

# Mario Draghi, Hawk for Whom?

*With ex-goldmanite 'super mario' at the helm of the ECB, expect more money printing, a two tier banking system, and a bigger role for the IMF.*

After 8 years of Jean-Claude Trichet, the ECB gets a new face: the Italian Mario Draghi. From his recent statements in the press and elsewhere, many assume he will rather be a 'hawk' than a 'dove', meaning that Draghi will only print little money and will not lower interest rates aggressively. But a look into the past of this man makes us wonder: hawk for whom?

In Italy, Mario Draghi has the Nickname 'Signor Altrove', 'mr. Absent', because he often wants to be in two places at the same time and because he disappears regularly with his mobile phone for consultation with people such as Timothy Geithner. These **contacts with the American financial elites** are not

coincidental: Mario Draghi obtained his phd in economics at MIT in 1977, the same institution that just two years later awarded Ben Bernanke with a phd title. And the connections run deeper still, as we will soon find out.

Between 1991 and 2001, Draghi made career as secretary of the Italian treasury. He also was chairman of the committee responsible for privatising the Italian banking system via two laws enacted in 1992 and 1998. This legislation factually rendered void the 1936 Italian version of the Glass-Steagal act, which prohibited Italian banks from mixing investment banking (financial intermediation between lenders and borrowers) with commercial banking (safeguarding deposits). In other words: from then on, Italian banks were introduced to the exciting and unsustainably risky world modern banking.

After that, Draghi went on to work for investment bank **Goldman Sachs**, internationally known as 'the octopus' for having a finger in every pie.<sup>1</sup> After his five years with Goldman, he became governor of the Italian Central Bank in 2006.

And now things get very interesting: in that same year, Draghi also became chairman of the '**Financial Stability Forum**' (FSF). The FSF, brought into life by the G7, was a think tank of central bankers and finance ministers with the goal of overseeing 'global stability' of the financial system. From the start, the FSF was clearly dominated by the anglo-saxon financial world: its first chairman Andrew Crockett was a former executive director with the Bank of England, and afterwards became chairman of JP Morgan



Draghi (right) with Timothy Geithner

*"It would be a serious misjudgment of national and regional authorities to allow national interests to weaken implementation of global reforms necessary to avert future crises."*

Mario Draghi, June 6, 2011

*We must have a strategy that regulates the financial system as a whole, in a holistic way, not just its individual components ... Any firm whose failure would pose a systemic risk must receive especially close supervisory oversight ..."*

Ben Bernanke, 2009

## Average size of Italian banking groups

|       | 1993        | 2006       |
|-------|-------------|------------|
| Top 3 | € 95,9 bil. | € 468 bil. |
| Top 5 | € 86,1 bil. | € 340 bil. |

Source: <http://tinyurl.com/abousaid>

## # bank offices per 100.000

|             | 1997 | 2005 |
|-------------|------|------|
| Italy       | 44   | 54   |
| Netherlands | 43   | 23   |

Source: <http://tinyurl.com/dececco>

*"It was only when Hank Paulson, then Treasury Secretary, decided that "I need a bazooka" to stun the markets and recapitalise the banking system that he came up with the \$700 billion ammunition. ... What Europe needs is someone capable of firing a bazooka to get the latest Euro-style Tarp off the ground. Could Draghi be that man?"*

Margareta Pagano in *The Independent*, october 9, 2011

<sup>1</sup> An example to illustrate: in 2006, ex-CEO of Goldman Sachs Hank Paulson became American secretary of the treasury. When the financial crisis hit, Paulson allowed for two investment banks to go under: Bear Stearns and Lehman Brothers. Coincidence has it, that these two banks were competitors of Goldman Sachs.

international. The FSF's second chairman, Roger W. Ferguson, later on went to work for the Federal Reserve. And Fergusons heir was ex-Goldmanite Mario Draghi (who earned his nickname 'super mario' during his Goldman days).

In an official 2008 letter<sup>2</sup> sent to the ministers and central bankers of the G20, Mario Draghi as head of the FSF, and Dominique Strauss-Kahn as head of the IMF, wrote that they would *"like to clarify how we see the roles of our respective bodies"*. In the letter, Draghi and Strauss-Kahn describe how the **governments** are responsible for *'implementations of policies in the financial sector'*, the **IMF** is responsible for the *'surveillance of the global financial system'*. And who will be the maker of the laws ruling the global financial system? Right, the **FSF**, being in charge of *'elaboration ... and supervision ... of regulatory policies and standards'*.

In other words, the national authorities ought to become the citizens, the IMF should be the police, and the FSF is to become the world financial government. In fact, this is already a done deal. We all know the Basel-norms that were and are imposed upon the banks. Well, those were designed by the FSF, which holds its meetings in the BIS-building of the Swiss city of Basel.

