When central bankers become Prime Ministers: The case of Italy

By Elisa Barwick

The appointment of former European Central Bank president Mario Draghi as Italian Prime Minister on 13 February completes a full cycle of economic policy evolution, decidedly for the worse. Draghi is a City of London fixer who played a key role in the evolution of the European Union, leading Europe by Italy's example down the pathway of the subjugation of national sovereignty to the EU superstructure. His regime looted national industries, privatised assets and destroyed real economies, while fattening bank profits and super-charging speculation. It was an unmistakeable demonstration of the usurpation of economic policy by bankers and technocrats that is set to occur on a global scale.

From the Italian Treasury in the early 1990s Draghi facilitated a massive rip-off of Italian national assets, preparing the state for takeover. His accession to power today is yet another sign of the economic and financial regime change in progress, designed to ensure a continuation of the power of banking authorities once their monetary system has disintegrated. ("The 'Great Reset' has already started … but so has the resistance!", Media Release, 19 Feb. 2021)

Draghi's CV includes roles as: Italy's executive director at the World Bank (1984-90); director general, Italian Treasury (1991-2001); Vice chairman and managing director, Goldman Sachs International, London (2002-06); Governor of the Bank of Italy (2006-11); chairman, Financial Stability Forum (from 2006), which in 2009 became the Bank for International Settlements' FSB (following); Chairman, Financial Stability Board (2009-11); president, European Central Bank (2011-19). In his latter roles with the FSB and ECB, Draghi presided over mega-bailouts for Europe's biggest banks and was a major promoter of the new global bail-in regime. In his earlier roles he helped establish the system which put banks in the drivers' seat, over and above governments.

Redefining austerity

In the lead-up to his new job, Draghi played a leading role in preparing a Group of Thirty (G30) Working Group report published in December 2020 titled, "Reviving and restructuring the corporate sector post-COVID: Designing public policy interventions". The G30 is a group of former and current central bankers, private bankers and academics. The report recognised that governments have had to take bold action in the face of the pandemic, including employment protection, government spending, nationalisations and incentives, but recommends that due to the growing debt crisis, "governments now need to alter their response", moving from "broad support to more targeted measures" so that economies can "emerge fitter and stronger". And who will decide who is assisted in such a targeted response? The report stresses that "private sector capabilities should be relied on to prioritise and administer support" and that governments should be restricted to "addressing market failures, and to managing the pace of the needed *creative destruction*" (emphasis added). The report is designed to "provide a practical guide to policymakers as they face difficult trade-offs" in the coming period, the foreword states, specifying that "policymakers must make hard choices".

Mario Draghi addresses the press after taking on the Prime Ministership. Photo: AFP/Quirinale Press Office

"Creative destruction", explains the report, refers to the process whereby "some firms shrink or close and new ones open", a process in which markets, not governments, must play the key role. When unsuccessful firms fail, jobs and resources can flow to "ones that are better suited for the *new economy*" (emphasis added). In other words, survival of the fittest, economic triage, or the popular variant which led to the demise of Australian family farms, "get big or get out". The "new economy" to be favoured by the planned shakeout refers to "environmentally sustainable" pursuits fostered by the incoming financial regime while cutting off transformative, industrial pursuits such as those dependent on fossil fuels, dismissed as "old economy". The term "creative destruction", denoting a process of economic evolution, was heavily promoted by Austrian School economist Joseph Schumpeter (1883-1950), but originated with German philosopher Friedrich Nietzsche and was popularised as a concept within the Nazi party by German economist Werner Sombart (1863-1941).

The G30 report skewers the indiscriminate and excessive provision of credit; unsustainable public spending; and "excessive direct government decision-making" occurring without consultation with the private sector; and addresses potential consequences for "financial stability".

A 12 February letter to the London *Financial Times* by Italian economists Emiliano Brancaccio and Riccardo Realfonzo described the coincidence of Draghi's "*laissez-faire* version of Schumpeter" with the austerity of previous technocratic governments in Italy which have always pushed "the need to weaken parliamentary forces so as to increase a government's autonomy in managing the scarce resources available in economic downturns". Draghi has stacked key ministries with bankers to implement the plan.

From Austrian School to EU

In the 1870s, Austrian School of economics founder Carl Menger took aim at the American use of government-extended credit to finance industry, agriculture and infrastructure. With the better-known Ludwig von Mises and later Friedrich von Hayek (and others like Schumpeter), the Austrian School would lead the charge to dismantle the Bretton Woods economic system established after World War II, which was designed to ensure a stable framework to support economic growth and trade.

Austrian School theories were trialled following World War I in war torn and bankrupt Austria, with the implementation of vicious austerity including wage cuts and mass axing of jobs, a condition of post-war loans administered via the League of Nations, the United Nations' predecessor founded after the Paris Peace Conference which ended the war.

The arrangement was conducted under the close direction of Bank of England head Montagu Norman, working hand-in-glove with local ideologues. Norman was intent on seeing through the first test case of an intergovernmental organisation directing the internal policy of nations, and on pushing the new austerity policy which would become a key platform for the fascism emerging prior to the Second World War.

