The Anglo-American strategy behind Italy's privatization

by William Engdahl

On June 2, 1992, only hours after the assassination of Italian judge Giuseppe Falcone by as-yet-unidentified professional assassins, a little-noted event of profound import for the future of Italy took place. Off the Italian coast, the English royal yacht Britannia weighed anchor. On the ship were the most powerful names in British banking and finance, including from Barclay's brokerage house BZW, Baring and Co., and S.G. Warburg and Co. They were accompanied in their secretive mission by none other than the queen of England, Elizabeth II. They had come to hold confidential discussions with some of the most influential persons in Italian industry and banking. Representatives from ENI; AGIP; Mario Draghi from the Treasury Ministry; IRI's Riccardo Gallo; the head of the reorganized Banco Ambrosiano, Ambroveneto's Giovanni Bazoli; Antonio Pedrone from Crediop; and top people from Banca Commerciale Italiano, Assicurazioni Generali, and the state Autostrada, among others.

Their subject was how to prepare the liquidation of some of Europe's most precious industrial and financial assets into the hands of private multinational interests. At the gathering, the Italian Treasury's Draghi reportedly told his British counterparties, "We are ready to move." As to their intended role, the London bankers and financiers replied, "The City of London is ready to play a role, but the size of the Italian stock market is far too tiny to absorb such large amounts of funds from these privatizations. You must come to London where the necessary capital is."

The media and the then-new Amato government took up the subject, calling for the privatization of Italian state-owned industry to reduce the huge state budget deficit. What has not been said openly to date, is that the privatization debate is being forced on Italy by the banking houses of London and New York. The goal is to take control over the economic destiny of Italy, using the government scandals and the allegations of corruption and mismanagement as an excuse.

Thatcher's model

The model for the present vogue of governments to auction state-owned assets in order to raise immediate cash, as well as to allegedly "improve economic competition," was established in 1979 by the London financial community, most notably N.M. Rothschilds and Co., for the government of Britain's Margaret Thatcher. It was no accident that the first visit to Italy to discuss possible privatization after the dramatic political crisis of last summer, was from the City of London.

Under Thatcher's "free market" revolution, valuable state enterprises, including British Petroleum, the state water companies, British Gas, Vickers, and others were put onto the private auction bloc. In recent months, details of the enormous personal enrichment of private business friends of Thatcher at taxpayers' expense from her "privatization" policies, have begun to come to light.

But the central point is that British privatization has not resulted in a more effective industrial base for the British economy since 1979. Quite the opposite. After 13 years of Thatcherism, British industry is the most backward of the major European economies. Its R&D levels are pathetic compared to those of the German, French, or even Italian machine-tool or automobile industries, for example. The essence of Thatcher "free market" economics has been to favor the position of finance, over and above that of national industrial development.

The Thatcher privatization push was part of a grand strategy of Anglo-American financial circles to force open new areas of the world economy to a sophisticated new form of looting, using the "free market" and Adam Smith's infamous "invisible hand," in the form of the London and New York financial houses who control the international mergers and acquisitions advice given to foreign governments foolish enough to seek their expertise.

The Wall Street role

In addition to the top City of London firms going after the Italian state companies, the dominant role is being played by several powerful Wall Street firms. Three Wall Street firms have been retained by the Amato government to advise it on how and on what terms to prepare state companies for sell-off.

On Sept. 17, 1992, Giuseppe Guarino from the Italian Ministry of Industry flew to New York for closed-door talks with top representatives from Goldman Sachs, Merrill Lynch, and Salomon Brothers about how to privatize Italy's state companies. It is a curious coincidence that the financial backing for Bossi's North League (Lega Nord) protest movement reached a high point in this same period. The league demands privatization of all state companies.

Goldman Sachs, by informed accounts, is today the most powerful Wall Street firm, notably since the 1991 scandals around insider collusion by Salomon Brothers. Goldman Sachs's chairman Robert Rubin is now head of President Clinton's new Economic Security Council. That post is intended to be a British-style "office of economic warfare" against what former CIA chief William Webster termed "America's military and political allies who are her economic competitors."

