Systemic Collapse Targets Italy

by Andrew Spannaus

Aug. 8—As London's bankrupt global financial system accelerates its wrecking campaign, the nation of Italy has become the most recent target. In the past few weeks, the City's imperial bankers unleashed a massive speculative attack, aimed at forcing the country to implement harsh austerity and "structural reforms," in a process that heretofore has been limited to smaller European economies such as Ireland, Greece, and Spain.

As usual in these situations, the international financial elite cares not for the welfare of the population of Italy, or any other of the countries that come under pressure to take drastic actions in order to avoid the implosion of the financial markets; they demand their pound of flesh, in the hope that their global debt bubble based on speculation in financial derivatives

Italian Prime Minister Silvio Berlusconi (right), and Economics Minister Giulio Tremonti (left) have been under massive pressure from the banksters in London and Brussels to gouge their population. Meanwhile, on Aug. 3, prosecutors ordered a raid of the Milan offices of the rating agencies Moody's and Standard & Poor's (below).

and whatever streams of income from the real economy can be rounded up by extortion, will live to see another day.

Euro vs. the People

Italy is a nation of nearly 60 million people, with a GDP of approximately $2 trillion, Europe's third-largest economy. While the fabric of its economic system is decidedly less intertwined with the global financial casino than that of many other countries, the gradual implementation of an anti-industrial policy over the past 30 years has produced a large foreign state debt, equal to approximately 120% of GDP. Until about a decade ago, over two-thirds of that debt was held by Italian families, who financed their own government and earned interest doing so; now, about half is in the hands of foreign banks, and thus any drop in "confidence" on the market represents a threat to the country's ability to finance its debt.

With this in mind, consider the current death spiral of the system based on Europe's single currency, the euro. From the beginning, the euro was aimed at eliminating economic sovereignty among the nations of the continent, starting with Germany at the time of its reunification, with Italy following close behind. The institutions of the European Union, now established as a dominant supranational structure through the Lisbon Treaty, set all essential economic policy for the member-states, based on precisely the same type of monetarist, free-market voodoo that has led to the current breakdown. Member-states are told to balance their budgets through austerity and cuts in public investment. Of course, those same policies make it impossible to create growth in the economy, which leads to calls for even more austerity, along with privatization and deregulation that are supposed to make the country more "competitive," but actually serve to open up sectors of the real economy that can provide new loot for the financial sector.

Thus, as the speculative excesses of recent years continue to unravel, numerous countries find themselves in an unsustainable situation. The drug-induced euphoria is gone, while the instruments that could change the nature of the economy are prohibited. Ireland, Greece, Portugal, and Spain have all succumbed, cutting deals with the EU and the IMF for massive budget cuts and reforms. Naturally, the programs don't work, as demonstrated in the case of Greece, which was "bailed out" over a year ago, and is now in an even worse situation. The truth is that the bailouts go directly to the foreign banks that created the bubble in the first place, or have recently bought up the countries' bonds seeking higher yields. Without a public handout, they would fail.

The Assault Begins

In early July, Italian state bonds began to come under pressure. By mid-July the spread between Italian and German bonds had reached a peak of over 300 base points. At that time, the Italian Parliament passed an austerity package of EU70 billion in record time, with tax increases, cuts in social services and pensions.

Last week, the pressure was ramped up again, with a new round of bond selling led by European banks such as Deutsche Bank, and heavy pressure on the CDS (credit default swaps) market, derivatives which represent bets on default. As the spread with German bonds closed in on 400 base points, and global markets began the current phase of the crash in relation to the artificial U.S. debt ceiling crisis, the EU moved into action with heavy-handed threats:

After the Italian executive tried to hold the line against the pressure, denying the request of the "markets" to frontload the austerity measures and demonstrate its willingness to gouge the population as soon as possible, the current and future heads of the European Central Bank (ECB), Jean-Claude Trichet and Mario Draghi, wrote a letter to Italian Prime Minister Silvio Berlusconi, presenting a list of conditions to be implemented immediately in exchange for measures to stop the attack. The bankers demanded a balanced budget in two years, a balanced-budget amendment to the constitution, a "credible" privatization and deregulation campaign, and labor market reforms.

