
Interview: Former Italian Minister Siro Lombardini

We are facing a 'devastating' global financial crisis

Professor Siro Lombardini is one of the leading economists associated with Italy's postwar industrial reconstruction. Born in Milan in 1924, he studied economics at the Catholic University of Milan, and later at the London School of Economics and at the University of Chicago. Elected senator for 1976-79, he became Minister of State Holdings (the public or semi-publicly-owned industries) under the first Cossiga government. From 1963 until 1970, he was a member of the National Commission for Economic Planning and of the Scientific Council of Planning, as well as adviser to several ministries and to the prime minister. He is the author of several books. Professor Lombardini on April 24 responded in writing from his office in Chieri (Turin), Italy to questions from Gianni Cilli in Wiesbaden, Germany; his answers have been translated from the Italian.

EIR: After the dramatic Mexican crisis and the Barings bankruptcy, it is becoming clear that we face not only a structural crisis of the present monetary system, but that, due to the reverse-leverage mechanism, we are approaching the point where the whole monetary system could disintegrate from one day to the next. Besides U.S. economist Lyndon LaRouche and the late French economist Jacques Rueff, you have been one of the few economists to speak about the threat of serious monetary disorders following the breakdown of the Bretton Woods agreements.

Lombardini: I believe that the likelihood of a grave, certainly devastating, world financial crisis is very high. However, I am not satisfied by the diagnosis upon which, in general, such prognoses are based. I think that the essential causal impulses can be indicated as follows:

1) the genesis of the Eurodollar market (by now widely analyzed and known), which has become the euro-mark, euro-yen, etc., markets;

2) the evolution of derivatives, which has made it more and more difficult to stabilize and evaluate relations between real capital and financial activities;

3) structural reasons, which help to explain the different rates of development of different countries (and different monetary regions), which are not associated with variations in other characteristics, such as might maintain a certain

equilibrium in the world economy. There was a time when the countries which had the highest productivity had the highest wages, and therefore the interest rates were not so high as to provoke changes in capital flows which could upset the equilibrium; hence countries (like Britain) which had trade surpluses due to their higher productivity, made directed investments abroad which allowed other countries (for example, toward the end of the last century and the beginning of this one, Italy) to develop in various complementary ways.

Reflection on this background allows us to state that:

a) It is unthinkable to avoid the crisis with mere monetary measures. We need programs of cooperation and coordination of development strategies internationally, facilitated, if necessary, by moderate protectionist measures and by the intelligent partial isolation of the European zone with respect to the American and the East Asian zones.

b) If the Bretton Woods accords defused the traditional devaluation weapon as a result of the developments cited above, the great powers still have at their disposal the atomic weapon of monetary policies (interest rates). This is why I have maintained the need for a new Bretton Woods for a number of years.

c) One problem, in any case, must be urgently faced at the international level: the setting of some limits on the proliferation of derivatives, or limits on the kinds of operators who would be authorized to put them on the open financial markets.

EIR: Among the factors which have doomed the present system to fall apart, the main one is the devastating impact on the world economy of the so-called International Monetary Fund conditionalities. In 1982, when it was still possible to intervene with some reforms, the world chose to obey the IMF instead of proceeding with the Ibero-American debt reorganization proposed by LaRouche and then President José López Portillo of Mexico. You have been one of the few who had the courage to expose the incompatibility of the IMF with the new opportunities of East-West and North-South economic integration since the fall of the Berlin Wall.

Lombardini: The International Monetary Fund has grave responsibility for the deterioration of the conditions of the

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Third World and the collapse of the economies of the countries of the former U.S.S.R. and the Soviet empire—with the few, significant exceptions of East Germany and some other countries. The philosophy of the IMF—which claims to create the conditions for effective and harmonious development by regulating the currency to preserve its internal value, and by adopting fiscal policies to ensure that the budget is balanced—has no scientific justification, nor is it supported by any historical experience.

In fact, I have always maintained that it is necessary to reexamine relations among the strong zones (the United States in particular) and Third World countries, in the interests of the developing countries, upon which the application of the IMF's philosophy can only have devastating effects, as well as on the United States itself, which could only hope to recover a part of the loans it has granted by implementing concerted development policies. In 1983, I presented these opinions of mine to a well-known, intelligent American senator, who told me that he fully agreed, but that he could never make public such statements without seriously jeopardizing his reelection.

I proposed to the Confederation of the Association of European Economists, a conference on "Europe Between East and South," which was held at Urbino; the presentations were published in a book edited by myself and Pier Carlo Padoan, by Kluwer Academic Publishers in 1994. In fact, only the coordinated integration of the development strategies of the western (European in particular) countries with those of the countries of eastern Europe and the Third World (Africa in particular) can improve conditions worldwide. It must also be observed that in the absence of such integration, the migrations which are already under way, and which are bound to intensify, could have devastating effects, not so much economically, as politically.

EIR: It is clear, then, that the old monetary system should be put into bankruptcy procedures and the old debt frozen. New credit lines should be opened, earmarked for financing the building of modern infrastructure and industrial production (in particular, machine tools). It would become top priority for every government to support a process of rapid capitalization of productive investments by raising the level of productivity of labor, also because otherwise there would not be the financial resources to proceed with restructuring

the old debt.

Lombardini: I am substantially in agreement with the issues and economic-policy goals which you indicate. It is not a question of blocking the mechanisms of the market, but on the contrary, of increasing the positive effects which are currently being hampered, above all in the western economies, by the institutional structures that tend to encourage speculation, contributing to the broadly pathological developments which I mentioned in the answer to the first question. Financial resources are a limit, which must, however, not be considered as a predetermined given, which would doom us to hang onto the present structure, but which rather as an objective of the policy itself, which precisely as you emphasize, would allow the limit of financial resources to be shifted upward by increasing the productivity of labor.

EIR: Among the advocates of the so-called "policy of planning" or "productive dirigism," which we need to get back to quickly if we are not all going to go down with the *Titanic*, we can name, besides you, LaRouche, and a few others, most of the founding fathers of the Italian State Holdings system: especially Oscar Sinigaglia, Sergio Paronetto, Ezio Vanoni, and Pasquale Saraceno. You knew most of them personally. What do you think is still valid in their teaching?

Lombardini: I had the opportunity to enter into relations of friendship and collaboration with some of the people whom you mention. My opinions broadly converge, even if they do not precisely coincide, with theirs. To the common statement, "Less State, more Market," I counterpose, "More State, and more Market": a more competitive market which should encourage—to say so with [Thorstein] Veblen—business, and not finance; more State, not that it should get involved in production, but so that it might elaborate the strategies of collaboration, when necessary, with other States. (With respect to the Italian situation, I add, "Less market of the State.")

Economic planning is nothing but a strategic economic policy which differs from the free marketeers, because the market is made more powerful and given direction precisely by the adoption of a strategy, and it differs from the Keynesian (or monetarist) system, because it is not only a macroeconomic, but also a structural policy.