Goldman Sachs has an extensive presence in Italy. Italian establishment economist Romano Prodi is a member of Goldman Sachs's International Advisory Board. The New York firm is also one of the most influential manipulators of world foreign currency markets through its commodities and derivatives trading subsidiary, J. Aron and Co. Goldman Sachs Vice Chairman Robert Hormats is a former aide to Henry Kissinger at the State Department. Former Goldman Sachs senior partner John Whitehead was deputy secretary of state under Ronald Reagan. The firm's contacts in Washington are strong.

Salomon Brothers, together with Goldman Sachs, dominates trading in crude oil futures through Phibro (Philipp Brothers) of Zug, Switzerland, its commodities arm. Salomon's Phibro was implicated in a vast international narcotics money-laundering scheme. In 1989, the London branch of Phibro was involved in an operation to launder millions of dollars of illicit profits from sales of cocaine in the United States by the "La Mina" money-laundering ring, working for the Colombian cartel, and using Phibro Precious Metal Certificates. Salomon Brothers was also singled out in August 1991 for brazen manipulation of U.S. Treasury bond markets.

Merrill Lynch, the firm of Reagan Treasury Secretary Don Regan, is notable for the role it played in a sensational money-laundering operation during the 1980s between Italy, the United States, and Lugano, Switzerland. This was the infamous "Pizza Connection" trial in which the New York Bonanno organized-crime family was accused of having laundered an estimated $3.5 billion until their arrest in April 1984, using the New York headquarters and the Lugano offices of Merrill Lynch.

These Wall Street firms are playing the decisive role in preparing Italian state-owned companies for private sale, and are in the process gaining access to sensitive confidential data about some of the most valuable enterprises in Europe. They gain a competitive advantage second to none in serving as "privatization advisers."

Moody's and the lira wars

With the role of these key New York and London financial firms in preparing Italy's planned huge state privatization secure, the final stage of an impressive Anglo-American financial looting operation was launched. With the naming of the Amato government, Moody's, the New York financial rating agency, last June announced to the surprise of many in Italy, that it was planning to downgrade the credit rating of the Italian government. This, despite no dramatic change in levels of debt, and despite no hint of any default risk on bond payments by the government. Moody's argument was that the new government was unlikely to make serious cuts in Italy's state budget deficit. Moody's is well-known within international financial circles for making its risk ratings in a highly political manner to benefit key Anglo-American interests and to disadvantage, when possible, rival banks or, in this case, a target country, Italy. The president of Moody's, John Bohn, was a senior official of Nicholas Brady's Treasury Department.

Moody's action immediately forced the Amato government to pay sharply higher interest rates to sell its bonds internationally. It also signaled an all-out attack on the lira. According to informed accounts from Italy and London, the most aggressive speculator against the lira beginning last July was Goldman Sachs, together with S.G. Warburg of London. By Sept. 15, despite extraordinary efforts, the Italian government was forced to announce the lira would leave the fixed Exchange Rate Mechanism (ERM) and float freely. On the same day, Amato announced a package of draconian state budget austerity measures aimed to reduce the record estimated 180 trillion lira deficit. In addition to wage freezes, pension cost of living freezes, and cuts in public health insurance benefits, Amato announced a bold state privatization program he claimed would allow Italy to raise 40 trillion lira ($28.6 billion) in the next several years.

But the resulting sharp fall in the value of the lira against the U.S. dollar had given Wall Street raiders at Goldman Sachs et al. a huge advantage. In dollar terms, purchase of Italian companies has now become an estimated 30% cheaper for American speculators and investors. It is only slightly less attractive for British pound sterling holders.

But the Anglo-American speculative warfare has created a vicious circle for Italy. As the Bank of Italy was forced under the rules of the ERM to raise its interest rates to defend the lira, if it refused to devalue the lira itself, between June 1992 and Sept. 15 Italian interest rates rose dramatically, from approximately 11% in May 1992 up to ranges of 20% before the Sept. 15 lira free float. By January, the Bank of Italy still held its fixed bank rate at 13%. Each 1% rise in interest rates forces the state government to pay an additional 15 trillion lira more in debt service costs on its short-term state debt. The entire state deficit this year is estimated to consist of costs of debt service on Italy's cumulative public debt of 1,800 trillion lira.

Thus, by forcing the lira into free-fall, speculators have forced the government into an ever-more desperate corner, upping the privatization pressures, while the cost in lira terms to Goldman Sachs, Salomon, Merrill Lynch, S.G. Warburg, and Barclays to buy privatized Italian state assets has become "dirt cheap."