deposit-taking banks from speculative investing and vice versa. When a Democracy Fund Voter Study Group asked people if they supported “breaking up big banks”, 50 per cent of respondents were in favour of it, while 35 per cent neither supported nor opposed it, and only 14 per cent of respondents were opposed.

In “Breaking up Big Banks Has Gone From Expert Musing to Something Americans Generally Support”, published by inequality.org, author Kyra Sadovi commented on the study, saying that “the fact that so few people reacted negatively to substantial government intervention in the economy is a sign of the popularity of progressive economic issues across party lines”. Glass-Steagall is not “far-fetched”, writes Sadovi. Its repeal allowed big banks to become mega-banks, by allowing investment and commercial banks to merge. “In the process, the banks closed branches and laid off workers, creating banking deserts for low- and middle-income communities on the one hand and new private banking divisions for the ultra-rich on the other. Today, five banks now own half of all banking assets. It’s no surprise that going after the monopoly power of the big banks is appealing to voters of all parties.”

New research from digital UK bank Pockit has shown this phenomenon is worsening still, and it is most dramatic in poor areas. “Banks are closing branches in deprived communities in England four times faster than in wealthy areas”, reported the *Guardian* on 22 July. A quarter of poor regions have lost over 40 per cent of their bank branches over the last eight years. Chief executive of the bank, Virraj Jatania, said “Big banks are marginalising the poorest in society by shutting up shop and leaving them behind”, giving preference to well-off areas. The research also showed that the lowest income households relied on cash more than others, but without local bank branches and ATMs, they struggled for access.

It is the poor who will be further marginalised as the “war on cash” by governments and central bank intensifies worldwide. As interest rates head back to the ultra-low and negative realm—inducing savers to keep their money in cash—the IMF is scheming ways to place a financial penalty on the use of cash, in order to force people to keep their money in bank accounts that can be bailed in (confiscated to save the bank) when banks fail. (Read ["The New Global Push for Negative Nominal Interest Rates"](#) by Australian economist John Adams for more.)

US Democratic Senator Elizabeth Warren has warned that “a single shock” could bring down the entire US economy, and called on “regulators and Congress to act before another crisis”. Her plan includes the reinstatement of a modern *Glass-Steagall Act*, which has been on the table in both the US

Congress and Senate for years. Another Democratic pre-candidate for President, Rep. Tulsi Gabbard from Hawaii, has also been very vocal about Glass-Steagall. In the UK, a major investigation by *The Canary* published 18 July revealed that commissioners on the Equality and Human Rights Commission examining alleged antisemitism in the ranks of the Labour Party have a vested interest in preventing the election of a Corbyn government, the policies of which would include “overhaul[ing] the regulation of our financial system, [and] putting in place a firm ring-fence between investment and retail banking that will protect consumers”. One commissioner is heavily involved in two investment banks.

Banking policy is a seminal feature of effective economic reform. In order to launch real economic growth not only is a transformative economic vision required, but also the logistical mechanism to ensure credit makes its way to where it is needed. Glass-Steagall bank separation will ensure commercial and industrial pursuits are not sidelined, and will restrain the impulse of banks to leverage their deposits into speculative ventures. A national credit bank would go further—directing national spending into critical projects. There is intense debate under way in both the USA and the UK about using a National Investment Bank to fund required national infrastructure builds along the lines of this model.

Central bank collusion must end!

In a series of tweets, former Wall Street banker and Glass-Steagall advocate Nomi Prins has taken to task the major push for a massive, new quantitative easing effort combined with interest rate cuts. It is being coordinated globally by the same central banks which conducted the money conjuring, as Prins calls it, during the global financial crisis. This re-inflation of the bubble brought us today’s crisis and left the underlying causes unresolved.

To bail out Too-Big-To-Fail banks, the US Federal Reserve, the Bank of England, the European Central Bank and the Bank of Japan colluded on this “conjured-money policy”, as Prins documented extensively in her 2018 book, *Collusion: How Central Bankers Rigged the World*. This process allowed unelected central bankers to gain unprecedented power and influence over the world economy, she showed.

The 21 July *Wall Street Journal* stated that “Central banks are in sync on need for fresh stimulus”. They “are poised to unleash some of the most aggressive monetary stimulus since the financial crisis a decade ago”, wrote the *Journal*, though it is unclear if the available “tools will be adequate”. Prins responded: “I want to reiterate it again. [Clears throat] ... They’re working in Collusion.” One week earlier the paper had demanded emerging market central banks follow suit, carrying an article, “Emerging markets cut interest rates amid expectations of looser Fed policy”. Prins’ comment: “Almost as though they are all working in ... Collusion.” In response to a CNBC article, “Fed rate cut would ease pressure on China’s central bank, analysts say”, Prins tweeted: “As I wrote in my book, ‘By conjuring money, the Fed had begun something it couldn’t stop.’ The story continues.”

As Pam and Russ Martens from wallstreetonparade.com wrote in a January 2018 review of Prins’ book: “Prins convincingly shows that colluding central bankers have effectively *become the markets* through a never-ending flow of cheap money to the mega banks which have deployed that cheap money to buy back and inflate their own stock—with a green light from their own regulator and money pimp (our term, not hers)—the US Federal Reserve.” (Emphasis added.)

In a new book, *The Levelling: What’s Next After Globalisation*, Irish economist and senior investment officer at Credit Suisse, Michael O’Sullivan, expressed similar alarm at the power built up by central bank collusion. A review by Andrew Marr in the London *Sunday Times* states his case: “central banks have accumulated far too much power and are poisoning the system. Quantitative easing has distorted markets... [and] postponed the inevitable reckoning: ‘The approach has been to prop up bad debt, bad banks and bad investments in the hope that reflation would wash away the underlying risks.’”

O’Sullivan has a big proposal, which would be akin to pulling off a New Bretton Woods conference to revive international agreements on currency and capital. As Marr writes, “With so many central banks implicated, the only hope is for a big new international agreement, a full-scale financial disarmament treaty, or what he calls ‘a Westphalia for finance’.” (The 1648 Treaties of Westphalia suspended hostilities during the Thirty Years’ War, in order to create the breathing space for nations to cooperate for their mutual benefit, as clearly none were benefiting from perpetual war.)

O’Sullivan also suggests, according to Marr, “that a revived *Glass-Steagall Act*, which in 1933 separated the investment and commercial banking sectors in the US, should now be applied to the Facebooks, Amazons and Googles. It’s a big idea that almost deserves a book of its own.” Whether his Glass-Steagall notion extends to the big banks, as it must, is yet to be determined by AAS. In any case, as Marr attests, his book makes abundantly clear that the post-globalisation world requires *new thinking*.

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