

# Small and Medium-Sized Entrepreneurs Are the Backbone of Italy's Economy

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I very much wanted to participate in this event, for two reasons:

First of all, because I am familiar with the character of this movement and the importance of the work it does; and second, to present the situation in Italy, and the efforts which our government is making to revive the real economy.

Until the Spring of last year, I was the president of the Young Entrepreneurs section of the National Federation of Small Businesses. After running for Parliament in the center-right coalition led by [Prime Minister] Silvio Berlusconi, I was elected to the Chamber of Deputies, where I serve on the Productive Activities, Trade and Tourism Committee.

I do not speak on behalf of the Italian government; however, in my reflections on the Italian situation and Italy's role at this time, I would like to present some of our government's positions, and in particular those of Economics Minister Giulio Tremonti.

Regarding the crisis, I agree with the general analysis made by the LaRouche movement. The gradual divergence between the real economy and the financial economy has brought us to a dramatic situation.

For centuries, bankers collected money on trust, and lent money at their own risk, but with the advent of what can be called "creative finance," banking institutions have been allowed to incorporate that credit into new financial products. As more of the products were sold, less and less risk remained "in house." Thus, the risk-virus began to circulate through "derivatives," which, according to some analysts, were supposed to be beneficial for everyone. We have seen, though, that the reality is different.



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*Member of Parliament and entrepreneur Catia Polidori called for "an organic vision of development, for enterprises and society as a whole." Citing Italian Economy Minister Giulio Tremonti, she stated, "The evil we must fight is in the financial sphere ... and its name is derivatives."*

## The Crisis Is Systemic

This is a first, important point to stress. The crisis is systemic. Too often here in Europe, and in other areas as well, we thought that our economy was somehow insulated from the problems which have exploded so violently in the United States.

Additional damaging consequences were produced by globalization, the possibility to develop economic and financial operations outside of ordinary jurisdictions. It was said that this change was necessary in order to reduce the impact of suffocating rules. Indeed, in the United States, in 1995, 1997, 1999, and again in 2000, legislative measures were drawn up that promoted financial deregulation. We were told that here in Europe we have too many rules, a rigid system, in which the impact of the creative finance of Wall Street and the City of London wouldn't be felt. Just one year ago, many economists and politicians blissfully and irresponsibly claimed that the crisis in the U.S. would not have much of an effect in Europe. Others said that it would be confined to the financial sphere, with no effect on the real economy. In Italy, even today, the vast majority of our banks appear to be only marginally affected by the crisis.

For too long, at the highest levels of finance, people were under the illusion that money could produce more

money by itself. But, as many economists had predicted, the capitalist system degenerated, and ultimately the crash brought down managers, banks, and the many people's savings. In the mad season of illusion, of the perfect sustainability of debt, a giant house of cards grew up, which many admired, but which was profoundly fragile, and ended up triggering a chain reaction collapse.

Today, though, the naiveté of those who claimed that the crisis would only affect the few, is abundantly clear. The credit crunch affects everyone. The continuing slowdown of the real economy is hitting every country and every economic sector, and there is a real possibility that things can get much worse.

The crisis of the financial system is the crisis of the entire economy. As often happens in history, the decisions of a few involved everyone. Maybe we didn't succeed in countering these decisions in recent years because we were poorly, or insufficiently, informed.

## Effects on the Physical Economy

As an Italian entrepreneur, I am particularly sensitive to the problem of the effects on the real economy. You see, small and medium-size enterprises (what you call *Mittelstand* here in Germany) are the backbone of the Italian economy. There are large companies, of course, which have followed the trend in recent years, with outsourcing, new financial strategies, and the like. But small enterprises resisted this mirage as much as they could. Small enterprises live on innovation, skill, and a strong relationship with the local territory. Despite the incessant encouragement to be listed on the stock exchange and take advantage of the "new financial instruments," we are not part of the "shareholder value" economy, in which everything is dictated by the profits of hedge funds or other speculative vehicles.

In this sense, Italy has been accused of not being modern, of not being ready or able to survive on the market. The reality is that we have numerous important economic sectors and a solid industrial and social fabric; at least it's more solid than the paper economy in many nations in recent years.

This is not to ignore our problems, which indeed exist: There is inefficiency, an infrastructure deficit, and



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*Polidori expressed her agreement "with the general analysis made by the LaRouche movement. The gradual divergence between the real economy and the financial economy has brought us to a dramatic situation." Here, LaRouche visits an aeroponics facility in Vicenza, Italy, July 2001.*

above all, in the South, the Mezzogiorno. Giulio Tremonti often refers to the great problem of the Mezzogiorno, an area with no banks of its own, and institutions without strong links to the local territory. In short, this is a region which, until recently, has lacked a mission for development. This is why our government has begun work on the Messina Bridge between Calabria and Sicily, recognizing the importance of an organic infrastructure network, instead of isolated projects which are unable to bring real change.

I believe that it is important to recognize the common nature of this economic and social model in countries such as Italy, France, and Germany, despite certain differences.

I would like to speak of one of those differences briefly, which is currently the subject of public discussion. It is well-known that Italy's public debt is among the highest in the world, in percentage terms, with respect to GDP. On the one hand, we must acknowledge this significant problem, which is the result of decades of imbalances in which Italy was forced to raise interest rates, thanks, in part, to the "skillful advice" of the International Monetary Fund.

However, there is another side to this Italian "vice," which is the virtue of savings. Italy—along with Japan, another nation with a very large public debt—not sur-

prisingly, has one of the highest internal savings rates in the world. Our society is not indebted, unlike those countries with very high levels of consumer credit, where people take out loans just to survive.

