Italy Breaks With IMF; But Industrial Debt Keeps Rising

At the beginning of this month, Italian bankers and industrialists lauded the approval of a $650 million government-to-government credit line from Italy to the Soviet Union, a deal which holds the potential for enlarged negotiations implying the use of a gold-pegged transfer ruble. Last week, Italy's government-owned utility agency ENEL had to withdraw a $100 million note issuance on the City of London-controlled Eurobond markets.

ITALY

These two events are related. A few months ago, the Italian government had, in desperation, made a deal with the City of London according to which Italy would accept the austerity conditions dictated by the International Monetary Fund if the London investment houses would in turn help transform Italy's avalanche of short-term debt into long-term debt. The ENEL operation on the Eurodollar bond market, sponsored by the leading London investment house of Warburg, was part of the deal. But the City of London, as is reflected in various articles in the Italian financial press, did not comply with the terms of the agreement, and instead sacrificed its Italian customer to its global strategy against the dollar, which requires a weakened Eurodollar market.

Italy's successful negotiation with the Soviet Union sharply contrasts with the London market's closed door to Italian borrowing. Moreover, it meshes with the French-West German organizing offensive for nuclear development, use of advanced technologies, and a new monetary system, an emerging European program that has been discussed by French and West German industrialists and officials with a broad array of Italian political forces, including representatives of the Italian Communist Party. As a result of such discussions, the Italian government and industrial and trade-union representatives — including the head of the Communist-linked CGIL union federation Luciano Lama — have been emboldened to roundly and publicly denounce the International Monetary Fund's harsh austerity demands for the first time in months.

Italo-Soviet Credit Line Moots Transfer Ruble

Italian Foreign Trade Minister Rinaldo Ossola will arrive in Moscow Nov. 20 to finalize his country's extension of a $650 million credit line to the Soviet Union for the purchase of heavy machinery. This is one of the first major government-to-government credit lines specifically earmarked for sales of high-technology equipment to the Soviet Union by Italy. The $650 million will be extended in three tranches lent at 7.5 percent interest, repayable in eight years.

While the amount of the credit line is below the $900 million extended by Italy's private industrialists in 1976 alone, the $650 million line is applauded by the Italian business community as the initial step in the resumption of transfer ruble and gold-backed trade negotiations.

Compromise with London Fails

Before his recent attack against the IMF, Italian Treasury Minister Gaetano Stammati was "stretching" the limitations imposed by the IMF with bookkeeping tricks, while hoping against hope that his friends in London would help him impose a (relatively) mild version of austerity on his country. The Oct. 9 Italian weekly *Panorama* commented, "(Stammati) either reduced or forgot, in part, the interests which the state must pay on its new debts, which will be contracted for covering the deficit."

The IMF had demanded that the 1978 public deficit be contained at 16,450 billion lira. However, the addition to the budget deficit (12,574 billion lira) of the so-called "enlarged public sector" deficit — which includes the territorial agencies and the state-owned ENEL — gave a total deficit close to 19,000 billion lira (around $21.5 billion). Stammati discarded the latter figure, announcing to the IMF that he was calculating the IMF restrictions on the basis of the 1978 rates of inflation and those of April 1977, as previously agreed.

The result of such cheap tricks was an economic collapse under conditions of increasing short-term indebtedness. Since the April 1977 "nonhistorical compromise" between the Italian government and the City of London, Italy's industrial production has been rapidly devastated. While the rate of industrial growth (on a yearly basis) had reached 19.3 percent in August 1976, rose to 22.7 percent in December, and still remained at 10.5 percent in March, it has since dropped to a *negative* rate of growth of 7.7 percent in July. Official Bank of Italy sources had to acknowledge that 1977 and 1978 can already be discounted as economic failures, while "1979 will be a delicate year, and the limit of economic expansion to a 2 percent level (including Italy's vast unproductive services — ed.) will not last forever."

Voicing a similar concern in terms closer to economic reality, Fausto De Franceschi, head of the major Italian trading consortium with the Soviet Union (Union of Machine Tool Manufacturers), stressed the urgency of the situation: "Capital goods export orders have dropped from five to four months; worse, our physical plant is set up for six months minimum orders. Household appliances inventories are bulging; price drops have forced us to sell below cost."

Italy's Future

The rejection of the IMF's restrictions opens the road for new development policies in Italy. On Oct. 12, Stammati clarified his bookkeeping methods; he had neither "forgotten" nor mistakenly computed the 1978 budget — his budget was a conscious *"no"* to the IMF's austerity. This principled break with the April compromise was confirmed by Stammati in an interview given the same day to the Italian daily *La Repubblica*. He categorically stated that increased state spending would go to finance increased industrial production.

This will help, but it will not solve the problem. In the long run, mere paper printing for domestic industry and financing of exports is no financial solution. The debt burden of the Italian industrial sector has neared its limits within the logic of the dollar system. By July 11, bank lending was already rising so rapidly that it had gone 1,600 billion lira over the IMF restrictions. By mid-August, IMF British representative Alan Whittome, terrorized by the Italian bubble, warned Stammati that bank lending must be curbed. This in fact marked the beginning of Italy's disillusionment with its British financial honeymoon: Stammati refused to take measures to curb bank lending.

A Mediobanca study of 795 small- and medium-sized companies demonstrates the results of such a financial policy. Although the study was published in order to reinforce the calls for austerity, its figures are nonetheless valid. The more striking fact revealed is that on the average, the firms studied have nearly an 8 to 1 debt-capital ratio. This domestic credit hyperexpansion was accomplished by heavy short-term borrowing by the banking system abroad. The August figure for the total short-term foreign borrowing is at about $7 billion — slightly higher than the official currency reserves of about $6 billion!

The present Italian dilemma — either deflationary collapse or hyperinflationary currency printing leading to financial breakdown — can only be solved within the type of agreement the Soviet negotiations imply. This in turn requires that the Italian government commit itself to fully support the French-West German axis for economic development with more than words.

Stammati:

IMF Zero Growth "Unacceptable"

At the Sept. 28 International Monetary Fund meeting in Washington, D.C. Italian Treasury Minister Gaetano Stammati said: "We cannot go the reflationary road.... Our primary aim is to encourage the recovery. We are constrained (by the IMF restrictions — ed.) to contain our internal credit expansion, but, we are not amenable to acceptance of a zero-growth policy. Zero growth in an economy has unacceptable economic and social implications. We do not need further loans (from the IMF); what is interesting to us now is the financing of productive investment programs."