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Bank of Italy wants more austerity

The IMF's demands are only the beginning of savage austerity—and everyone knows Italy's public services are already in deplorable shape.

On Oct. 2, Bank of Italy governor Carlo Azeglio Ciampi—the counterpart of U.S. Federal Reserve Board chairman Paul Volcker—trekked to the Italian Parliament and then to the office of Premier Bettino Craxi. His mission: to ensure that the economic policy the International Monetary Fund (IMF) has decided for Italy will be carried out. The Finance Bill for 1986 asks 15 trillion liras ($8 billion) of cuts in the state sector, and is only the first step in a savage austerity program.

The Fund's line for Italy, which Ciampi passed on, is the following:

Italy's public debt exceeds the Gross Domestic Product of about 650 trillion liras, or $352 billion. This debt, Ciampi said, is increasing because the state sector absorbs more than three-quarters of total internal credit, covering a 130 trillion-lira ($72 billion) deficit, and only 25% of the credit is left to private investors. Ciampi concluded: "The problem is the huge difference between the oversized 130 trillion-lira public-spending deficit and a 650 trillion-lira GDP, i.e. three times higher than the European average, while the huge public spending deficit in the U.S.A. is only 3% of the U.S. GDP."

What Italy needs, Ciampi said, is to match the other European countries' average, i.e., to cut the 130 trillion liras by two-thirds. That means extending public spending cuts from 15 trillion liras (1986 Finance Bill) to 90 trillion, or, raising taxes by about 1.5 million liras ($840) per taxpayer in 1986—which is the same thing.

Concluding his presentation, Ciampi threatened: Because the Italian foreign debt has already reached $30 billion, more than the Bank of Italy's gold reserves ($21 billion), either the Italian government will implement this austerity policy, or, given the debt situation, the government will lose "sovereignty over its choices," which will be "painfully" imposed by the international financial institutions.

The cuts being discussed in Parliament—the 1986 Finance Bill—are only a small foretaste of what the International Monetary Fund intends for Italy. The school system, public sanitation, social services, and pensions will be simply dismantled over the coming months. Under the 1986 Bill, everyone will pay for medicine; school enrollments will cost more; utility bills will go up; taxes will rise. The cost of living adjustment for pensions will be wiped out, and unemployment insurance will be cut.

It is the harshest "sting" the Italian citizenry has ever taken. De facto, it means ending all public medical benefits, and benefits in general, and a large part of public welfare. In other words, as of 1989, Italy will leave the roster of industrialized countries which, during the postwar period, have built up a structure of social security assistance, and de facto will enter the more numerous group of underdeveloped countries that have never had social security.

Will Italy's government now put itself on the list of Third World countries asking for relief? Premier Craxi himself said that, even though the budget cuts add up to 15 trillion liras, the budget deficit of the current year will remain huge, more than 110 trillion liras—a South American level. The 15 trillion lira reduction of this 110 trillion deficit solves nothing. The only effective solution would be to relaunch the country's agro-industrial development and its exports, and thus expand national income to permit a natural increase in revenues that can reduce and eventually surpass the "deficit."

But Italy's economic ministers, Gianni De Michelis, Giovanni Goria, Bruno Visentini, and Cesare Romita, under Bank of Italy pressure and the IMF diktat, decided to dismantle public services instead.

Health system: Subsidies for purchase of pharmaceuticals will be cut except for individuals with an absurdly low monthly income of under 300,000 liras ($167). Workers' sick pay will be canceled after five days of absence.

Pensions: The cost of living escalator is to be reduced. Retirees will have to pay 1.5% of their monthly income for health insurance.

Schools: Three trillion liras are to be cut from the budget, reducing the number of teachers and increasing class size. Tuition fees will increase.

Utilities and Transportation: Electrical and phone bills will go up. Four thousand kilometers of railway will be dismantled. Student and commuter season rail tickets will rise in cost.

Unemployment benefits: The payments will drop by 9% per month.

Taxes: New taxes are foreseen. In particular, city and regional governments will now be allowed to collect their own taxes.

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