It wasn't until nations were forced to fight World War II that real economic growth returned—a phenomenon so feared by the City of London that it launched an entirely new financial order, starting with its European Union project (see *The British Empire's European Union*, Citizens Party pamphlet, May 2016) and resulting in today's globalised offshore monetary system. As author Nicholas Shaxson wrote in his history of that transformation, *Treasure Islands: Tax Havens and the Men Who Stole the World* (2011), it was "an era when international bankers took a backseat and fumed impotently at politicians' mighty powers. Those few years after the Second World War were, in fact, the only time in several hundred years when politicians had any real control over the banking sector in Britain. ... The Bretton Woods plan, for all its faults, was designed to tame the forces of international finance."

This is what they fear again, today.

The European Union was a test case for supranational government, ripping control of currency, credit creation and other economic decision-making out of the hands of national governments, and into the hands of unelected and centralised bureaucrats. Austrian-style austerity was enshrined into EU dictates commencing under the 1992 Maastricht Treaty, limiting nations to deficits worth 3 per cent of GDP and national debts to 60 per cent of GDP.

Draghi played a key role pushing Italy into the EU, by smashing it economically; the other side of the pincer, financial warfare, forced compliance. Prior to Draghi's actions, Italy had boasted the largest sector of state-owned industry in the world outside the Soviet Union. In June 1992 Treasury Secretary Draghi, along with representatives of the biggest City of London banks, the Queen of England and top Italian banks and corporations, attended a meeting aboard the Royal Yacht *Britannia*, moored off the Italian coast. The meeting discussed an agenda of savage budget cuts and the wholesale privatisation of some US$300 billion worth (at the time) of national assets. Answering to the proposed massive transfer of wealth into private hands, according to media reports at the time Draghi announced to his assembled peers: "We are ready!" The City of London organised the sell-offs and three Wall Street firms—Goldman Sachs, Merrill Lynch and Salomon Brothers—prepared the companies for sale on behalf of the Italian government. Meanwhile, a raid by speculators on the Italian lira and a Moody's downgrade of Italy's sovereign debt resulted in a heavy currency devaluation and 30 per cent cheaper assets for the fire sale, deepening the rip-off. Notably, Draghi's next job was with Goldman Sachs, where he went straight to the top.

Then, as today, it is clear to see the lengths financiers will go to in order to prevent states reasserting their sovereignty in order to protect the common good of citizens. On the other hand, it is abundantly clear that disrupting the privatisation drive—as is still possible in the case of Australian national asset Australia Post—can stop the entire austerity agenda in its tracks.

British banks push to wind back ring-fencing

By Elisa Barwick

The British Treasury announced 21 December that it would conduct an independent review of the operation of the ring-fencing policy introduced after the global financial crisis. In 2011 Britain's Independent Commission on Banking—a government inquiry into banking practices invoked by the crisis—recommended that retail banking services be kept separate from investment banking activities in order to "protect depositors from risks arising elsewhere in the banks and in the financial system".

Ring-fencing is a light version of the 1933 US *Glass-Steagall Act*, because while Glass-Steagall forces deposit-taking banks to completely divest from investment banking or vice versa, ring-fencing means you merely separate those functions, which can continue to exist under one roof.

The government review, which commenced in early February and reports back in a year, appears to be a routine procedure, but it is clear the big banks have more in mind. An article in the 8 February *Financial Times* opened: "Bankers are gearing up for a face-off with the Bank of England over the future of the UK's ring-fencing law, with parts of the industry lobbying to ease restrictions".

Foreign banks, in particular, oppose the restrictions, which they say inhibits their growth inside the UK. Banks taking over £25 billion worth of deposits over three years have to split their activities into separate operations.

Large US investment banks which appear to be increasingly moving into deposit-taking operations in the UK are already lobbying: to have the deposit ceiling raised at the very least, or to scrap the rule altogether. Reports *FT*: "The issue is of particular significance to Goldman. After founding a new UK retail bank called Marcus in 2018, it quickly grew to near the £25 billion deposit ceiling and had to stop taking new customers.

"Goldman uses the deposits to help cheaply finance its London-headquartered international investment banking operations, a practice that would be banned if it had to ring fence the unit." These matters would also bear heavily on the operations of another Wall Street bank, JPMorgan, said *FT*, which is about to start its first digital-only retail bank in the UK.

US banks get around the little regulation that does exist in America by operating through their less-regulated domestic and overseas "affiliates", so restrictions on US banks in the UK are taken very seriously.

Intersecting this debate, on 9 March George Washington University law school emeritus professor Arthur Wilmarth will launch his 2020 book, *Taming the Megabanks. Why We Need a New Glass-Steagall*, at the Queen Mary University of London. According to a 16 February article in *American Banker*, Wilmarth's book demonstrates how the reintroduction of Glass-Steagall would: reduce systemic risk; remove conflicts of interest; produce greater competition; encourage deposits and capital to flow into community banks; and reduce the political clout of the big banks. A proposal for a new *Glass-Steagall Act* for 21st-century conditions is provided.

American Banker reports that US President Joe Biden signed onto a Democratic unity task force during the election campaign which called for "maintaining and expanding safeguards that separate retail banking from riskier investments". Biden appears to be genuine about Glass-Steagall. In the 26 April 2019 *New Yorker* he told US journalist Evan Osnos: "I'll be blunt with you: the only vote I can think of that I've ever cast in my years in the Senate that I regret—and I did it out of loyalty, and I wasn't aware that it was gonna be as bad as it was—was Glass-Steagall."