Italy

Probe of Parmalat Crash Finds Systemic Crisis

by Paolo Raimondi

On Dec. 18, 2003, the New York office of the Bank of America declared that a letter of the bank dated March 6, 2003, confirming the liquidity of 3.95 billion euros in a banking account of Bonlat Financing Corporation—a financial holding controlled by the Parmalat conglomerate, was false; the house of cards of the gigantic international fraud of Parmalat collapsed. Lyndon LaRouche called it the most explosive example of a systemic crisis which could explode the global speculative bubble. It had produced a bankruptcy "hole" of at least 14.3 billion euros and wiped out the savings of hundreds of thousands of families.

Parmalat, a major agro-industrial conglomerate with factories in 35 states and 36,000 workers, had been, over the years, transformed into a financial gambling house that used its pieces of the real economy merely as a cover for speculation. Its crash involved all the big international banks, Italian state institutions, and related agencies world wide.

At the beginning of this year, in January, an Italian Parliamentary Commission for a Preliminary Inquiry on the bankruptcies of Parmalat and Cirio (another financial swindle involving another agro-industrial firm which exploded some time earlier) was created, with members of the Finance Committees and the Industry Committees of both Chambers of the Parliament. The Commission worked for weeks, calling all the economic authorities of the country to testify, with the aim of formulating proposals for stronger and better regulation to avoid similar crises in the future.

A review of several hundreds of pages of the transcript of the hearings proves that a systemic crisis of international dimensions is involved in Parmalat's collapse, and shows why many Italian politicians familiar with LaRouche's ideas are involved in initiatives for a New Bretton Woods reorganization of the collapsing financial system.

Call for International Action

Sen. Riccardo Pedrizzi, one of the four presidents of the Commission, opened the work saying that "We are facing an epochal change in the economic-financial consitution of our country, and we are convinced that, as Keynes said, when the development of the capital of a nation becomes a by-product of a casino, things are probably not going to work well. It is the task of politics to investigate what is wrong and to give immediate answers." And the Commission's final document, which proposed new rules and controls over banking as contained in the Sarbanes-Oxley Act in the United States, called (if timidly) for some type of international action: "As becomes clear also from cases occurring elsewhere, as in Europe and in the U.S.A., the Italian cases confirm the complexity of the problems which, because of the interactions of subjects operating globally on the world financial markets, demand coordinated interventions both in national legislation, and on the level of the supra-national organisms and of international cooperation among the States."

Finance Minister Giulio Tremonti testified on Jan. 15 that with Parmalat, we are facing a financial, not an industrial crisis. The phenomenon from which to start to analyze the origins of the present crisis, Tremonti said, has developed in an exponential way in a very short time: euro corporate bonds, which in the past five years grew to the level of 80 billion euros, or 7% of the Italian GDP. Tremonti identified three phases in the evolution of the Italian financial market for corporate credit: 1) from World War II until the 1980s, when state-based credit institutes issued loans to industrial sectors through protected and privileged emissions of corporate bonds; 2) the 1990s with the spread of emissions of bonds directly on the "euro-bond" market; and 3) the latest phase where companies issue bonds with the help of banks, primarily into offshore markets. This last phase, Tremonti explained, involves the pathology of banks transferring their risks, sometimes "by force," to others—funds and savers—through the sales of company's bonds offshore. It also opens up the pathology of companies bypassing restrictions imposed by the legally-allowed ratios between capital and level of debt emissions. This has been possible in the process of progressive "liberalization" of the markets—called "deregulation" in Britain and America.

Antonio Fazio, governor of the Bank of Italy, was put under tremendous pressure during the hot phase of the Parmalat scandal, accused of having failed in his responsibility of supervision and control of the banking and financial system of the country. The discussions revealed a very significant deformation of the role of the Bank of Italy, as Andrea di Teodoro, of Forza Italia, and other Deputies pointed out. By law, the majority of the shares of the Bank are supposed to be in the hands of state-owned or state-based banks or other economic institutions; but after the "revolution" of 1992 (the "Clean Hands" corruption scandals, deregulation, privatization, etc.) they have been sold on the market to private interests. In other words, the Bank of Italy is controlled by the same private interests the Bank is supposed to control!

Fazio pointed the finger in a number of directions, which give a clear picture of a global systemic crisis. He described the internationalization of financial operations through the use of uncontrolled offshore markets; since 1997 (the financial fraud of Parmalat can be traced back 15 years) 32 bond emissions were made for Parmalat, for a total of 7 billion euros, through some of the most important foreign banks. The last one was done by Deutsche Bank on Sept. 29, 2003, weeks before Parmalat's explosion, with the high rating of "investment grade"; "even at the beginning of December [2003], two international banks gave positive evaluations on the perspectives of the group and its titles." Fazio said that "nobody understood the problem," but since all the major players involved knew of the financial fraud being committed by and through Parmalat, this is how today's financial system functions.

