In Italy, Crisis Brings Crackdown on the Banks

by Claudio Celani

On March 2, the *Neue Zürcher Zeitung* published an alarmed report from Rome: In Italy—wrote the newspaper of the Swiss financial community—a dangerous witch-hunt is developing against the Italian banking system. The Italian banks are targeted by public opinion, by the judiciary, and even by Parliament, because they are considered responsible for a series of corporate failures and other events which have severely hit hundreds of thousands of small investors. Almost daily, leading bankers are crucified in television talk shows, while the ongoing investigations on the Cirio and Parmalat bankruptcies expand to some excellent names from the financial community, like Rainer Masera (Imisanpaolo) or Cesare Geronzi (Capitalia). Even Bank of Italy chief Antonio Fazio has come under the scrutiny of the judiciary, as it was announced that prosecutors in the small city of Trani, in Apulie, are investigating the missing control of the Banca d'Italia in the context of a local banking fraud, Banca 121.

But most alarming, it seems, for the Swiss financial newspaper, is that the Italian Parliament—the same Parliament considering motions for a New Bretton Woods monetary system—is discussing, in a bipartisan process, a reform bill which will put severe regulations on banking activities.

Crisis Threatens Italian Bond Market

Indeed, the popular resentment in Italy against the banks is real and well-grounded. There is a dramatic crisis of confidence in the banking system, determined by the fact that hundred of thousands of Italian families have lost savings which most of them thought had been safely invested by their bank. A flight from Italy's capital market, which Finance and Economy Minister Giulio Tremonti warned against before Christmas, is already under way, threatening a severe liquidity crisis of the whole Italian bond market.

Italy, with Japan, has historically been at the top of world saving rates. In the 1980s, family savings bailed out Italy's huge public debt through purchases of treasury bonds. In the 1990s, as Italy joined the Maastricht agreement and implemented "convergence" policies to join the Eurozone, falling state bond yelds moved Italian families to invest their savings in the then-booming stock market. This was a conscious policy, discussed in a secretive meeting of Italian and British bankers and public officials on board the British royal yacht *Britannia* in June 1992, and implemented by a series of technocratic cabinets. The idea was that the Italian family savings, appropriately leveraged, should become a bellows for the regional expansion of the world financial bubble, as part of the euro project.

Some $300 billion in privatizations of Italy's huge public sector was used to lure those savings into the stock exchange, whose capitalization zoomed from 11% of GDP in 1992, to 70% of GDP in 2000. When, in 2001, the stock market collapsed, Italian families lost, in one shot, Eu216 billion. The banks then offered a "safe" investment in state bonds, and convinced their customers to buy Argentine debt titles! As Argentina went insolvent in 2002, about 450,000 Italian small investors lost Eu12 billion. And this was not the end: 40,000 lost Eu1.2 billion in the insolvency of the Cirio food company; and finally, the Parmalat bankruptcy has pulverized the savings of 100,000 more investors.

Few among all these investors knew that they were putting their money in high-risk enterprises. In most cases, bank customers discovered that their money had been invested in something they could never imagine. Many pensioners just trusted their bank clerk; in some documented cases, banks sold Parmalat bonds to unknowing customers on the very day the Parmalat concern officially defaulted. The Rome regional department of the Finance police has delivered a thick report to prosecutors, establishing that in the Cirio case, the responsibility for dumping insolvent bonds on retail customers lies at the level of the "general director" of the banks involved. Leading target of the Cirio investigation is Capitalia Bank, whose chairman, Cesare Geronzi, is accused of "organized crime association."

The Cirio and Parmalat cases are connected. The house bank for both firms was Capitalia. To help Cirio to avoid bankruptcy, Capitalia pulled in Parmalat, which bought overpriced parts of Cirio. Also, Capitalia organized swaps between the two soccer clubs owned by Cirio and Parmalat, Lazio AC and Parma, in order to improve the budgets of Lazio, a club quoted on the stock market. And in both cases, Capitalia is suspected of having forced the two firms to replace their debts to the bank with bond issues, so that the bank customers, and not the bank itself, would suffer from the coming insolvency. Furthermore, the report of the Rome financial police clearly states that the bonds were illegally sold, to retail customers, using guidelines intended only for institutional investors.

The largest Italian banks—Intesa-BCI, Unicredito, Sanpaoloimi, Capitalia, and Monte dei Paschi di Siena—are facing investigations.

The LTCM Disaster Returns

However, if one wants to know where the climate of deep mistrust against the banks all started, it all goes back to one word: "Maastricht." The banking reforms introduced by the minister known as "Mr. *Britannia*," Mario Draghi, are mostly responsible for the present situation. The Capitalia case is the most instructive.

