# EIR Economics

# Italy Takes the Initiative for European Infrastructure Growth

by Claudio Celani

Even empiricism has a good side: When something hurts, you feel pain. The international depression has badly hit Euroland's economies, and the empirically minded European Union governments realize that something must be done. Thus, however belatedly, the attitude against state intervention in the economy is changing and even the EU's infamous Stability Pact is no longer a sacred cow. According to the Italian daily *Corriere della Sera,* France and Italy are firmly convinced that the deficit constraints of the Stability Pact must be revisited, either de jure or de facto. The Netherlands and Spain oppose the initiative, and Germany is stuck in the middle.

Rome has announced that it will propose, when it begins its semester as EU chair on July 1, that EU member-states' budget spending for infrastructure be exempted from the budget deficit limits, and therefore not regulated under the Stability Pact. "There is a political dream which I think could be realized," said Finance Minister Guido Tremonti, "and it is the realization of a proposal we will make to qualify our European semester, a proposal for infrastructure development." Possibly, Tremonti will explain his proposal at the European Parliament, in Strasbourg, France, on June 12, when he is going to illustrate the economic agenda of the Italian EU chairmanship. He has already discussed it with European Commissioner for Economic and Monetary Affairs Pedro Solbes. Reports *Corriere,* "The idea is to decouple long-term, large-scale public investments from the deficit accounting. Exemplary is the case of a highway or of a railroad."

*Artist's conception for a bridge connecting the Italian mainland to Sicily, across the Messina Strait. This project would help uplift the under-industrialized south of Italy, and also help bring Italy economically closer to its North African and Near East neighbors. Italy is fighting to have the expenditures for such crucial national infrastructures exempted from the strictures of the Maastricht Treaty budget criteria. Inset: Andrea Monorchio, chairman of Infrastrutture Spa, the new national agency to finance such projects.*

The Italian government of Prime Minister Silvio Berlusconi has two, mutually contradictory, policies for the national economy: On one side, regarding taxes and labor, the Berlusconi cabinet has pursued Thatcherite neo-liberal programs, under which a fiscal austerity budget for 2003 has severely hit public schools and health care. On the other side, the same government is pushing for dirigistic public investments in major infrastructure. These opposites reflect, of course, the interest groups represented in the government, but also, happily, the influence of a year-long campaign by Lyndon LaRouche and activists in Italy associated with him, which has brought forth important results, such as the numerous Italian Parliament initiatives for a New Bretton Woods monetary system.

### Model Infrastructure Financing Agency

One such development is the creation of the national agency for infrastructure, Infrastrutture Spa (Ispa), based explicitly on the model of the post-war reconstruction agency in Germany, the Kreditanstalt für Wiederaufbau. This kind of model was proposed by LaRouche years ago, and publicized in Italy in an *EIR* special report, "Per una Nuova Bretton Woods" ("For a New Bretton Woods"), now in its fourth edition. Ispa, whose creation was announced about a year ago, has become "open for business," as of May 28, when Rome approved a starting capital of 3.2 billion euros; with a credit rating of AAA, it will allow Ispa to issue EU 21 billion in credits, said Ispa chairman Andrea Monorchio.

Moreover, since Ispa will participate in 30-40% of a project's costs, this means that works totalling more than EU 60 billion could be financed, a respectable sum. Monorchio is confident that Ispa capital could very soon be increased by EU 5 billion. In his first interview as Ispa chairman, Monorchio told the pro-government daily *Il Secolo,* that Italy needs a decade of infrastructure investments. The country needs to fill a 20-year-old gap during which no major infrastructure has been built. Monorchio calculated that 100-150

## Bretton Woods System Called 'Golden Era'

Marcello De Cecco, a professor of economics at the University of Rome and columnist for the daily *La Repubblica,* counterposed the central banks' insane money-printing policy of the current floating-exchange-rate system, to the "golden era of growth" under Bretton Woods, with the system of fixed exchange rates and controls over short-term capital flows.

