Is Sanders' call to "break up the banks" a socialist demand?

Barry Grey
12 April 2016

A centerpiece of the political campaign of "democratic socialist" Bernie Sanders is his oft-repeated call to "break up the big banks." The Vermont senator has won broad support from workers and especially from young people by tapping into deep anger over the growth of social inequality and the domination of American economic and political life by Wall Street.

To the shock of the entire political and media establishment, including the Democratic candidate himself, the Sanders campaign has revealed that in a country where socialism has been virtually banned from public debate for nearly three-quarters of a century, millions of working people favor socialism over capitalism. Sanders' bid to upend the predicted coronation of former Secretary of State Hillary Clinton as the Democratic presidential candidate has revealed the contempt and hatred felt by masses of people for the entire political establishment and the capitalist system it upholds.

Sanders, however, has made clear that the aim of his so-called political revolution is to corral more votes for the Democrats and revive popular support for a party that has long served as a political instrument of the very banks against which he rails, no more so than during the eight years of the Obama administration.

The most radical of his campaign slogans—and the one that generates perhaps the greatest enthusiasm from voters—is his pledge to break up the banks. But is this a socialist or anti-capitalist measure?

With Sanders, it is not tied to a call for the transformation of the property relations, based on private ownership of the banks and corporations, that underpin the rule of the financial oligarchs. On the contrary, Sanders forswears any attack on private ownership of the means of production and finance, omitting even demands for public ownership of basic utilities that were a staple of left-wing political programs, including those of some bourgeois liberals, for a good part of the last century.

Sanders' call to break up the big banks has in recent days emerged as a major issue in the increasingly bitter nomination battle between himself and Clinton. With her campaign in deep crisis following Sanders' crushing victory in last week's Wisconsin primary, Clinton seized on an interview with the Vermont senator published by the *New York Daily News* to attack his banking policy and portray it as reckless and ill-conceived.

In the interview, Sanders had difficulty explaining how he would actually implement his demand for reducing the size and economic clout of the biggest banks. In the end, he said he would leave it up to the banks themselves to decide.

In defending his slogan, he said the following: "Well, by the way, the idea of breaking up these banks is not an original idea. It's an idea that some conservatives have also agreed to. You've got the head of—I think it's the Kansas City Fed, some pretty conservative guys—who understands."

Sanders misspoke. He meant the Federal Reserve Bank of Minneapolis and its new president, Neel Kashkari. Indeed, since taking office as the head of the Minneapolis Fed on January 1, Kashkari has aggressively argued for what he calls "ending too big to fail" by placing a cap on the assets of the biggest banks and forcing them to reduce their size and economic influence.

On April 4, Kashkari hosted the first of a series of symposia at the Minneapolis Fed to promote the demand for breaking up the big banks, and his institution has announced that by year-end it will publish a detailed plan for reining in the size and power of the Wall Street giants.

The list of participants, beginning with Kashkari himself, makes clear that downsizing the mega-banks is a policy being promoted by a definite, albeit minority, faction within the American ruling class, including elements within the financial bureaucracy. Kashkari, a life-long Republican, is not only a former Goldman Sachs banker and one-time official in the Bush Treasury Department, he was in charge of administering the $700 billion Troubled Asset Relief Program (TARP) bank bailout in the aftermath of the September 2008 financial meltdown.

He left government and took a lucrative executive position at the bond giant Pimco in 2009. He resigned from the firm in 2013 to mount a run for California governor, which he lost in the following year's election. He was named Minneapolis Fed president last November after receiving a 5-0 vote of approval by the top Fed officials in Washington.

In February, Kashkari gave a speech to the Brookings Institution in which he announced the Minneapolis Fed's campaign on the issue of "too big to fail" and breaking up the biggest banks. Stressing that another major financial crisis was inevitable, he categorically asserted that the Dodd-Frank bank regulatory reform signed into law by Obama in 2010 would not prevent a second massive government bailout of Wall Street.

While defending the 2008-2009 bailout as the only alternative to a full-scale depression, he said, "I believe the biggest banks are still too big to fail and continue to pose a significant, ongoing risk to our economy." He called for consideration of a "range of options" including:

* "Breaking up the large banks into smaller, less connected, less important entities.

* "Turning large banks into public utilities by forcing them to hold so much capital that they virtually can't fail (with regulation akin to that of a nuclear power plant).

* "Taxing leverage throughout the financial system to reduce systemic risks wherever they lie."

The April 4 symposium featured presentations given by Anat Admati, a professor at Stanford University's Graduate School of Business, and Simon Johnson, former chief economist at the International Monetary Fund and current professor at the Massachusetts Institute of Technology's Sloan School of Management, each of which was followed by a panel discussion. Admati called for drastically raising the capital requirements of big banks, and Johnson argued for setting an asset cap of 2 percent of US gross domestic product, or $350 billion, beyond which banks would be forced to sell off assets and downsize.

There are currently seven US banks that, under Johnson's plan, would be broken up: JPMorgan Chase ($2.42 trillion in assets), Bank of America ($2.15 trillion), Citigroup ($1.77 trillion), Wells Fargo ($1.75 trillion), US

Bankcorp ($416 billion), Bank of New York Mellon ($377 billion) and PNC Financial Services Group ($362 billion).