One of the persons investigated for the Cirio fraud case is Alberto Giovannini, who from 1999-2001, led the brokerage department of Capitalia, then still called Banca di Roma. Giovannini leads us directly to the international technocratic mafia responsible for the euro project, and for international speculation. He was on the board of Long-Term Capital Management (LTCM), the famous hedge fund that went bankrupt in 1998, and was bailed out by central banks to avoid a collapse of the international financial system. LTCM had hired Nobel Prize winners Scholes and Morton to develop sophisticated mathematical models for derivative contracts. It went broke because it was not able to forecast the Russian debt crisis. According to the *New York Times,* inspectors who examined the LTCM records found out that $4.75 billion in investors' capital had been used as "collateral for purchasing $125 billion in assets, which were then used in turn as collateral in exotic financial transactions amounting to $1,250 billion."

In Banca di Roma, Giovannini did exactly what LTCM had done: He hired young graduates in physics, and put them to work developing mathematical models for operations on the capital market. It was during the Giovannini period at Banca di Roma that the Cirio bonds were sold to customers.

Giovannini had also been head of the expert group which, on behalf of the European Commission, prepared the technical transition to the euro—the "Giovannini group." He owed this to his mentor Robert Mundell, the economist who pursues the synarchist project of a single world central bank. In its report to the Commission, the Giovannini group stressed that the future perspectives for the euro were bound to a change: developing a broad derivative market in Europe.

Now, reports published by the Italian media on the international aspects of the Parmalat swindle, as leaked by investigators in Milan, are completing the picture. After many days of interrogations of former Parmalat officials Calisto Tanzi, Fausto Tonna, and Alberto Ferraris, and its attorney, prosecutors have reached conclusions that confirm those of *EIR:* The international banks forced Parmalat to issue bonds in order to cover the banks' own losses.

In one case involving bonds issued on the U.S. market for a value of Eu3.6 billion, Bank of America's chief European official, Shahzad Shahbaz, is being investigated as mastermind of the scheme. In this, as in other cases, Parmalat would issue a bond, only to *immediately buy back* part or most of it—unknown to the market—so that the new liquidity would appear on Parmalat's books, but in reality it had been loaned little or nothing. Bank of America is not the only bank involved in such schemes; prosecutors are also investigating JP Morgan Chase, Citicorp, Deutsche Bank, Crédit Suisse First Boston, Banco Santander—all the main placers of Parmalat bonds on the international markets. Prosecutors now demand that those banks' claims as Parmalat creditors be cancelled.

No wonder that the political class, feeling the pressure of public opinion, has searched for the one responsible for all that, and found him in Italian central banker Antonio Fazio. As ultimate banking supervisor, the Banca d'Italia should have known what was going on. And indeed, the central bank is one of the authorities which could have stopped the bonds issued on the Italian market—the other being the Stock Exchange Authority (Consob). But the Bank of Italy, whose independence has been always celebrated, is really a private entity controlled by those very same banks it is supposed to control!

Solution Is a New Bretton Woods

The demand for a correction of this highly anomalous situation has found bipartisan support in the Parliament, where a reform bill is currently being discussed, prepared by hearings of the Joint Parliamentary Finance and Industry Committees dedicated to Parmalat case.

Although the idea of establishing Parliament control on the central bank is correct, the reforms which the Italian Parliament will enact, risk the effect of closing the barn doors once the cows have escaped.

The real issue to be addressed is the reform of the international financial and monetary system, as the motion presented on Feb. 12 in both houses of Parliament states. That motion was co-authored by Italian LaRouche representative Paolo Raimondi, and introduced in the Chamber by Representative Mario Lettieri, and in the Senate by Sen. Oskar Peterlini. Seventy members of Parliament of both government and opposition parties support it. It puts work of the Joint Parliament Committee on the Parmalat case in the context of the bankrupt international financial and monetary system, and calls on the government to promote an international reorganization on the model of the 1944 Bretton Woods conference.

On Feb. 27, German Chancellor Gerhard Schröder was confronted with the Italian initiative at the press conference with U.S. President George Bush, at the White House. *EIR* correspondent Bill Jones asked Schröder whether he would support the proposal for a New Bretton Woods, and Schröder answered: "I can make an evaluation of it only once I have seen it directly. Similar proposals have been made already in the past, I say that with all respect due to the Italian Parliament." Schröder's comment has been picked up by the Italian Agenparl news agency, which reported a statement by LaRouche representative Raimondi under the headline "The Head of the German Government Wants To Study the Italian Parliament Proposal." "After Schröder's words," Raimondi is quoted saying, "it is even more urgent that the Italian Parliament and government solicit European countries and institutions to promote . . . initiatives to reform the bankrupt financial system."