Italy at a Crossroad: European Nightmares or Glass-Steagall

by Claudio Celani

Aug. 12—Since the July 1 inauguration of its European Union chairmanship, the Italian government has shown positive action on Russia and other foreign policy issues. The pro-war front led by Great Britain, the U.S., and the EU Commission, has reacted by striking at Italy's weak flank: the economy. Italy's poor economic figures have been used as pretext to threaten a takeover of the Italian economy by the Troika (IMF, European Central Bank, World Bank), Greek-style. This, in turn, has increased support among the opposition, for a break from the euro and a Glass-Steagall reform.

On Aug. 1, Italian Prime Minister Matteo Renzi nominated Foreign Minister Federica Mogherini to replace Catherine Ashton as EU High Representative for Foreign and Defense Policy.

Mogherini's appointment would bring about a shift from the line pushed by Ashton, who has been a spokesman the British imperial policy on Ukraine, etc. Mogherini is a strong supporter of involving Russia in decisions on Eastern Europe, and, at the beginning of July, she went on a diplomatic mission to Kiev and Moscow, achieving a deal for Russian participation in negotiations for the EU-Ukraine Association Agreement.

The war party is trying to sabotage Mogherini's appointment with all means at its disposal. Both the Polish and Romanian governments pushed their own candidates, and George Soros pulled together a group of former heads of governments and foreign ministers to sign onto an anti-Mogherini manifesto, calling on EU current leaders to choose, on Aug. 30, "the strongest candidate, and not detour from short-term interests, proportions, and quotas."

"In view of the airplane shot down over the Ukraine, a further escalating security situation in the Near and Middle East, and growing tensions in Asia, this is not the time for apprentices," the statement said, implying that Mogherini is not experienced enough for the job.

Besides Soros, prominent signatories include Wolfgang Ischinger (Munich Security Conference), Hans Eichel (former German Finance minister), Karel Schwarzenberg (former Czech foreign minister), and former ministers and heads of governments of Poland, Denmark, Spain, Lithuania, and Austria.

Creative Commons/Mikael Sjöberg

Italian Foreign Minister Federica Mogherini has been nominated as EU High Representative for Foreign and Defense Policy. She is a strong supporter of involving Russia in negotiations between Ukraine and the EU.

The manifesto was published Aug. 1 in the Berlin daily *Tagesspiegel*, as a message to Germany.

Then, on Aug. 6, U.S. Secretary of State John Kerry gave an interview to *La Stampa* to pressure the Italian government to stop its "Putin-friendly" activities. "The tragedy of the MH17 flight," Kerry said, "has made clear what we had long warned against: There are consequences for the escalation which go beyond the Ukrainian borders. The European Union closes ranks against Moscow because Putin is responsible for the support given to separatists: he must pay."

Joining the Fight Against the Vultures

While the Italian government has not answered these threats, a consequence of those pressures was visible on another front, Argentina.

Mogherini was scheduled to visit Buenos Aires on Aug. 5, to show solidarity with the Argentinian government in its fight against the vulture funds. (She cancelled her trip at the last minute, using as a pretext, a hearing of the Parliament Foreign Policy Committee.) She had been backed by a parliamentary petition initiated by members of her party, in the context of a general public concern for the way the vulture funds and U.S. courts have dealt with a sovereign country (see *EIR*, July 18, 2014).

stopeuro.org

Antonio Maria Rinaldi, an economics professor and chairman of the newly founded Riscossa Italiana, warns against an ECB dictatorship.

Also reflecting this concern, was a statement by Italian members of the European Parliament, warning that those same vulture funds are buying up debt assets in Europe, getting ready to use the Argentinian precedent to seize public and private and properties.

Marco Zanni, head of the M5S (Five Star Movement) faction in the European Parliament, and Marco Valli, a member, like Zanni, of the Finance and Monetary Committee of the EP, published such a statement on their Facebook page (see box).

Draghi: Surrender Your Sovereignty

But the strongest attack came from the ECB, in a replay of the ultimatum that led to the fall of the Berlusconi government in 2011. Based on new data showing a GDP drop for two quarters in a row, thus placing Italy officially in recession again, ECB head Mario Draghi said that Italy should surrender its sovereignty to the EU, implying that the Troika should run the government.

Draghi claimed that the GDP decline is due to lack of private investment, which in turn is due to lack of "reforms," and that such reforms should be carried out by Brussels (EU headquarters).

