LAROUCHE BANKRUPTCY REORGANIZATION

Italian Senate Debate Scores Limited, But Positive Result

by Claudio Celani

Feb. 25—On the initiative of Sen. Oskar Peterlini, the Italian Senate was called on Feb. 24 to discuss and vote on Lyndon LaRouche's bankruptcy reorganization policy. Such a debate had been requested five months ago, but was repeatedly postponed. The G7 financial summit of Feb. 12 in Rome, however, created new momentum for a discussion of a "New Bretton Woods," which Italian Economics Minister Giulio Tremonti has put on the agenda for the July G8 meeting in Italy.

However, July might be too late. "We are already late," said Senator Peterlini, introducing his resolution as the first speaker in the debate in the Senate. The binding resolution, drafted in collaboration with LaRouche associate Andrew Spannaus, was the reference point for five additional resolutions, which either supported it, copied it, or opposed it. In the end, after a three-hour debate, a limited but useful result was achieved, when five resolutions were approved, and one rejected. Although forces associated with the globalist Financial Stability Forum (FSF) chairman Mario Draghi (who is also the governor of the Bank of Italy) did their best to block LaRouche's policies, one of the five resolutions approved—the one introduced by the Lega Nord (Northern League)—calls for bankruptcy reorganization measures.

The official release of the Italian Senate reflects this, saying, "The government has been asked to use public monies to protect family savings and ordinary economic activities, and not the interests of financial institutions which own, or even promote toxic assets. To do that, speculative debt must be separated from investment debt, and the latter promoted with low-interest, long-term financing, to support the real economy, and contain the effects of the crisis on employment." The Lega Nord resolution, voted up by a majority of both the government parties and the opposition, states that the government is called on to "locate and experiment with innovative modalities that, by reducing taxpayers' risk to the minimum, allow us to solve the problem of toxic assets issued by financial institutions, which have no market value, and today block the circulation of liquidity in the system."

The reference here is to Minister Tremonti's well-known proposal to freeze derivatives assets, instead of financing them with state money. This proposal is universally viewed as part of Tremonti's publicly acknowledged support for several of LaRouche's policies. Although Peterlini originally called explicitly for "bankruptcy reorganization," both in the draft resolution and in his intervention in the Senate, the pro-Draghi forces managed to exclude that passage from the operative part of his text. However, the final vote supported the same request in a different formulation, as reported above, and therefore, represents a limited, but useful result (see *Documentation* for text).

IRNS/Daniel Grasenack-Tente

Lyndon and Helga LaRouche meet with members of the Italian Senate Labor and Social Security Committee, Rome, Sept. 20, 2007. The LaRouches have been organizing for a New Bretton Woods in Italy for many years, receiving enthusiastic support from members of diverse political parties.

"Our warning, and the warnings by Lyndon LaRouche and his followers in Italy at that time, such as [Paolo] Raimondi, were not listened to. Today, everybody calls for a New Bretton Woods, including Minister Tremonti. Had they listened to our warnings, we could have avoided the crisis."

Peterlini identified the cause of the crisis in the shift from a production economy to a debt economy, and attacked its most degenerate expression: financial derivatives. Every banking system in the world, including the Italian banking system, has used speculative instruments, Peterlini said, and therefore, let us not delude ourselves that our system is more stable.

"We are now late," Peterlini added. We must reorganize the credit and financial system, and this is a common request in all drafts presented by the different parties, he said. He called on the government to support at least this feature. The losses of the system, due to speculation, "cannot be covered by taxpayers' money. We must protect family savings, including savings into pension funds." Peterlini said he fully agrees with Tremonti's view that ordinary economic activities, and not speculation, must be protected. "We fully support Tremonti: Let them fail," Peterlini said, referring to the speculators who created the so-called toxic debt.

In illustrating the proposals of his draft, Peterlini again mentioned LaRouche and Spannaus (the latter followed the floor debate from the guest section). The Senator then called for bankruptcy reorganization, saying that if confidence must be restored, there can be no confidence without justice, if those responsible do not pay. "Do not save what is rotten, save the General Welfare," Peterlini declared.

We need stability for investments and production, and therefore a system of stable exchange rates. However, the new system "must be a credit system, and not a monetary system." It should be a system that lasts at least 40-50 years, like the first Bretton Woods. In concluding his speech, Peterlini called again on all parties to join in support of a resolution in order to strengthen Tremonti's international action.

Upcoming Showdown at G8 Summit

Tremonti can now say he is backed by the entire Senate, majority and opposition, in opposing a bailout of the bankrupt financial system. The showdown with the British faction, which opposes a new system, and is pushing instead for a hyperinflationary bailout, might well come at the G8 Labor and Social Policy summit in Rome on March 29-31, where Italy will play host. This is well before the July deadline scheduled by Tremonti for adoption of his agenda. The coming round of global economic and financial crises will shuffle the cards of all the players, sweeping away those who, in the Senate debate, supported Draghi's "fix the system," bankrupt recipe, instead of the LaRouche-Tremonti's proposal for bankruptcy reorganization.

