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Italy's 'EU New Deal' Push Reflects LaRouche

by Claudio Celani

The Italian government has presented its proposal to relaunch public infrastructure investments in Europe, bypassing the constraints of the Maastricht Treaty "Stability Pact." In a paper entitled "A European Action for Growth," published on June 9, Italian Economy and Finance Minister Giulio Tremonti proposed to build a European agency to finance economic infrastructure "off-budget," on the model of the new Italian infrastructure agency Ispa.

While this is potentially a larger-scale revival of the European Union's neglected Delors Plan of transport corridors of 1994, its launching by Italy clearly reflects the policy influence of U.S. Presidential candidate Lyndon LaRouche, whose frequent invitations to Italy have catalyzed moves for a new international monetary system in both houses of Parliament. Such a resolution for a "New Bretton Woods" is now in the Italian Senate.

Tremonti's proposed new "Financing Facility" would be based on the "creditworthiness and know-how of the European Investment Bank." Tremonti proposes that the new facility should sell bonds in order to provide, yearly, 70 billion euros for infrastructure projects. The bonds would be guaranteed by the EU member states, but would not be added to their deficits, thus bypassing the Maastricht criteria. The Italian government has already campaigned for the proposal. Tremonti discussed it with his European colleagues and with members of the EU commission, and on June 12 presented it to the Finance Commission of the European Parliament.

"We have reason to believe that we will reach an agreement at the level of finance ministers, and that the plan will be fully approved at the first Ecofin meeting during the Italian chairmanship" of the EU beginning July 1, said Tremonti. The Italian paper refers to the original Delors Plan for Trans-European Networks (TEN), a shadow of the LaRouche "European Productive Triangle" proposal of 1989.

1994: European Union Projects

Italy's 'New Deal' initiative would push European policy to go for economic recovery by new, large-scale and low-interest credit funding of infrastructure, especially transport and energy, with 70 billion euro annually of direct loans, plus muliplier effects. It builds up the 1994 "Delors Plan" for 14 transport corridors in and Europe, expanding it and moving it in the direction of "land-bridges" into East Europe and Asia.

'Growing' Delors Plan into Land-Bridge

The TEN project was approved at the 1994 EU meeting in Essen and included 14 large infrastructure projects considered as priorities. Of these, so far only three have been accomplished: the Malpensa airport, the Copenhagen-Malmoe Bridge, and the Dublin-Cork railway line. The main reason for the deadlock is the lack of funds. But a special committee set up by the Ecofin, chaired by former EU commissioner Karel Van Miert, has reviewed and upgraded the Delors Plan, bringing up to 19 the number of priority projects, for a total of 500 billion euro in investments. The first week in June, the Van Miert group presented its report, which proposes also to increase to 75% the quota financed by the European Investment Bank for each proj-

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ect, and to extend the maximum credit terms from 25 to 35 years. Among the new TEN priorities, all the corridors considered strategic by Italy, like Corridor 5 (Lisbon-Kiev), and the Genoa-Rotterdam and Munich-Naples axes, are confirmed.

Additionally, the bridge on the Messina Strait between Sicily and the Italian mainland is included for the first time. This decision strengthens the probability that the high-speed railway line Munich-Naples will be extended beyond Naples, to Palermo and Catania. The bridge allows to increase from 2 to 7 million people, the population areas served by the high-speed line, making the project profitable also for private investors, said Giuseppe Zamberletti, chairman of the Stretto di Messina corporation.

The Van Miert report strengthens therefore the "Land-Bridge" character of the TEN projects—not only a way to improve internal capacities and productivity of the EU, but its extension eastwards and southwards, as a Eurasian integration project, its urgency dictated by the world economic depression.

Explaining the urgency of the Italian initiative for Europe, Domenico Siniscalco, director general of the Finance Ministry, said that the initiative is motivated by "a sober, but alarmed judgment on the spin-like fall which some call deflation, others recession" of the world economy. "We must immediately push expectations, and then start the works in the shortest time possible," Siniscalco said.

The Italian approach is changing the existing relationship between sovereign governments and financial markets; whereas the latter have so far dictated policy to the former, this situation will be overturned. Finance Minister Tremonti told *Il Foglio* that "the governments are the architects of the investment; they give the missing impulse, determine the scheme; the market gives capitals and manages the works in a framework of operational consensus built around the role of governments in the Ecofin, of the Commission and of the European Investment Bank." Tremonti said, "Now it is the moment of qualified public investments in the field of material infrastructure, which in Europe means to give meaning to the enlargement towards the East and to filling the North-South gap."

'We Must Act Now'

The Italian Action plan sets two deadlines: the first, at the next Ecofin Council in mid-July in Saloniki, where the Commission and the EIB will present a mandated proposal, taking into account the work of the Van Miert Group; the second in December, where the report should be ready and endorsed by the European Council in Brussels. The paper was first presented at an Italian cabinet meeting June 9, together with a draft on "Italian Priorities for the EU Semester," which calls for opening "a new phase in the conduct of economic policy in Europe, focussed on growth."