In 2009, the G20 decided to make things more official, and strongly expanded the mandate of Draghi's little club. From then on, the FSF had become the **'Financial Stability Board'** (FSB). Mario Draghi kept his position as chairman.

And what is the FSB now doing? It is mapping all 'global systemically important banks', in order to assess which banks can go under, and which will be saved. At least, that's my interpretation. Let's take a look at the evidence for this.

We return back in time to the godfather of the FSF, its first chairman **Andrew Crockett**. This man not only has connections with the Bank of England and JP Morgan, but was also the general manager of the Bank for International Settlements<sup>3</sup> (until 2003), and a managing director at the IMF. If there is one person that deserves the label 'spider in the web', it would be Crockett.

In 2005, Crockett wrote an article in a book bearing the title 'Systemic financial crises: resolving large bank insolvencies'.<sup>4</sup> In that article, the supra central banker wrote that *"there are basically two ways of ensuring that no large financial institution would ever have to be wound up"*.

The first way, to *'carry such a large capital cushion as to virtually eliminate failure risk'*, was brushed of by Crockett as *'inefficient'*, and would only *'divert the risk away'* (to where I don't understand).

This is the other way to avoid failure of big banks: *'The second way ...*

*"The history of the last century shows, as we shall see later, that the advice given to governments by bankers, like the advice they gave to industrialists, was consistently good for bankers, but was often disastrous for governments, businessmen, and the people generally."*  
Carroll Quigley, 1966

*"While the risks to financial stability that arise from the creation of a small number of large and complex firms are obvious, there may be benefits as well ..."*  
Roger W. Ferguson, 'Thoughts on financial stability and central banking', april 17, 2006

*"The [IMF] does well when the world economy does badly. ... This creates a curious incentive structure."*  
Andrew Crockett in *The Economist*, 2007

*"the [IMF]'s interest earnings are drying up as it struggles to find new takers for its money."*  
*The Economist*, 2007

*And one day, the Fund might even be called upon to provide a globally issued reserve asset, similar to—but in important respects different from—the SDR.*

Dominique Strauss Kahn, 'An IMF for the 21st century', 2/26/2010

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<sup>2</sup> [http://www.financialstabilityboard.org/publications/r\\_081113.pdf](http://www.financialstabilityboard.org/publications/r_081113.pdf)

<sup>3</sup> The BIS is arguably the most powerful banking institute on the planet, serving as the 'bank of the central banks', holding over a 1000 tonnes of gold in deposit.

<sup>4</sup> <http://tinyurl.com/andrewcrockett>

would be to adopt a **policy of 'too-big-to-fail'**, in which governments would undertake to stand behind institutions whose failure would have systemic consequences." To be fair, Crockett does make the remark that if banks are conscious about the 2BTF-policy in place, they might take much higher risks, and therefore regulators should combine 'prudence' with 'competitive freedom'.

In the rest of the piece, Andrew Crockett discusses the various ways in which banks can be saved from bankruptcy, and says "In a crisis, it is highly desirable that a single authority should take the lead in coordinating responses among supervisory authorities (and perhaps governments and central banks as well)." And this is the conclusion of Crockett's 2005 article: "It is of some comfort to know that this kind of crisis is highly unusual, and decades may pass without one. But if it does strike, it would be better if we were more prepared than I believe is presently the case."

Is it then fair to say that the Financial Stability Board, now chaired by Draghi, is the embodiment of Crockett's 2005 dream, namely an institute that can coordinate the bailouts of the big banks once the great financial crisis hits, in order to maintain 'global stability'? I think that it is.

And now this financial global government has begun to take action. In June 2011, the FSB published a document<sup>5</sup> in which an 'assessment methodology' is provided to identify '**Global systemically important banks**' (G-SIBS), whereby the goal, amongst others, is to 'reduce the probability of their failure'.

In a reaction<sup>6</sup>, the Hong Kong Association of Banks has written that "The proposed categorisation of global systemically important banks (g-sibs) would give rise to a non-level playing field, where the current implicit state support theoretically available to all banks regardless of their G-SIBS status is proposed to be replaced by a two-tier banking system consisting of G-SIBS and non-GSIBS." In other words, the systemically important banks, most likely the banks associated with the group of 30<sup>7</sup>, will become the first class citizens what are always bailed out and who receive special benefits and privileges, whilst the other banks may fish behind the net in the event of a bank run or liquidity problems. If a bank goes under, the tasty bits will be divided under the G-SIBS.