In his address, Peterlini recalled that he and LaRouche had warned against the breakout of the crisis in 2002, and were treated like Cassandras. "The most beautiful among Priam's daughters, Cassandra, was not a doomsayer, but a prophet whom people did not listen to. I am not a Cassandra by vocation, but I am very worried. We have been warning since 2002. To be precise, we filed the first draft on the financial bubble, in the Senate, on Feb. 27, 2002." The signs of the systemic crisis were evident, in terms of crises which were not "isolated": the Asia crisis, Russia, Latin America, the Argentinian bankruptcy, etc., Peterlini reminded the Senators.

Other Resolutions Brought to the Floor

Sen. Enrico Morando spoke next, for the largest opposition party, the Partito Democratico (PD). Morando presented his lengthy resolution, which called for more power to supranational institutions such as the European Commission, and even the formation of a "Council for Sustainable Development" at the United Nations as a world government body.

Morando was followed by Sen. Elio Lannutti, who presented a resolution with many elements copied from Peterlini's draft, as well as outlandish proposals, such as one for "a new world currency," and a defense of the European Union system, in opposition to an agreement among the U.S.A., Russia, China, and India—the very Four Power policy which LaRouche indicates as the unique constellation of powers necessary to defeat the Anglo-Dutch Liberal Empire. Lannutti, a member of the populist IDV opposition party, limited the operative part of his resolution to a single sentence: "commits the government to work with urgency, together with Parliament and other relevant institutions at the national, European, and international level, so that the New Bretton Woods reform, i.e., the reorganization of the collapsing international monetary and financial system, is put at the top of the agenda at the next G8 summit in Italy, at Maddalena Island [Sardinia] in July 2009."

Lannutti was followed by Sen. Paolo Franco, speaking for the Lega Nord resolution. Lega Nord is a government party, and very strong in northern Italy; it is a "homeland defense" party in all respects. Economically, it is against globalization, and strongly supports Tremonti.

The Lega Nord resolution praised the original Bretton Woods as the system that created "the conditions for a new approach in the world economy; the Bretton Woods agreements represented the first example in world history, of a full agreement on a monetary order, thought to govern monetary relations among independent national states." Globalization, said the resolution, "debased political control over markets, favoring speculative degeneration and the creation of a system with no rules."

The operative part of the Lega Nord resolution borrowed key passages from the Peterlini-LaRouche resolution, including the one against state bailouts of toxic assets. Another passage borrowed, was for committing the government "to promote the definition of a credit system and not just a monetary system, to supply credit aiming at promoting economic development, as an alternative to the system of central banks, which arbitrarily issue currency aiming at monetary adjustment."

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Italian Economics Minister Giulio Tremonti has placed the call for a "New Bretton Woods" bankruptcy reorganization of the financial system on the agenda of the G8 meeting in July, which Italy will host.

This passage was eventually erased altogether by the government. (Curiously, it remained in Peterlini's resolution, limited to the sentence "to promote the definition of a credit system and not just a monetary system to promote economic development." An entire passage explaining what a credit system is, with reference to Alexander Hamilton's national banking and Lyndon LaRouche, was eliminated.)

After the Lega speaker, the chairman of the Senate Finance Committee, Mario Baldassarri, was called to the floor. His intervention had raised high expectations, since Baldassarri has, in the past, supported LaRouche's call for bankruptcy reorganization, including in a public meeting in Italy together with this writer. Moreover, Baldassarri had filed a resolution which was almost a copy of Peterlini's resolution, with minor changes, plus cutting out LaRouche's name.

However, Baldassarri then offered a totally different resolution, which instead of calling for a new system to replace the bankrupt one, listed a series of measures to "fix" the current system. Baldassarri went so far as to endorse Mario Draghi's Financial Stability Forum. The operative part of his resolution included a call for the government to follow to the FSF prescriptions. The government did not change that.

The only good thing Baldassarri did, was to rebuke the Democratic Party speaker Morando, about his idea that a solution to the world crisis must include a downsizing of the U.S. economy, which, Baldassarri said, would be a catastrophe.

The last speaker was former EU Commissioner Emma Bonino, who had introduced a resolution—together with other members of the Democratic Party—to call for more powers for the European Commission. The government rejected her proposal to declare a European state of emergency for the auto industry and for the banks, to be managed by a task force chaired by the EU Commission. It accepted, however, the formulation that "task forces" should be established with members of national governments, chaired by the EU Commission, to coordinate national measures and state aid in general.

