Austrian Minister on Shadow Banking Threat

by Harley Schlanger

Jan. 17—In a written interview with *EIR*, the Austrian Finance Minister, Dr. Maria Fekter, said that her government has "no intention to promote a *Trennbankensystem* [two-tier banking system] at the European level," and has concluded that Austria will "stick to the universal banking system" which it currently maintains.

The interview was arranged following a presentation given by Fekter at a financial conference in Alpbach, Austria on Aug. 30, 2011, where she responded to a question from this author about the need for a Glass-Steagall bankruptcy reorganization to deal with the escalating crisis in the Eurozone. She conceded that "Glass Steagall has some good points," which she then elaborated to the audience.

Since then, the debate over a return to a true Franklin Roosevelt Glass-Steagall banking regulation policy has continued throughout Europe, with parliamentary action in Switzerland—where a Glass-Steagall bill was defeated—although discussion is ongoing. While the City of London is pushing, through Lord Vickers, a phony proposal called "ring fencing," the debate has continued, especially as it is generally acknowledged that the only other option on the table—repeated, unlimited bailouts—will lead to a hyperinflationary blowout of the whole system.

The debate has heated up in Austria, as bankers and industrial circles are reeling from the effects of the economic collapse of the Eurozone as a whole, and the deepening crisis in Austria's eastern European trade partners. The Jan. 13 announcement by Standard and Poor's that it has downgraded Austria's debt, along with that of eight other European nations, compounds the urgency of the crisis.

While Fekter rejected banking separation in the interview, she did speak out against a major aspect of the present system, which had been highlighted in an official report to the U.S. Congress by the Angelides

Government of Austria

Dr. Maria Fekter, Finance Minister of Austria, declined to endorse Glass-Steagall, but echoes the Angelides Commission on the danger of "shadow banking."

Commission, as "shadow banking," which the Commission identified as a significant factor in the creation and uncontrolled growth of the so-called subprime real estate bubble. Echoing the Andelides report, Fekter said that the "origins of the crisis can be traced back to business types which . . . could also be provided by non-supervised institutions. Therefore," she added, "it is our strong interest to avoid all types of shadow banking, consequently we support all initiatives in this direction."

As Lyndon LaRouche, who accurately forecast the present existential crisis in a July 25, 2007 webcast, has emphasized, the only way to deal with "shadow banking," which is associated primarily with the City of London and its unregulated, imperial monetary system, is by implementing Glass-Steagall in its full, original form. This would remove the trillions of dollars of worthless obligations currently on the books of the banks, built up by wild speculation and reckless leveraging, through a bankruptcy reorganization, forcing the speculators to eat their own debts, while protecting the legitimate side of the commercial banks, so that new Federal credit could be channeled through the banks for investments in projects in the real, physical economy.

This could not be done in Europe today without a repeal of Maastricht and the other treaties and agreements, which have driven the Eurozone to the brink of a total crash.

Opposition to Eurobonds

There are two other useful points made by Fekter, in spite of her continued support for the present banking arrangement. First, she sides with German Chancellor Angela Merkel in opposing the scam called "Eurobonds," stating, "I am against Eurobonds. Currently, they would only shift risks to others without allowing containing the source of the risk." Secondly, she responded to a question about U.S. Treasury Secretary Tim Geithner's insistence that the EU go with a U.S. Federal Reserve-style policy of leveraging, by saying this is the "wrong starting point for the debate," as "no matter how much money we would put into the system we would not be able to solve the problems."

The result would be, she continues, that the "amounts [of bailout funds] will become untenable and most of the risks will shift from the private sector to the public sector and to other countries and this cannot be in our interest."

By rejecting Glass-Steagall and a return to a national credit system for new credit to productive industry, however, she is left supporting the present EU game-plan—a brutal austerity regime, run by a financial dictatorship of EU "technocrats" in Brussels, run over the heads of elected governments.

Although she stated in the interview that she is "a great proponent of national parliaments and their sovereignty," she has been highly critical of the Greek government for its lack of "fiscal responsibility," and has not protested the stripping of sovereignty from the Greeks. Now that Standard and Poor's has downgraded Austria, will Dr. Fekter have the courage to rethink her support of the present system, and adopt Glass Steagall?