Indeed, the Berlusconi government's policies in recent years, led by Finance Minister Giulio Tremonti, have given mostly lip service to free-market reforms, blocking the type of deep structural changes demanded by the liberals. Recently, the liberal faction has pushed Berlusconi—who has been heavily damaged by scandals—towards their desired position, deepening the rift with Tremonti, while at the same time angling to dump Tremonti as soon as possible, through scandals and public attacks.

Faced with this blackmail, Italy did an abrupt about-face, doing exactly what Berlusconi had resisted just the day before, demonstrating that policy is made "by a supranational technical government based in Brussels, Frankfurt, Berlin, London, and New York," as brazenly stated by former EU Commissioner for Competition Mario Monti, the leading candidate for a technocratic government to replace Berlusconi in the coming months, in an article in Italy's largest daily newspaper *Corriere della Sera*. As a reward, the ECB began to buy Italian bonds on the market on Monday, Aug. 8, allowing the spread to come down.

Death of a System

It is important to note that on its own, Italy is not at risk of default. Although its public debt is very high, there is no reason to suppose that the country will not be able to meet its obligations, even if borrowing rates were to reach the level of 7% or more (they have been oscillating between 5 and 6% in the past week), which would only add a few billion dollars in costs this year. The bond crisis is created by the speculative mechanisms of the market. Italy's survival does not depend on a bailout; indeed, the opposite is true. It is the global financial bubble that requires new streams of income from the real economy—through privatization of state enterprises, pension systems, municipal services, etc.—to postpone its inevitable end.

The policies associated with the bailouts only make the situation worse. The determination to keep the financial bubble alive with ransom from what remains of the productive economy is leading to the end of an era; without a Glass-Steagall-type reform, which would insulate the real economy from the speculative junk that is causing the crisis, the problem can not be solved.

Although the basis for a strong movement in favor of a Glass-Steagall reform has already been laid in Italy, through numerous public statements and events in collaboration with the LaRouche movement, including resolutions in the Senate and Chamber of Deputies, one of the goals of the crisis created in recent weeks has clearly been to shift the public debate away from the real solutions, and guarantee that the various political factions merely argue over the details of how the austerity policies will be implemented. Just as in the debt ceiling debate in the United States, the attempt is to push the growing momentum for systemic change aside, while the parties launch a largely useless discussion within the ideological confines of a disastrous policy—and the ruling financiers impose their will unchallenged.

A Sharp Strike-Back

Despite having submitted to this blackmail, however, a notable act of resistance has emerged, in the form of a judicial investigation into the rating agencies that helped precipitate the bond crisis: Moody's and Standard and Poor's. On Aug. 3, prosecutors from Trani, a small city on the Adriatic Coast, ordered a raid of the

Milan offices of the agencies, to "verify whether these agencies respect regulations as they carry out their work." The investigation originated with a complaint filed by a consumer association, which suggested that the sharp drop in the market may have been the result of a "precise scheme by hedge funds and other unidentified players that could be linked to the negative comments about Italian public finances by the rating agencies."

The Trani investigation was bolstered by a resolution passed by the Finance Committee of the Italian Chamber of Deputies last week, calling on the government to take legal steps against the rating agencies. In a conversation with *EIR*, Sergio D'Antoni of the opposition Democratic Party (Pd), slammed the rating agencies, and agreed that the financial system needs to be reorganized in order to block speculation and the attacks that destroy entire countries. "The current situation is absurd. The role of the rating agencies must be changed; we can't have rating agencies which are paid by those they assess, and that, in any event, respond only to the market. We need something independent, or run by states. I agree that we must stop speculation on state bonds, and separate ordinary banking activities from the speculative casino. The situation demands a change in the system."

The current investigation is actually the second proceeding regarding market abuse and stock-jobbing opened by the prosecutors in Trani. The first was initiated in late 2010, also based on a complaint from consumer associations, in reaction to a report issued by Moody's stating that the Italian banking system was at risk following the crash in Greece. The more recent proceeding, against Standard and Poor's, regards further reports questioning Italy's ability to finance its debt, and calling the measures proposed by the government insufficient. The rating agency is charged with irregularities such as issuing statements while the market was open, and based on misleading partial information. In those instances, the Finance Ministry responded immediately, denouncing the reports as inaccurate.

The case could potentially lead to a ruling that clearly establishes the lack of impartiality of the rating agencies. This would provide key support to those political and institutional figures who have already begun to take aim at them, and political cover for measures to insulate the bond markets from this type of manipulation.