The Glass-Steagall divide

By Elisa Barwick

In the early 1990s, as Glass-Steagall banking regulation was in its final spiral of decline in the western world, China was just introducing it. While the West was all consumed by the unprecedented financial gain associated with a growing criminal enterprise of gambling and looting, in the East, China envisioned a long-term plan to uplift its people from poverty and develop itself and the world. Glass-Steagall regulation, which separates retail banks that provide funding for the real economy from speculative investment banks, is the *sine qua non* (indispensible condition) for such a pursuit.

Following the success of Chinese leader Deng Xiaoping's "reform and opening up" agenda and the advent of a "socialist market economy", Chinese banks used any means at their disposal to raise money and speculate, including the use of savings deposits. It was necessary to legislate a firewall between commercial and investment banking activity to prevent this. Thus, in 1993 China made the decision to introduce the equivalent of Glass-Steagall banking separation to dry up speculation and instead focus investment into production and development. China also began to develop its state-directed financial system in order to make credit available for this purpose.

The People's Bank of China was given authority over commercial banks, and in June 1993 it issued a document announcing it would "separate commercial banks from their affiliated trust and investment firms". Three policy banks were created to oversee government-directed spending and the development of the nation. China is still continually revising and strengthening its financial regulatory framework to protect the functions of "boring banking" crucial to economic growth, in sharp contradistinction to the West.

The repeal of Glass-Steagall in the USA in 1999 was the result of a long process, led by the City of London and its Wall Street bastion (p. 8). The official repeal of US banking separation had been preceded by similar action in Europe which started at the end of 1989; that in turn had been preceded by the decision of the City of London to create a new global financial superstructure with itself as the heart through which all blood would flow. In reality, it operated more like a cancer, diverting the lifeblood of real economic activity into speculative money-spinning.

After the Berlin Wall fell, British Prime Minister Margaret Thatcher, working with French President François Mitterrand, moved to prevent a strong, sovereign Germany, and sabotage reconstruction of national economies in the East. Sovereign banking regulations were dismantled in favour of moves towards a European Banking Union. Glass-Steagall type laws which existed in many European nations were eradicated: on 15 December 1989, a month after the fall of the Berlin Wall, the European Commission issued Directive CE 646/89 which allowed any credit institution to engage in the entire spectrum of risky speculation, including derivatives trading. It also opened up the banking sectors of all European nations to City of London domination and control. Just prior to this directive, on 30 November 1989 Deutsche bank chairman, Alfred Herrhausen, was assassinated. The most influential figure in corporate Germany, Herrhausen was pushing for the industrial development of Germany, foreseeing "great economic possibilities" for Eastern Europe. Following Herrhausen's death, his friend German Chancellor Helmut Kohl capitulated to the demands for the destruction of national sovereignty ushered in by immediate moves to a monetary union.

One of the products of 'boring banking'—the world's longest road-rail steel box arch bridge being built in Yibin city, southwest of China's Sichuan province. It is part of a new railway link between Sichuan's capital Chengdu and Guiyang. Photo: AFP/Imaginechina

The City of London had directed the creation of the European Union and the end of sovereignty from the time of World War I; with its financial deregulation in 1986, the UK set a new era of financial control into motion.

Prior to Thatcher's 1986 "Big Bang" deregulation of London's financial markets, Glass-Steagall banking separation was the prevailing reality for British banks. Rather than a formal rule, separation between commercial and "merchant" banks existed by convention. In an economy still mostly oriented to real economic activity, a natural divide had formed whereby commercial banks operated much as utilities do, providing a vital service for the conduct of business, and merchant banks conducted investment activity, but did not take deposits or offer basic consumer services.

Thatcher's Chancellor of the Exchequer at the time of the Big Bang, Lord Nigel Lawson, told BBC radio in 2010 that London was determined to be the global centre of finance as the world moved to a global marketplace. The City of London therefore, "could no longer be based … on the capital put in by a certain number of wealthy individuals. It had to be much bigger than that—which meant having corporate capital in, and allowing overseas capital in".

This spelt the end of the traditional separation of bank activity. Lawson, now an advocate for the reintroduction of Glass-Steagall, explained that bankers wanted to "get their hands on the deposits" in order to leverage them in the drive for bigger financial profits from high-risk activity. Former Citibank head John Reed confirmed this, telling the BBC show that big global financial institutions wanted to get their hands on public capital to build their empires. Ridding the world of FDR's Glass-Steagall protection thus set up the ever-increasing divide between rich and poor, the big corporation and the individual citizen, until China took up the baton. The rest of the world must take heed.

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