City of London dumps De Benedetti from Italy's computer-maker, Olivetti

by Claudio Celani

The ousting of Carlo De Benedetti as chairman of the Italian electronics producer Olivetti, on Sept. 4, has probably ended the career of one of Italy's internationally best-known financiers. De Benedetti's story is exemplary of how corporate policies of industrial downsizing, outsourcing, and financial speculation, in the name of "being competitive in the global marketplace," produce exactly the opposite results of what it is expected they will achieve. De Benedetti's pioneering application of such policies at Olivetti had earned him an image as one of Italy's few "modern" and "dynamic" businessmen, fighting to liberate the country from "traditional" industrial activities and "bureaucratic" state-owned companies. Image aside, De Benedetti's mismanagement resulted in Olivetti's balance sheet presenting a loss of 440 billion liras for the first half of 1996, the fifth year in a row the company's figures were in the red. Furthermore, net debt had risen to 1.260 trillion liras in June, up from 764.8 billion liras in December.

As bad as those results were, however, *"l'Ingegnere,"* as they call De Benedetti, would not have been ousted if the City of London had not decided to dump him. His fall was decided on Sept. 2, the day before he presided over the Olivetti board meeting, at a London gathering of Olivetti's main international shareholders, who control 70% of the firm, under the leadership of Barings Assets Management. In the midst of the greatest financial collapse in history, evidently the British-centered group urgently needed cash, and is reneging on deals struck last year with their Italian partners. As a result of those events, Olivetti's shares plunged 20% in one day, before trading in the company's stocks had to be suspended.

Additionally, Olivetti's financial director, Renzo Francesconi, resigned, charging that real losses are higher than the 440 billion liras officially announced. Trade union sources have commented that the company is "on the verge of the abyss" and express the fear that the new manager, Francesco Caio, will follow orders from the City of London international group, proceeding with layoffs and liquidation of the firm. Thus, Italy's only computer producer could disappear from the map.

Carlo De Benedetti was hand-picked to run Olivetti corporation by Venetian oligarch Bruno Visentini, who was also chairman of a Venetian think-tank, the Cini Foundation. Visentini himself retained the title of "honorary chairman." His aristocratic connections include his media partner, Prince Carlo Caracciolo, chairman of the publishing house for the weekly *Espresso* and the daily *La Repubblica* (both owned by De Benedetti's CIR holding). Other friends and partners include international speculator George Soros and Soros's Italian agent, Isidoro Albertini.

De Benedetti is also tied to a senior member of the Scottish Rite Freemasons in the U.S., Elvio Sciubba, a friend of George Bush and board member of one of De Benedetti's companies. On Nov. 21, 1991, Sciubba launched the Freemasons in Czechoslovakia at Prague Castle, during a state visit by President George Bush.

Victim of derivatives speculation

Olivetti's managers explain the company's losses, by pointing to difficulties in the computer market, and the huge investments they had to make in shifting into cellular telephone networks and the "information highway," which will not show returns until the year 2000. But a look into Olivetti's financial activities in the past years suggests that there may be other reasons: De Benedetti's financial speculations were, in fact, so well known that the company had been nicknamed "Olivetti bank." And, like the banks, the firm invested a bundle, as much as one-third of its turnover, in financial derivatives!

In 1994, both Olivetti and CIR, (which then held a 20% share in Olivetti), announced losses of 200 and 130 billion liras, respectively, on the derivatives market, for the first half of the year. It is not known whether Olivetti incurred further speculative losses in the second half. However, the company did not financially recover, and De Benedetti was bailed out by Mediobanca, Italy's powerful merchant bank (see *EIR,* Sept. 22, 1995, "Italy's Cuccia Pulls off a Coup"), which drew in international investors, who underwrote a 2,257 billion lira capital increase. De Benedetti's share in Olivetti fell to 17% with the London-dominated foreign cartel holding 70%.

According to Laura Spezia, leader of the FIOM metalworkers union in Ivrea, when Olivetti headquarters launched an international share offering in 1995, the unions proposed that the proceeds be invested in the hardware sector, in order to maintain a strong presence in the domestic market of a domestic computer-maker. Instead, De Benedetti all but abandoned making hardware and bet everything on the anticipated liberalization of Italian mobile telephone and Internet networks. "This is incomprehensible," Spezia said. "Even if you plan to expand in those sectors, you will need hardware." Some of the money went to cutting the workforce through paying workers to retire early. De Benedetti also managed to sell its derivatives operation, Finanza & Futuro, to Deutsche Bank, and made 200 billion liras from the deal.

