Economists Say that Socialist Presidential Candidate Bernie Sanders "Can Save Free Market Capitalism"

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One might assume that economists would be against a socialist presidential candidate.

But 170 top economists have endorsed Bernie Sanders' platform regarding Wall Street, signing a letter stating:

> In our view, Sen. Bernie Sanders' plan for comprehensive financial reform is critical for avoiding another "too-big-to-fail" financial crisis. The Senator is correct that the biggest banks must be broken up and that a new 21st Century Glass-Steagall Act, separating investment from commercial banking, must be enacted.
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> Wall Street's largest banks are now far bigger than they were before the crisis, and they still have every incentive to take excessive risks. No major Wall Street executive has been indicted for the fraudulent behavior that led up to the 2008 crash, and fines imposed on the banks have been only a fraction of the banks' potential gains. In addition, the banks and their lobbyists have succeeded in watering down the Dodd-Frank reform legislation, and the financial institutions that pose the greatest risk to our economy have still not devised sufficient "living wills" for winding down their operations in the event of another crisis.
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> Secretary Hillary Clinton's more modest proposals do not go far enough. They call fora bit more oversight and a few new charges on shadow banking activity, but they leave intact the titanic financial conglomerates that practice most shadow banking. As a result, her plan does not adequately reduce the serious risks our financial system poses to the American economy and to individual Americans. Given the size and political power of Wall Street, her proposals would only invite more dilution and finagle.
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> The only way to contain Wall Streets excesses is with reforms sufficiently bold and public they can't be watered down. That's why we support Senator Sanders's plans for busting up the biggest banks and resurrecting a modernized version of Glass-Steagall.

Indeed, everyone knows that the big banks have to be broken up to stabilize the economy. And even the market thinks they should be broken up.

In addition, even the guy who shattered Glass-Steagall now admits that it should be restored.

One of the signatories to the letter – Bill Black, Professor of Economics and Law at the University of Missouri, America's top expert on white collar fraud, and the senior S&L prosecutor who put more than 1,000 top executives in jail for fraud – has long advocated reining in the giant banks.

Black provided the following summary of Glass-Steagall to Washington's Blog:

> It worked brilliantly for over a half-century, and banks and the economy grew strong with minimal failures – killing it violated the rule: "if it ain't broke; don't fix it"
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> It was attacked by bank CEOs because it worked so well and prevented their schemes
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Secretary [Hillary] Clinton's claims about the role of Glass-Steagall's repeal in the most recent crisis are incorrect in five major ways.

> a. [T]he repeal of Glass-Steagall allowed Citigroup to make investments that brought one of the largest financial firms in the world "to the brink of failure" – where they were saved only by a public bailout. Even if Lehman had not failed, Citigroup's derivatives trading losses would have triggered the global financial crisis. Remember, Citigroup was the only huge bank that FCIC investigated in depth – and that investigation documented fatal losses.
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> The largest banks were frequently affiliates of the "shadow" banks that Secretary Clinton tries to blame for the crisis and the largest banks typically provided the funding that allowed even the unaffiliated "shadow banks" to cause large losses. These massive loans from the largest banks to the "shadow banks" would not have been permitted under real regulatory leaders that Senator Sanders would appoint.
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> b. The repeal of Glass-Steagall began producing significant losses as soon as it occurred, not just in the most recent crisis. For example, Bankers Trust, one of the largest banks in America, went heavily into investment banking activities and promptly produced severe scandals that caused severe losses to its customers, particularly P&G and Gibson. *Frontline* reported that P&G's RICO lawsuit led to the discovery of tapes on which bank officers described the derivatives they sold as "a massive, huge future gravy train" and a "wet dream." In addition, there was talk about a "rip-off factor" and that Bankers Trust "set 'em [various clients] up." The lawsuits against Bankers Trust were so successful that its reputation was ruined and it was forced into a sale to Deutsche Bank. Other large U.S. banks that responded to the repeal of Glass-Steagall by engaging in securities activities also suffered serious losses and were pushed into mergers.
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> FleetBoston, the 7th largest bank holding company and the largest bank in the Northeast, also went immediately into securities trading upon the repeal of Glass-Steagall and immediately fell into a series of scandals due to fraud. The problems proved so crippling that FleetBoston had to be sold to Bank of America.

c. Investment banking is much riskier than commercial banking. Investment banks often take equity (ownership) risks while commercial banking means making loans. Glass-Steagall forbade federally insured banks to be investment banks. Three of the five major U.S. investment banks failed during the most recent crisis – a 60% failure rate – due to fraud. But other major U.S. investment banks such as Salomon Brothers and Michael Milken's Drexel Burnham Lambert had failed earlier due to their managers' frauds, so the true failure rate among investment banks is even higher than a staggering 60 percent. The huge European banks that went heavily into investment banking also suffered catastrophic losses during the most recent crisis, again largely due to fraud. Indeed, at the time this is written (February 9, 2016), the global financial markets are in turmoil because of fears about Deutsche Bank'sinvestment banking losses and recurrent scandals. Its share price is less than one-third its book value, which tells you that investors believe its assets are worth far less than its officers' claims. It makes no sense to provide federal deposit insurance protection – which puts the public on the hook for bank losses – to the far riskier activity of investment banking as Secretary Clinton wants us to continue to do. It also makes no sense to provide a federal subsidy (deposit insurance) to investment banking – where the bank owns businesses – and let them compete against firms that receive no such subsidy.

d. Secretary Clinton said during the most recent debate, in her effort to defend her opposition to Glass-Steagall, that: "You know, we can't just fight the last war." She's right, which is why it is critical to reinstate a modern Glass-Steagall. I note, and support, what the Bank Whistleblowers United explained. They say it is essential to protect against future losses and that Glass-Steagall is essential to that protection. They also explain how, without any new legislation or rules, the banking regulatory agencies can implement a modern Glass-Steagall by setting Individual Minimum Capital Requirements (IMCR) on each bank that engages in investment banking. Because investment banking is so much riskier, those capital requirements would cause, if they were properly set in accordance with that far greater risk, federally insured banks to get out of investment banking.

e. Investment banking creates another major risk for commercial banks. It brings a "trader mentality" to the fore and that means scandals. Banking experts here and in the UK have identified this mentality as one of the important changes that has created the corrupt culture of banking described and decried by UK and U.S. regulators.

It is only the big banks – and their servants in Washington, such as Clinton, Rubio, Bush, etc. – who want to maintain the status quo.

Postscript: While you might assume that socialists such as Sanders will destroy free market capitalism, the truth is that we don't *have* free market capitalism anymore in the U.S. (and the big banks are largely responsible).

Instead, we have socialism for the rich, crony capitalism, fascism, kleptocracy, oligarchy or banana republic style corruption.

So *labels* don't carry much weight. The question is which presidential candidate will take the *actions* necessary to restore the economy and give Main Street and the average American a fighting chance.