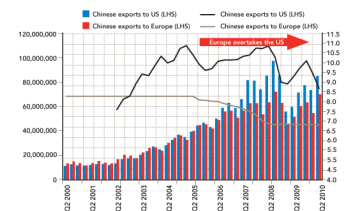
The most likely scenario for the coming months, it seems to me, is that the new ECB chairman Mario Draghi will do everything to save the international big banks, with a preference for the banks associated with the Group of 30 (JP Morgan, Citibank, Goldman Sachs, Morgan Stanley, BNP Paribas, Deutsche Bank), even if that means a failure of smaller banks, much more austerity in the member countries. Given that Draghi has 'global stability' in mind, it may even be so that he will assist in pulling the plug of the euro as a transition towards a global reserve currency.

*"The International Monetary Fund operates primarily as a banker bailout machine. They cajole and tempt and confuse and threaten the leaders of governments worldwide to pay off the failed bets of the big bankers using the taxpayer funds of their countries."*

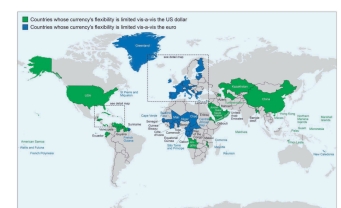
Nathan Lewis, september 3, 2009

*"A super-sovereign reserve currency managed by a global institution could be used to both create and control the global liquidity. ... This will significantly reduce the risks of a future crisis and enhance crisis management capability."*

Zhou Xiaochuan, Governor of the People's Bank of China, 23 March 2009



In blue China's export to Europe, in red China's export to the US. Given that the EU is such an important market, China stands to benefit from a smooth transition from the euro to a new world currency. This increases the likelihood of China providing Europe with credit.



In green the currencies under dollar influence, in blue the currencies under euro influence. It is interesting that this graph comes from a recent study of the German Bundesbank, 'Currency blocs in the 21st century', showing that Germany keeps a close eye on (and will possibly participate in) the currency war.

<sup>5</sup> See: <http://www.bis.org/press/p110719.htm>.

<sup>6</sup> See: <http://www.bis.org/publ/bcbs201/thkaob.pdf>.

<sup>7</sup> The group of 30 is the main think tank of the IMF and the World Bank, founded by the Rockefeller foundation, and currently lead by Paul Volcker, Jacob A. Frenkel (chair of JP Morgan), and Geoffrey L. Bell. See here for a short history: <http://www.group30.org/images/PDF/OP78.pdf>.

Also it seems likely that the **IMF** will be granted a more significant intervening role in the euro crisis. For the implications of this, Latin America may serve as a point of reference. In this continent, a variety of socialist regimes were kept in power by means of IMF loans. Eventually, when the local currencies were destroyed by hyperinflation, the dollar or a dollar equivalent currency was put in place. This strengthened the position of the dollar as the world reserve currency. In the same fashion, the collapsing European Union may be targeted as an expansion zone for the new international currency envisioned by global monetary interventionists such as Dominique Strauss-Kahn and Zhou Xiaochuan (see the quotes in the column on the right).

### What will all this mean in practice?

This is the general direction in which I see things play out:

1. The printing press of the ECB will primarily serve to bail out the largest banks. Large scale Quantitative Easing is now no longer unthinkable in the eurozone, and just as in the US, the new money will be primarily be used to shore up the capital of insolvent banks.
2. An increasing tension will build up between the ECB and the IMF on the one hand (who want austerity), and the EU citizens (who don't want austerity). Bank runs will become a major problem, eventually leading to bank holidays. In multiple EU countries, the population will rise against the austerity measures, and demand an exit from the Union. That is, if Germany does not leave first.
3. All these tensions will prove too much for the empire that is the EU, and its bureaucratic apparatus will fail due to lack of funds. In other words, the European Union will break up or fall apart.
4. Governments, mainly those of neo-latin language countries, will keep on piling up new debt—even after an exit from the EU.
5. If by then a global financial meltdown has not yet occurred, foreign entities will continue buying privatised European assets at rock bottom prices, whilst trying to promote/force the use of their own currency in Europe. This will worsen the conflict between the western and eastern financial powers.

*"So we make this big loan, most of it comes back to the United States, the country is left with the debt plus lots of interest, and they basically become our servants, our slaves. It's an empire. There's no two ways about it. It's a huge empire. It's been extremely successful."*

John—econ. hitman—Perkins

*"The Wall Street zombie bankers are aiming at a chaotic breakup of the euro with the intention of buying up the old continent at bargain-basement prices.*

*...acting to destroy the euro as a possible competitor for the dollar in the role of world reserve currency ... The dollar is now so weak and unstable that it can only survive through the downfall of all the alternative currencies."*

Webster G. Tarpley, 10/1/2011

*"The last duty of a central banker is to tell the public the truth."*

Fed vice chairman Alan Blinder

*"The European saga has now been going on for almost two years, while the Latin America sovereign crisis lasted almost a decade. The endgame in the case of Europe will probably end much sooner than in the case of Latin America."*

Guillermo Ortiz, member of the group of 30, september 9, 2011

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