The panelists for the most part argued against the measures advocated by the speakers. However, the audience included James Bullard, president of the St. Louis Fed, who, while not endorsing the proposals, welcomed the discussion on the issue of "too big to fail."

Both Johnson and Kashkari declared their belief in capitalism and presented their proposals as a means of upholding free market principles and defending the system. "I think an exemption from bankruptcy is a big problem. I don't think that's capitalism," Johnson said.

In his closing remarks, Kashkari noted that he had invited Wall Street bank representatives to participate in the symposium but they had refused. Striking something of a populist pose, he complained that "nobody was prosecuted" following the 2008 crash, and added, "We need to look at accountability, some kind of penalty or criminal liability."

The following day, the Minneapolis Fed announced that its next forum on "too big to fail" would take place May 16 and the participants would include former Fed Chairman Ben Bernanke.

While Kashkari's proposals on downsizing the big banks are at odds with the official position of the Fed and the views of leading officials such as Fed Chairwoman Janet Yellen, there is no doubt that he is carrying out his campaign with the knowledge and tacit support, or at least toleration, of the central bank's Board of Governors.

What is driving the agitation of Kashkari and other members of the financial establishment in support of curtailing the size and power of the big banks? It is not accidental that this position is being advanced by the Minneapolis branch of the Fed. None of the mega-banks are headquartered in the region covered by the Minneapolis Fed, which has long promoted the interests of medium and small banks within the Federal Reserve system.

More fundamental, however, is the growing sense within the ruling elite that a new financial crisis is looming and the fear that such a development could trigger an uncontrollable social and political upheaval, with revolutionary implications. At the April 4 forum in Minneapolis, both Johnson and Kashkari were categorical on the inevitability of a new financial panic that would, unless forestalled by "transformational" measures taken in advance of such a crisis, result in another huge government bailout of the banks.

As for the potential political consequences of such a turn of events, the advocates of "breaking up the banks" within the ruling elite are haunted by the indications of mass opposition to the economic and political establishment in the US election campaign. Following the Minneapolis Fed symposium, Kashkari told the *Minneapolis Star Tribune*, "I look at a lot of the political anger in the country, again on both sides of the aisle, as directly stemming from the financial crisis. And that's a reminder to me that there are lingering costs to societies when they go through the intense crisis that we went through in 2008 and 2009. We need to move while we still remember."

Sanders' advocacy of "breaking up the big banks" while retaining the framework of private ownership of the financial system and upholding the profit system as a whole, far from being a socialist demand, reflects the position of a faction within the ruling elite itself.

Similar tendencies are emerging internationally in response to the deepening crisis of world capitalism, marked by the slowdown in China, stagnant or declining trade and economic growth, and mounting moves in the direction of trade and currency warfare. In many cases, quasi-reformist policies are linked to economic nationalism and protectionism.

In the UK, for example, demands for penalties and tariffs against foreign steel, promoted by the trade unions and sections of the Labour Party and pseudo-left, are growing in the aftermath of the announcement by Tata Steel that it plans to scrap its operations within Britain. Similar demands are being advanced by the unions and their political allies in Germany, France and other parts of the continent.

In Brazil, which is facing its deepest slump since the 1930s, economists on both the right and the nominal "left" of the bourgeois political spectrum are calling for autarkic policies such as capital controls and currency devaluation.

Such nationalist policies are deeply reactionary. They serve to pit workers in one country against workers in other countries, while lining workers up behind "their" national employers on the basis of corporatist arrangements to cut wages and benefits, impose speedup and suppress the class struggle. In the name of enhancing the "competitiveness" of the capitalists of each country, workers of all countries are thrown into a fratricidal race to the bottom.

In the campaign of Kashkari and his co-thinkers against "too big to fail" banks, there is a similar economic nationalist bias. In his February speech to the Brookings Institution, Kashkari made clear that his orientation was entirely focused on the US banking system and economy, despite the reality of a highly integrated global financial system. "If other countries want to take extreme risks with their financial systems," he said, "we can't stop them—but the United States should do what is right for our economy and establish one set of rules for those who want to do business here…"

In the name of fighting economic inequality and Wall Street domination, Sanders promotes economic nationalism in a virulent form. He denounces international trade deals not from the standpoint of the interests of the working class in the US or any other country—whose living standards and working conditions are indeed harmed by trade agreements forged to further the profit interests of transnational corporations—but rather from the standpoint of corporate sectors threatened by globalization and their allies in the trade union bureaucracy. It is not capitalism that is the problem, according to Sanders, but foreign workers and immigrants.

In an interview last July, Sanders denounced the concept of "open borders"—that is, the right of workers to live and work in whatever country they choose with full democratic and citizenship rights—as a "right-wing proposal," which "would make everybody in America poorer." He went on to explicitly defend the "concept of the nation state."

Sanders' economic nationalism goes hand in hand with the central purpose of his election campaign, which is to revive illusions in the Democratic Party and preempt the development of an independent and genuinely socialist political movement of the working class.