

Report from Rome by Galliano Maria Speri

Stock hoax exposes 'recovery'

The arrest of slick operator Luciano Sgarlata shows what's behind the boom in "investment funds."

The recent hairpin turns on the Milan Bourse, the biggest stock exchange in Italy, have offered a glimpse into the total hoax behind the post-industrial "recovery" being touted by Italian Prime Minister Bettino Craxi.

On May 29, truly a "black Thursday," the worst day in 25 years, the Milanese stock market lost 9.82% in one session. Added to the previous days' losses, this brought down the stock market index by nearly 20% in only four days. In this brief period, 40 trillion liras vanished into thin air, and the fact that on Friday, May 30, the index climbed by 7%, thus reducing the terrifying losses of the previous days, was certainly not enough to pacify the stock operators.

The message for the "small investors" who survived is very clear: Keep away from a stock market which grinds up trillions of liras in a few hours—these are things for big sharks with powerful jaws. The so-called experts have come up with various explanations, all straining credulity. Some say that the big drop was due to the fear of a rumored tax on stock market profits; others claimed that a secret letter from two stock brokers to their clients, leaked to the press, provoked the panic.

In fact, the Milan stock market's ups and downs reflect, in a distorted way, what is really going on in the national economy. Italy is fast moving down the post-industrial path, in which the formerly productive industrial giants are playing a crucial role by not

developing basic industry according to actual industrial-capitalist criteria, but building up paper profits on the basis of speculative financial operations.

This strategy is being pursued by Henry Kissinger's friend Mario Schimberni, the chairman of Montedison, the huge petrochemical conglomerate, which he has set on the road to a post-industrial "recovery." Some acute observers have questioned who supplied the capital for such operations. How has the Milan Bourse managed to move in the course of the past few years from a few tens of billions of liras of daily transactions to the 800 billion of recent days, or, as asserted by the director of the Bourse's Control Commission, Franco Piga, to nearly a trillion liras a day?

As *EIR* has pointed out before, in a market regulated only by speculative operations, the only investor who can make these cumbersome speculative maneuvers is "Dope, Inc.," the multinational of illegal drugs, which is always brimming with liquidity and desiring to reinvest their black profits; other investors, whether institutional or not, participate tacitly in the maneuver with the blessings of the central bank.

One of the main covers being used is the investment fund. These investment funds, with 18.7 trillion liras (13 trillion Italian, and 5.7 trillion from otherwise unidentified "Luxembourg" investors), make up 10.8% of the Bourse's capitalization. It is not

too hard to understand how these funds work if we refer to the very recent case of financial operator Luciano Sgarlata, arrested on May 24 when he came up 300 billion liras short in his debts to investors.

Sgarlata, the ex-hero of the financial pages of the Socialist-linked *Espresso* magazine and the darling of the financial weekly *Mondo Economico*, did not come out of the blue. It is worth noting that his mentor was the Bernie Cornfeld who in the mid-1960s was the financial brains behind "Boss of Bosses" Meyer Lansky. As is detailed in the book *Dope Inc.*, by *EIR*'s editors, Cornfeld set up Investors Overseas Services, the forerunner of today's investment funds. IOS bilked poor investors of billions of dollars, but made fabulous profits for the mafia. Italy's homegrown investment funds, backed by the centuries-long experience of the Serenissima Republic of Venice, are starting now to outscore the Americans. From January to April, they managed to pull in \$225 per inhabitant, against the \$200 of the American funds.

Luciano Sgarlata apparently slipped up at a certain point of his dazzling career. All of a sudden the Conso, the oversight institution for the stock market (like the U.S. Securities Exchange Commission), which for years had never noticed anything irregular in his financial operations, and Industry Minister Renato Altissimo, started to move against him. But before they did, Sgarlata's operations ended up on the desk of the prosecutors, who now are looking into no fewer than 400 complaints.

Sgarlata, following Cornfeld's example, promised fabulous profits to naive investors who handed over their savings to him, and he gave them dividends which were just the money from the last investors attracted into the trap. This went on until the castle fell in.