The Next Battlefield

After the speakers, a debate developed with interventions from the majority and the opposition. Immediately, it became clear that the "Draghi party" had worked behind the scenes, mobilizing its assets. An outstanding example of that was Sen. Luigi Grillo, from the Pdl (Partito della Libertà), the party born out of the merging of Prime Minister Silvio Berlusconi's Forza Italia and the right-wing Alleanza Nazionale. Grillo described the Italian banking system as "the best in the world." He claimed a role in re-writing Baldassarri's resolution, and stated: "Let us allow the Financial Stability Forum—which sent 65 recommendations to national governments in the last years (all of them ignored)—to have the power of forcing responsible governments, members of the FSF, to examine and adopt them."

The only attacks against globalization, and defense of nation-states, came from Lega Nord representatives.

It was clear that it would be hard for Peterlini to save the relevant content of his resolution from the attacks by the "Draghi boys," and from the government itself, represented by Undersecretary of State for Finances Luigi Casero. Whereas the government pleased the FSF, the only ones to really support Tremonti were Peterlini and the Lega Nord.

After intense negotiations, the changes proposed by the government were accepted by all speakers except the Democratic Party's Morando. The six resolutions went to a vote; five were approved, and the sixth, the Democratic Party resolution, was defeated.

The Senate missed a chance to lead the fight to a more advanced stage, but the vote must nevertheless be seen as a positive, albeit limited, result. The next weeks will define a new situation and a new battlefront.

Documentation

Senator Peterlini's Bankruptcy Motion

These are excerpts, translated from the Italian, of Sen. Oskar Peterlini's introduction to his motion on bankruptcy reorganization, presented to the Italian Senate Feb. 24.

Cassandra, the most beautiful of the daughters of Priam, the King of Troy, and Hecuba, was not a bird of ill omen, as some who use the happenings and figures of mythology erroneously claim, but rather, an unheeded prophet, a person who was able to clearly see the truth, but was condemned not to be believed. If Priam had listened to her when she said that the wooden horse left on the beach by the Acheans was full of enemy soldiers, history would have been different.

As for me, I am not a Cassandra by vocation; I am only very worried, and have been for a long time. Since 2002, ... we have been warning of the risks of a financial market that lacks rules and transparency. In fact, the first resolution I presented on this subject was dated Feb. 27, 2002. That resolution already identified the financial bubbles and the risks of unchecked free-market policies.

We all remember the banking crises in 1997.... Our warnings and those of many authoritative experts in the field, such as the American economist Lyndon LaRouche and his followers, ... unfortunately remained unheeded....

The result is that today, we are faced with a crisis which risks becoming worse than that of 1929....

Today, everyone is calling for a New Bretton Woods, including Economics Minister Giulio Tremonti. I repeat what I said before: If someone had listened to our warnings in the past, we could have avoided this disastrous economic and financial crash. We should remember that the great crisis of 1929 led the international community to enter into the Bretton Woods agreements, in order to set precise rules for currency and financial markets; in addition, states were asked to monitor and regulate the market.

Why, then, did the system go into crisis? Due to the absolute belief in total free trade, above all following

Sen. Oskar Peterlini in the Italian Senate, Feb. 24, 2009.

the lead of American free-market policies, starting in the 1970s, and then, with Reagan and Thatcher, when the principles of *laissez faire et laissez passer* were followed. The message was that the markets were able to regulate themselves, without intervention by the state, whose role was to be reduced to a minimum. What caused the current crisis was thus the lack of strict controls and transparency in the books of financial companies and banking institutions.

The global economy, which in the past was based on actual work—investment in infrastructure, real products and services, and thus actual wealth—has been increasingly transformed into a debt economy, based on financial speculation and the growth of fictitious values. Derivatives contracts ... have become a monster for very high risk speculation.

In addition to this—I repeat—there has been a total lack of control concerning large financial institutions and companies.... Despite the supervision of the market by the Bank of Italy, Italy has also not been as virtuous as some would have us believe. The proof is found in the crashes of Cirio and Parmalat....

Our system did not involve the misuse of so-called sophisticated instruments as took place in the Anglo-Saxon economy. Nevertheless, ... let us not kid ourselves. In Italy as well, the system has made use of speculative instruments, often dumping on investors the losses caused by a system which is now rotten....

The Straw that Broke the Camel's Back

What led to the crisis we face today, the famous straw that broke the camel's back, were the so-called subprime mortgages, those mortgages which were granted to anyone, including people who couldn't honor their debts....

We must ensure that, in the future, what is happening now cannot happen again.... It is late, but now more than ever, it is necessary to reorganize the credit and financial system, and this is the common request that emerges from all of the resolutions presented. Personally, I call on the Government to at least preserve the essential aspect of this common call to contribute to an international reorganization of the banking, financial, and credit system.