"There is one further area which has acquired, if anything, even greater importance during the crisis, which is the area of structural reforms," Draghi said. "And that's where I said several times that it's probably high time now to start sharing sovereignty in that area as well, taking the structural reform area in the marketplace, product reforms, single market legislation, implementation and labor market reforms, under common union discipline—in other words, trying to replicate our success in the budgetary area also in the area of structural reforms."

Draghi's arrogance is all the more unfounded, as he claims that EU budget policies have been "successful," whereas, in fact, they have failed totally, after having devastated Greece, Spain, Portugal, and now, Italy.

That is what Antonio Maria Rinaldi, an economics professor and chairman of the newly founded Riscossa Italiana (Italian Revolt), told Draghi in an Aug. 10 article in formiche.net. Draghi pushes for supranational dictatorship because he is aware that his policies have failed, Rinaldi wrote.

"I am perfectly convinced," he wrote "that even if the ECB adopted overnight the same mandate as the Fed [U.S. Federal Reserve] by cut and paste, it would nevertheless fail in its intent. In fact, past LTRO [long-term refinancing] operations and direct purchases of assets under the OMT [outright monetary transactions] program were barely effective, and similarly, he could implement all possibly imaginable QE [quantitative easing], creating all possibly imaginable liquidity beyond the QEs, monthly implemented by his American and Japanese colleagues, without succeeding in pulling the European economy out of the grip of deflation."

That is why Draghi exceeded his mandate. "Nowhere in the statute or the rules for the ECB," Rinaldi wrote, "can one single syllable be found, allowing the ECB chairman to call for waiving sovereignty, even partially, of member states." Evidently, Draghi sees such a waiver as "the last gasp, before the ultimate implosion of Euro."

"I would like to loudly remind chairman Draghi that European countries, Italy in the first place, succeeded in securing democracy and self-determination through the blood shed by millions of individuals, after centuries of wars and conflicts, and therefore, they are absolutely not willing to renounce rights and principles which are inalienable and non-negotiable, in favor of non-elected, clearly partisan bodies."

According to Rinaldi, Prime Minister Renzi, although formally rejecting a Troika takeover of the Italian government, is going to use such a threat in order to implement the same "insane policies" in the short term. In fact, in interviews with *La Stampa* and the *Financial Times* on Aug. 10, Renzi acceded to Draghi's demands. "Draghi's statement is: If Italy does not push through reforms, the country is not attractive for foreign investors. Well, this is also my and [Economy Minister] Padoan's view. We agree, no problem," Renzi said.

It has been reported that the government plans to introduce a compulsory levy on private wealth (bank accounts), i.e., "bail-in," in order to find the missing EU20 billion to balance the budget in September.

Vulture Funds Role in Europe Revealed

Here is the statement issued on Aug. 7 by Marco Zanni and Marco Valli of the Finance and Monetary Committee of the EuroParliament. The statement has been covered by the Rome newsletter Osservatore Politico Internazionale.

The U.S. Supreme Court decision in favor of US hedge funds NML Capital and Elliott Management, causing Argentina's default, sets a very dangerous precedent. However, there has been too little attention to the effects that such a decision could have in Europe and Italy. Not many know that the same predatory vulture funds that have gotten a green light from the Obama Administration and the Supreme Court of the United States to foreclose on the nation of Argentina have been quietly positioning themselves over the last 18 months to buy up tens, if not hundreds, of billions of dollars of bad debt on the books of Europe's leading banks, for 3-4 cents on the euro, to then turn around and use their corrupt court systems to forcibly collect full face value.

Paul Singer's NML Capital, and its parent, Elliott Management—the lead vulture fund in the current assault on Argentina—over the course of 2013 bought up at least EU1.3 billion in non-performing loans from Europe's largest bank, Banco Santander, and associated Spanish financial institutions such as Bankia. The total cost to Elliott was a mere EU50 million, less than 4% of the face value of the loans. Elliott also purchased the Spanish "debt recovery" firm Gesif at the end of 2013, to convert it into its operational base in Spain for the expected surge in "business" in 2014.

The vulture funds are buying up large quantities of distressed debt, not only in Spain but also Italy. Last year, Unicredit sold almost EU1 billion (EU950 million) worth of bad consumer loans to Cerberus for less than the market value of EU80 million. Currently, Unicredit is selling its entire bad loans unit, Unicredit Credit Management Bank (UCCMB), with a portfolio of over EU40 billion, accounting for 32% of the entire Italian market of non-performing loans.