The paper states that the "social model" for the next years "is based on public goods within a market economy" and that "the revitalization of the European economy must rely on public investment—mainly, but not exclusively, in infrastructures and transportation. Also non-material infrastructures are required: human capital, research, technology." Introducing the "European Action for Growth" plan, the paper explains that it "is grounded in its first phase on two pillars: The first pillar is a new scale of priorities for infrastructure investment at the European level with emphasis on trans-national, but also national, investments that can be financed through market instruments. The second pillar is the development of a European Financing Facility, based on the creditworthiness and know-how of the European Institution in charge of infrastructure development: the European Investment Bank."

The "Action" plan itself starts with a call: "We must act now," and states: "Trans-European Networks (TENs) play a key role in supporting the economy and increasing long-term growth potential. The current rate of investment in TENs is insufficient to overcome the backlog of investment in the agreed list of priority projects. At the current annual rate of investment of 25 billion euros per annum, it would take some 20 years to meet the target investment amount of up to 500 billion euro estimated for a modern and pan-European network of priority links in transport and energy. . . . There is a need to accelerate the volume of investments in infrastructure, bringing them back to the pace initially targeted by the Delors Plan. This would imply an increase in such investments in the order of 0.5-1% of GDP.

"Financing issues explain a large part of the delays. In particular, investment schemes where the financial or even the economic viability is uncertain, of a deferred nature, or where network and external benefits cannot be adequately captured in revenue streams, generate a high need for grant support. . . .

"The Commission should also seek to identify priority projects that can make a significant early contribution due to their timing, feasibility and economic importance.

"Work should proceed to extend the scope of projects also to non-material infrastructure, human capital, R&D, high technology."

In other words, the integration of the new EU members from Eastern Europe should be a physical one, and not simply a trade and tariff liberalization. Anticipating Tremonti's proposal, Italian Prime Minister Silvio Berlusconi had called for state intervention in the economy: "If private demand is lacking, our suggestion is that public investors, that is the states and their institutions, must intervene not through expenses, but through investments in infrastructure, in military technology, in research and in education."

A New European Investment Facility

The Italian Action Plan goes into the specific proposals for financing new economic infrastructure at the European level, whose capital was increased to 150 billion euros at the beginning of 2003; this allows it to increase its loan portfolio to 375 billion euros from 234 billion euros. The bank hasn't loaned out all the money.

"The EIB has been the main financier of TENs over the last decade. . . . Its role needs to be further developed so that it can better support the need for the required additional financing. Four main instruments, some of which are new and others an adaptation of existing ones, could be combined to offer a powerful and yet flexible contribution from EIB. Together they could form a new European Investment Facility. . . . Priority would be given to key bottlenecks in the transport system, like certain trans-border projects, or those making use of intelligent transport systems (ITS). The loans would be based, to the extent possible, on extra long durations (which could be extended to 35 years in certain cases) and grace periods."

The Bank would further be able to buy portfolios of loans from national financial institutions which are financing economic infrastructure, such as national transport authorities, and reissue these as AAA loans to the market. This could increase the EIB's capability to finance new infrastructure, well beyond the 70 billion per year in direct EIB loans, which is clearly not an adequate amount to drive a recovery from the economic depression gripping Europe.

Tremonti Plan Draws Support

Initial reactions to the Italian proposal indicate that Tremonti enjoys support from his most important EU partners. The *Financial Times Germany* reported on June 12 that German Chancellor Gerhard Schröder "has already supported the plan." The Italian press had reported that Paris had supported Tremonti's proposals from the beginning. He got verbal support also from unexpected quarters: the European Commission. Commission spokesman Gerassimos Thomas said to Bloomberg news service: "It is positive in general that something at the political level is discussed for growth and investment in these areas in Europe, and we share this objective in general." Loyola de Palacio, European Transport and Energy Commissioner, let it be known that "it is a very interesting proposal." Pedro Solbes, European Union Finance Commissioner, said through his spokesman that he considers "the Italian initiative to be a good signal of confidence for the economy."

On the other side, the media, usually sensitive to the interests of the financial community, are putting up their best losers' face. Thus, the leading German daily, *Frankfurter Allgemeine Zeitung,* dedicated no fewer than three articles to Tremonti's proposals on June 12, stuffed with skepticism and attempts to play it down, by describing it as a trick by Tremonti to avoid "domestic crossfire." One editorial, entitled "Italian Maneuvers," raises the specter of debt-ridden Italy exporting its bad habits to Europe; well-known economic commentator Heinz Brestel speaks of "money floodgates wide open," However, Brestel himself is forced to recognize that in the near future, capital could indeed flow in the new "union bonds" for infrastructure. "Free way for the 'Euro-New Deal-Bonds,' " is Brestel's conclusion.

The London *Financial Times,* of course, has understood everything: "Tremonti the pump-primer" has found a way to have others finance the improvement of Italy's "poor transport connections through the Alps to the rest of Europe." But even the British financial paper has to admit that it is right "to encourage more of a public-private partnership in infrastructure. This could include a bigger role for the EIB in tapping the private capital markets."

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