The hole created by speculation, however, cannot be filled with taxpayers' money, or only with emergency measures. Rather, we need to protect small investors, not limiting ourselves only to their bank deposits, but also, protecting their investments in pension funds and non-speculative mutual funds, up to a certain limit; and we should allow the market to clean out, including in dramatic fashion, the so-called toxic waste from the financial system.

Thus, we do not agree with the actions taken by the U.S. authorities, who have used state funds not to meet the needs of families, but rather to cover the losses caused by mortgage-backed securities and derivatives, which, through artificial financial leverage, have multiplied speculative values beyond imagination....

The toxic waste must be eliminated. However, as Minister Tremonti has recently stated, ... we reject the idea that the state should use taxpayer money to take on these losses. To put it simply, let them fail.

This was the method adopted in the period of postwar reconstruction in Europe, and with the New Deal implemented by U.S. President Franklin Delano Roosevelt during the Great Depression, which allowed for overcoming the crisis and rebuilding the economy, both in the United States and Europe.

....The requests in our resolution, which are also found in the resolution presented by Sen. Mario Baldassarri ... as well as Resolution No. 33, presented by Senator Lannutti and others, call on the Italian government to commit to taking action to promote a reorganization of the international monetary and financial system, cooperating with the leading powers in the world and emerging nations, in order to establish a new system. The model which we propose is based on that used to overcome the great crisis of 1929, the model of Bretton Woods, as proposed by the great American economist Lyndon LaRouche. . . .

In order to emerge from this crisis and get the wheels of the economy moving again, we must first of all restore trust in the financial markets. This trust can be restored by establishing clear rules and transparency (mandatory conditions for the system's credibility), and with a bankruptcy reorganization of the financial system, differentiating between and separating speculative debts from those based on actual investment.

Speculative debt represents the vast majority of the obligations which weigh on the books of the principal commercial and investment banks. . . . Trust cannot be restored if these speculative debts are covered by taxpayer funds. Trust can be earned if there is justice, if those who created the debts pay for them.

Thus, the intervention must concentrate on guaranteeing the investments of small investors. This guarantee should not be limited to bank deposits, but should also include—up to a certain limit—pension funds and non-speculative mutual funds. . . .

The General Welfare Takes Precedence

The system will regain credibility if the Common Good, the General Welfare, takes precedence over the obligations created to feed the speculative bubble, in an attempt to find easy, large profits in the short term.

Again, trust will be earned if we guarantee stability for production and international trade. Therefore, we need exchange rates which are more stable, not left to the markets, but decided on through agreements among nations, thus avoiding the speculative fluctuations of the markets.

On this point, I will make a short digression. An Italian entrepreneur who sells his products in America should not be exposed to the fluctuations of the dollar, as unfortunately has occurred in recent years, thus having to pay for the debt contracted by the United States to finance its wars. . . .

Lastly, to provide stability, it is necessary to increase controls on the transfer of capital for speculative purposes; we must restore "capital controls," favoring long-term investment in the productive economy.

To that end, we agree with what Minister Tremonti has said: the need for the credit system to favor investment in infrastructure, industry, and technology, with long-term, low-interest credit, rather than encouraging the pursuit of easy profits to the detriment of productive activity.

Trust is obtained if the system functions as a credit system, rather than a monetary one. This was the idea which inspired the model of Bretton Woods.

We will be able to emerge from the crisis if we reach an agreement not only with the leading global powers represented in the G8, but also with the new economic powers such as China, India, and Brazil, and also other emerging nations. . . . I call for immediately including those emerging countries in an agreement which, like Bretton Woods, we hope will last for another 40-50 years. This is why in our resolution, we call on the Italian government to exert pressure on the international community and become the champion of an initiative for a new period of international cooperation able to fulfill these goals.

In conclusion, we believe it is not enough to merely treat the symptoms of the disease; we must deal with the causes . . . and thus, the international financial system as a whole. We ask that the goal be to invest public resources not for saving speculative debts, but for protecting small investors, enterprises, families, and jobs. In short, we ask that the taxpayer, the Italian family, not be asked to pay twice: once with the loss or devaluation of their savings, and a second time with the taxes and debt produced by financial speculation.

Lastly, I would like to speak directly to the members of the majority in the Senate, to express my hope that this will be an occasion on which we succeed in finding common ground on the major, important issues which are at the base of all of the resolutions presented here; as opposed to only approving the majority's resolutions and rejecting the others. I think that the central request is the same in all of the resolutions; thus, I call for the discussion and approval of the resolutions presented. In such a manner, Italy will emerge from this discussion stronger, and we will be able to support Minister Tremonti in his efforts to bring more stability and credibility to the financial markets.