Yes, we have a large public debt, but a considerable portion of that debt is held by Italian families. In fact, if we add up the public and private debt in Italy, it comes out to approximately 130% of GDP, which is very similar to the situation in a country such as Germany, for example, where the sum of the two is approximately 120%.

The problem is that in recent years, Italian families have been pushed to invest in mutual funds or other speculative instruments, rather than in the public debt; and thus, instead of financing our debt internally, with domestic savings, our bonds end up having to compete in the international market.

We have not had any problems financing our state bonds as of yet; the auctions have always been successful. Pressure is increasing on this debt, though, because the interest rates are set by the market, rather than by central authorities.

We would not like to find ourselves in a situation where the speculative market overwhelms us, and creates a crisis which has no reason to exist.

Therefore, while we are aware of the limitations which this difficult inheritance imposes on us, we are also optimistic concerning the possibility of managing it, provided that the international monetary context is modified.

## Facing the Monster

This brings us to the question of rules and regulations. The nature of the economy in recent years has not allowed us to make the real economy function. Companies need rules which are certain, they need infrastructure, and a market which allows them to work and innovate.

Naturally, a market which rewards short-term prof-



Stretto di Messina SpA

*The Messina Strait Bridge, connecting Sicily and Calabria, is the kind of great infrastructure project that can bring real economic development to the Mezzogiorno region of Italy. Above: an artist's conception of the bridge.*

its discourages precisely the type of economic activity which we need. A system which encourages people to trade, as opposed to produce, cannot but provoke a reduction of our standard of living.

This is why Italy intends to use its position as rotating chairman of the G8 to ask for new international rules; rules on how banks and companies operate; rules which limit all of those non-transparent operations which are at the base of the enormous holes which threaten the economy today.

Along with these rules, we have to cure the patient, before it is too late. As Tremonti says, in a metaphor he used recently, "if someone has a heart attack, you have to treat the heart, not the legs."

The required medicine is not that of merging failed banks with other failed banks; it is not found in the switch or swap between private debt and public debt, or in creating additional artificial private demand. The method of thinking to be applied in this situation is that of the Bible, and consists of separating good from bad. We must save families, industries, and the part of the



banks which is truly needed for development, separating these from the rest. A moratorium should be set on interest rates and maturities. The technical name may change, “bad bank” or Chapter 11, but the substance is the same: separating what is functional from what is speculative.

The evil we must fight is in the financial sphere, Tremonti says, and its name is derivatives. An enormous mass of speculative obligations which represent the last monster to be defeated before beginning the recovery. We cannot emerge from the crisis without facing this monster directly. Tremonti’s position is that these obligations must be frozen, removed from the banks’ books, in order to protect the real economy.

The Italian government is moving forward with specific ideas for the real economy. We need to increase investments, and as regards Italy, in particular, streamline procedures for the implementation of those investments.

### **An Organic Vision of Development**

For years we have been blocked on two fronts. The first is the issue of resources. Every crisis becomes an excuse for reducing investment, as opposed to increasing it. Thus, we need new forms of credit, including at the European level. One of the possibilities suggested by the Italian government is the use of Eurobonds, that is, European debt which would be used to finance large projects. In a situation where European rules and the economic climate do not allow us to significantly increase domestic investment, although this is urgently needed in order to deal with the crisis, such an instrument would seem necessary at the European level.

The second front is environmentalism and “NIMBY” [Not In My Back Yard]. First there was the anti-scientific decision to abandon nuclear energy at the end of the 1980s, and now, we’re at the point that any public works project requires years of negotiations and clashes with factions pushing any sort of agenda other than the common good.

In Italy, the attitude of Not-In-My-Back-Yard has reached the point that any innovation, even a simple rail line—which would reduce automobile traffic and freight on the roads—is considered an affront to nature.

We need an organic vision of development, for enterprises and society as a whole.

The Italian government has already taken the first steps for a return to nuclear power; and thus, the perspective of freeing us from depending heavily on other

countries, along with the return of large-scale projects as drivers of the country’s economic development.

In this sense, the measures taken by our government to increase investment and protect the weakest sectors of society, are undoubtedly necessary. We cannot allow the crisis to mark the end of decent living conditions for the less fortunate.

On a broader level though, we realize that measures of this type will not be sufficient without a change at the systemic level.

### **A New Bretton Woods**

Lyndon LaRouche’s proposal for a New Bretton Woods has found fertile ground in Italy. Numerous resolutions have been introduced in the Italian Parliament supporting this proposal. The motion presented by the Chairman of the Senate Finance Committee, Sen. Mario Baldassarri, at the end of last year, references the concept of bankruptcy reorganization, the need to protect the real economy from the collapse of speculation, as proposed by Lyndon LaRouche.

It is undeniable that we are going through a difficult time, but a vague reading of the situation, which is very common today, risks provoking widespread disorientation, thus feeding a dangerous cycle. To the contrary, what we must do is give new stimulus to the economy through constant cooperation among nations in order to take concrete, collective actions.

As you all may know, last Saturday [Feb. 14], the G7 Finance Minister’s meeting closed in Rome with these words by Tremonti: “Stabilize the global economy and financial markets, and reject all forms of protectionism.” According to the ministers, the crisis should be overcome through a new world economic order, but in order to make certain changes effective, globalization must be regulated and governed, not only to avoid additional, serious damage to social cohesion, democracy, and the environment, but also to maximize its positive impact.

As you can see, in Italy, we are attempting to do our part to ensure that this urgent reform takes place soon. At the same time, we are very conscious of the need to work together with other leading nations to ensure that the change is real, and not just empty words which are contradicted by the facts.

I hope that Italy’s actions as rotating chairman of the G8 can provide a stimulus for change, and that together, we can launch a new era of cooperation and development.