Beware of Delaware

Lamberto Cardia, President of Consob—the Italian equivalent of the Securities and Exchange Commission (SEC), another regulatory institution accused of failing in its task—pointed to the role of the offshore markets, including that of the American state of Delaware—in the last stage of the Parmalat meltdown. Bonlat Financial Corporation, the financial holding controlled by Parmalat with headquarters in the Cayman Islands, played a crucial role in the mushrooming of this bubble. Bonlat had provided on March 6, 2003 a Bank of America letter of credit proving the availability of liquidity of 3.95 billion euros. Consob could not regulate Bonlat because it was out of Italian jurisdiction.

Cardia detailed how Parmalat's 2002 budget was certified in April 2003 by Deloitte & Touche and Grant Thornton. On Aug. 20, 2003, Consob obtained the famous Bank of America paper and began to exercise pressure on Grant Thornton to prove its validity. Pinned down, Grant Thornton on Dec. 17 had to officially demand a confirmation from Bank of America. At that point, the entire credit scheme collapsed. Clearly, Bank of America was aware of all the problems and investigations, but spoke out only at the very last minute and only when compelled to do so to avoid bigger legal and financial involvements. Deputy Bruno Tabacci, member of the government coalition party Unione Democratici Cristiani (CDU) and president of the Finance Comittee of the House of Representatives, directly challenged Bank of America's behavior and participation in the fraud: "On Dec. 19, they sent a fax saying that there was no money on the account; but earlier, the same bank had sent a fax saying that the liquidity was there."

Giuseppe Tesauro, President of the Authority for the Control of Competition and Markets, the third institution which should have intervened in the dirty financial deals of Parmalat, explained the involvement of American financial networks in Parmalat's takeover of Cirio and simultaneous sell-off of part of its own conglomerate, christened Newlat. This led to the Delaware unregulated financial market and to speculative entities enterely controlled by the venture capital fund Endeavor Capital Management LLC.

The parliamentarians' consensus was that the entire global financial process is out of all traditional institutional controls, and that the financial speculative schemes into which corporations are drawn destroy the healthy industrial structures underneath, undermining employment and sucking the entire saving of hundreds of thousands of families. The majority of the Commissioners called for emergency measures to be taken. Most interventions limited themselves to calls for more rules and strict controls along the line of the American Sarbanes-Oxley Act which followed the Enron scandal.

New Bretton Woods Solution

But those parlamentarians familiar with LaRouche's analyses and his proposal for a "New Bretton Woods" monetary reorganization, made valuable interventions in the right directions. Sen. Ivo Tarolli, of the Unione Democratici Crisitani (UDC) in the present government coalition, who in the past had presented a motion for a New Bretton Woods and participated with LaRouche and Sergey Glazyev at a conference in the Duma in Moscow, asked "how it can be possible to create connections with the Federal Reserve and the Tokyo authorities to put under control the dirty financial operations and the fiscal paradises?" Senator Pedrizzi, a member of Alleanza Nazionale (AN), also in the government coalition, introduced the taboo issue of financial derivatives: "How are the derivative products counted and controlled? In the past year, derivatives world wide increased at least 50 times. One even does not know how these types of bets are classified on the budgets; they do not have any relation any longer with the industrial or trade values underneath. How are they checked by the Bank of Italy and by the Consob?" The answer is unknown.

Mario Lettieri, Deputy of the opposition party Margherita, author of the last motion for a New Bretton Woods introduced with 50 other parliamentarians last February in the Chamber of Deputies, denounced "a radical liberalism that is creating major disasters to our national economy, not to speak of the international economy." Rocco Buttiglione (UDC), minister for relations with the European Union, underlined that "we should not forget that the offshore centers of the Cayman Islands and the Isle of Man are under the jurisdiction of the British crown." Alfonso Gianni, of the Rifondazione Comunista, added: "I am aware that some of these measures (of financial reform) must find a place where they will be then applied, a place which must be international, European, and worldwide, to realize the regulation of the global financial markets. . . . There are orientations of thought—that are also very active in the ongoing American elections campaign—that would like to reintroduce forms of governance of the world financial and economic system along the model of the past Bretton Woods."

This author, president of the LaRouche movement in Italy, issued a call to the members of the Commission to create immediately a working group of parliamentarians to take initiatives nationally and internationally to prepare for the organization of a conference at the level of heads of state and government, like the Bretton Woods meeting of 1944. The statement was widely reported in Rome.