"But the Olivetti crisis really started in 1989-1990," Spezia said, when De Benedetti started his restructuring plan, a mixture of downsizing and outsourcing. Olivetti's losses neatly parallel its downsizing: In 1989, Olivetti had 56,937 workers, of whom 28,169 were in Italy. Its balance sheet was positive, at 202 billion liras. In 1990, as downsizing started with layoffs of 3,000 people, its balance sheet was just barely positive. In 1994, the year of Olivetti's big derivatives losses, Olivetti's workforce was down to 33,000, of whom 16,000 were in Italy. As of June 30, 1996, Olivetti's workforce had dropped to 27,937, and the balance showed –440 billion liras.

At the same time, the firm started abandoning investments in its traditional sector, computer production. The ratio of R&D to turnover in the personal computer division dropped from 16% to 8.8%, and is now at about half the average ratio of Olivetti's competitors. Typical of blunders made under the globalization rubric, Spezia indicates, is a decision taken in 1991, when "Olivetti moved some of its personal computer production to the Far East, because of cheap labor. But, since Olivetti's main market was still Italy, they soon realized that transporting the product back home incurred immense costs, never mind the delivery delays to customers. In the end, they brought production back home."

Unions offer a positive solution

Even now, the unions are proposing a reasonable plan to save Olivetti. "The trade unions cannot accept the destruction of the country's national industrial wealth," Spezia says. They want to oppose the feared *spezzatino* (stew) as Italians call asset-stripping. "That would have dramatic consequences in terms of unemployment. But, we are not looking at it only from this 'narrow' standpoint. The issue here has to be brought into a national context. Can Italy accept losing its only computer producer? The government must move in, and must promote the creation of a national electronics core."

For instance, one solution indicated by Spezia would be a merger between Olivetti and Finsiel, the software division of the state telecommunications conglomerate STET. "Finsiel produces software for the state administration. An Olivetti-Finsiel merger would be able to make a bid for the necessary modernization of public administration. This is going to be a driver also for the demand for hardware, and could remedy the situation." Once the government sponsors an industrial plan, creditor banks can be convinced to cancel part of the debt and support the new investments. Spezia said that Industry Minister Bersani, with whom the unions have met, "has made a commitment." But Olivetti manager Caio rejected such a proposal, which means that the firm is going to lay people off. "This would be more costly, because the state must then pay unemployment benefits," Spezia said. Whereas Prime Minister Romano Prodi has declared that the state will not bail Olivetti out, spokesmen for the main coalition party, the PDS, have supported the Finsiel option outlined by Spezia.

Historical nemesis

If the Italian government decides to promote the "national electronics core," it will inevitably trigger hysterical reactions in Brussels. The Maastricht agreement, signed by European Union members, including Italy, prevents a country from bailing out its industries, which the EU bureaucrats in Brussels see as "state intervention" into the supposedly free market. Under Maastricht, therefore, Olivetti will go by the boards, and tens of thousands of workers will lose their jobs. An entire province, with a myriad of small supplier companies, will be deindustrialized. But the Olivetti case shows precisely that in times of economic crisis, nothing can replace the role of the state.

This is a historical nemesis for De Benedetti, the champion of the "private" versus "state" ideology, which has come to dominate economic thinking, and not only in Italy. This dogma holds that private enterprises are forced to be profitable because they are exposed to competition, whereas state companies tend to be unproductive because they can always count on tax money. This argument was used to force Italy, 30% of whose economy was directly controlled by state-owned corporations, to start a far-ranging program of privatizations in 1992, which has so far included banks, the whole steel sector, part of the national oil company ENI and some food-producing companies. Next in line are the rest of ENI, the national electric company ENEL, and the telecommunications giant, STET.

It was precisely around the privatization of STET, that De Benedetti had planned his whole strategy. He heavily invested in mobile, cellular telephones, building up his Omnitel network which is now the second largest in Italy. As usual, De Benedetti was taking a political gamble, counting on the expected liberalization of the market through the privatization of STET. De Benedetti heavily supported the Left Bloc in parliament, which pushed privatizations, through his publications *Espresso* and *La Repubblica,* and even got his brother Franco to enter politics and be elected in the Left Bloc, to have him draft the legislation for deregulating the communications market. Now, if the reasonable faction prevails in the government, all his efforts will be to the advantage of the one competitor he had hoped to defeat.