It is reported that former Goldman Sachs/Merrill Lynch, and now UBS banker Andrea Orcel, will broker the sale. Orcel is the man who advised Monte dei Paschi di Siena in the purchase of Antonveneta Bank from Santander. There are six vultures bidding for the deal: Apollo Global Management, Fortress Investment Group, Lone Star Group, Cerberus, a division of the Italian Cerved Group, as well as a group participated by Goldman Sachs, Deutsche Bank and TPG Capital.

If on one side these operations help the major banks pass the stress tests which the European Central Bank is currently conducting, on the other side speculative funds would have an enormous power in their hands; imagine the consequences if some European court of justice takes a decision similar to the U.S. Supreme Court on Argentina. If speculative funds were recognized as having the right to be reimbursed for the nominal value of credits they bought for a dime, and the right to seize debtors' assets, what would be the consequences from an economic-social standpoint?

To prevent the continuation of such speculation on the life of citizens, it is necessary to discuss not only at the European, but at global level, rules on state bankruptcies. In fact, there is no precise legislation that regulates defaults of states (and therefore of sovereign debt), as is the case for companies and individuals (i.e., Chapter 11 in the U.S.). We will propose for Europe a negotiation of a law or a mechanism with clear and precise rules that regulate state bankruptcies, like those regulating individual and firm bankruptcies.

Glass-Steagall and Euro-Break

Italy would not survive another round of the same policy which has been implemented since the ECB coup in Summer 2011. Deadly austerity policies inaugurated with the Mario Monti technocratic government, and continued under the EU "autopilot," have intensified the economic desertification of Italy. The country has lost one quarter of its manufactures since 2008, and since the beginning of this year, over 4,000 firms have closed shop.

Most dramatic is the yearly report by Svimez, the Association for the Development of Industry in the Mezzogiorno (Southern Italy), showing that the region has been thrown back 40 years.

The Mezzogiorno "is sliding more and more into backwardness: In 2013, the gap in GDP per capita [compared with Northern Italy] has fallen back to the levels of ten years ago," says the introduction to the Svimez report. "In the 2008-2013 period household consumption has collapsed by almost 13%; industrial investments by 53%; university enrollments are back to the early 2000s, and for the first time, the employment figures have fallen below the psychological threshold of 6 million, the lowest level since 1977. The region is threatened by industrial and human desertification, with continued emigration, falling birth rates, and impoverishment. In five years, absolutely poor families have increased by two and a half times, from 443,000 to 1.14 million. Forecasts for 2014-2015 contained in the Svimez report confirm the negative trend."

It is clearer than ever that the country must reverse its course and go for an investment and development policy. With real unemployment at 25%, Italy is in a situation similar to the U.S.A. in 1933, when Franklin Delano Roosevelt took office. FDR-style policies must be adopted, starting with the banking separation reform, i.e., Glass-Steagall, and full government sovereignty over national affairs—which means a break out of the euro system.

Popular support for this policy is increasing, and some legislators are feeling the pressure. An example of this is a new draft bill for a strict Glass-Steagall reform, introduced on Aug. 6 by Manfred Schullian, a representative of the South Tyrol Popular Party, in the Chamber of Deputies. The bill is based on the one passed by the Regional Parliament of Tuscany on July 2. That bill was drafted by Regional Councilman Gabriele Chiurli, and presented with the explicit intention of clearing the air with respect to the Glass-Steagall "lite" bills and proposals that have been made by the Italian Democratic Party, and others that reflect the influence of the "reforms" under discussion at the EU level.

The text of the bill is not yet available, but the introduction—written with input from Movisol, the LaRouche movement in Italy—is said to deal specifically with the need to combat efforts to water down the strict separation between commercial and investment banking, as required by the original Glass-Steagall law.

With the Schullian and Tuscany measures, there are at least three Glass-Steagall bills in the Italian Chamber of Deputies, and six in the Senate (scheduled for discussion in the Banking Committee).

Stressing the urgency of the reform, Movisol has issued a call to all labor and industrial associations to support a Glass-Steagall reform as the way to free the economy from speculative debt and eliminate the main dynamic towards a world war. The call was issued by Movisol chairwoman Liliana Gorini and Movisol economic expert Massimo Lodi Rizzini.