In his June 3 column, headlined "World Economic Conjuncture Has a Flat Tire," De Cecco wrote, "For the first time in 20 years, ever major economic area of the world is down. As per script, the super-expansive monetary policy of the world's main central banks, and in particular by the [U.S.] Federal Reserve, is producing a well-known effect, which has been occurring since the second half of the 19th Century, and which was the cause for many international financial crises, even the most recent ones. When, at the center of the world financial system, central banks induce, through strong expansive measures, a sharp fall in interest rates, banks and investment funds in the main countries, in order to maintain their profits and the value of their stock, start to make loans to high-risk debtors, from which they can demand higher interest rates. The flow of fresh money towards the latter leads to a fall in interest rates they must pay. This has gone on for months now, maybe for a year. It has allowed debtors, such as Brazil or Turkey, to breathe, and Argentina to get its head above water, pushing up the value of their debt. Still, according to a script that has been repeated for 150 years now, when credit demand rises in the world financial center markets, and rates go up, suddenly the situation turns around. Money flows back towards the center, seeking higher profits, and the credit wave again moves away from peripheral markets, collapsing, sometimes ruinously, debt values for emerging countries and junk bonds in the central markets. Each time, there is the possibility for the situation to go out of control and for the crisis to spread to the world financial center.

"This is the main structural weakness of the world financial system, when it acquires the characteristic of absolute freedom of short-term capital movements, such as the one it has had for most of the past 150 years.

"The exception is the 25-year period between 1948 and 1973. The golden years from the standpoint of growth. But, at that time, the system of fixed exchange rates guaranteed by the United States kept the international financial picture free of uncertainties, and the almost complete regimentation of short-term capital flows prevented the mechanism described above from working and generating crises.

"Richard Nixon, on Aug. 15, 1971, decided to destroy that system. The devil got out of the bottle, and since then has haunted the world, half of the time welcomed as savior of the world, and of poor countries in particular, and half of the time cursed for its evil; the rulers are invited to put it back into the bottle. Today we are in the first phase. How long does it take to get to the second one? I bet that, starting in January 2004, every month will be good. They will suddenly discover that [Turkish Prime Minister Recep] Erdogan and his debt-ridden brothers are wasteful with public money. This will be said by those same people, who had earlier praised them. Junk bonds will suddenly appear for what they are, offending the nose of those who had only smelled the savor of high interest rates. The *commedia dell'arte* of international finance seems to have just this one script, since it has been staging it for so long, while the audience welcomes it each time, as if it were a premiere. A comedy which often turns into a tragedy, even occasionally for those who live in the more well-to-do neighborhoods."

major projects in transportation, water management, port, and other infrastructures, were immediately necessary.

The peculiarity of Ispa is that it can issue bonds which are guaranteed by the state. As Monorchio illustrated, in the case of a high-speed rail project: "It means, for the purchaser, that an Ispa bond is not only guaranteed by the cash flow coming from the high-speed line, once it is finished, but also by the state guarantee. A person is therefore motivated to buy a bond, which has an annual yield and whose capital is guaranteed."

## Italy's Role in International Development

Echoing LaRouche's recent statements in Italy, Monorchio explained the importance of national infrastructure for the role Italy must play as a European extension towards the Middle East, the crossroads of Africa and Eurasia. The high-speed railway line, now reaching southward to Naples, will be further extended, Monorchio said. "The government decision to build the Messina Bridge [to Sicily] makes high-speed railway indispensable there also. See, beyond all polemics, the Messina Bridge is, from an economic standpoint, a step forward, from Europe towards the African coast and Eastern Mediterranean. . . . Its validity lies not in the unification of Sicily with the rest of Italy, which is already relevant, but in what this could represent for Italy in its relationship with Europe and the rest of the world. If we are requested, we will finance the bridge, too."

Of vital importance for Italy is European Corridor #5, a transportation project connecting the Iberian peninsula through France, south of the Alps and across the highly industrialized northern Italian regions of Piedmont, Lombardy, and Veneto, with Eastern and Southeastern Europe. This is a project included in the list of EU priorities, in terms of financing, but has so far been neglected, in favor of a corridor north of the Alps, that would cut Italy off.

The Rome government is aware that previous delays by Italy have played a role sending the project into a stall, and is now committed to making up for lost time. The main bottlenecks in this corridor are the tunnels beneath the mountains between France and Italy, and the highway around Venice, where trucks are forced to wait in queues for as long as five hours.

In this region, the planned doubling of the transport capacities will increase productivity directly by 50%, Monorchio said. Italy can face what he called the international recession, he explained, "because, since we lack infrastructure and have a concrete possibility to push economic growth through such works, Italy can grow better and more quickly than others. Infrastructure is the most important thing we have for the recovery.

"As a Southern Italian, I have had a dream: That our country, and in particular its southern part, could become what California has been for the Americans. Italy must be the California of the Europeans."