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Italy adopts a tax on derivatives

by Claudio Celani

On July 11, the Italian government announced a capital gains tax, including on derivatives transactions. Starting in July 1998, speculative gains in the Milan stock and currency markets will be taxed 12.5%. The measure now goes to a special committee in Parliament, the "Committee of 30," which is a fast-track procedure, for approval.

If the measure is not killed by the Parliament, it will be the first time that a member-nation of the Organization for Economic Cooperation and Development and NATO has moved openly to curb financial speculation. The significance of such a move is more political than economic; it is, in fact, projected that the tax will not increase revenues, but, rather, discourage speculation. It is therefore wished that other OECD countries follow the example: first of all, Lionel Jospin's government in France, because French Socialists have campaigned against financial speculation, but the United States as well.

An effective derivatives tax must hit the world centers of speculation: Wall Street and, foremost, the City of London. The Italian derivatives tax will help deflate the speculative bubble in the Milan markets, but capital will simply flow to London or other tax-free markets. Nevertheless, a small part of the cancer, on the Italian side, will be cut out. It has been calculated that the Milan Futures Market, which amounts to about $1.7-1.9 billion, will be reduced by at least 30% by the new tax. An official in charge of the derivatives market for the Italian Banking Association, hinted to *EIR* that, given the ongoing process of "harmonizing" fiscal systems among European Union countries, it is theoretically possible that all European nations could adopt the same capital gains tax. However, the decision to adopt such a tax on a European scale is entirely political. It would be conceivable that continental European countries (Italy, France, and Germany) would adopt such a policy, but only if they decide to revive their pro-industrial tradition and dump free-market policies. In that case, they could force Britain to do the same, threatening to introduce capital controls if Britain refused.

In other words, the fight has just started. The reader may be asking himself: Why did the Italian government, led by a friend and former partner of speculator George Soros, suddenly decide to fight financial speculation? The question is legitimate, because it is not the case that Italian Prime Minister Romano Prodi has turned pro-development. In reality, the derivatives tax is the result of the intervention of *EIR* founder Lyndon LaRouche. LaRouche was in Italy in late 1996 and in April 1997 (see *EIR,* Dec. 13, 1996, p. 13; April 25, 1997, pp. 4-5), where he met with high-level political representatives. LaRouche told his interlocutors: The international financial system is going to explode; do not follow the International Monetary Fund down with the *Titanic,* but get out of it as soon as possible. In those days, the Finance and Banking committees of the two houses of Parliament, both chaired by pro-labor forces, were discussing a strategy to save Italy's bankrupt banking system, and the derivatives tax was an issue on the table. The collaboration between the two committees and the finance minister has brought as a result the bill announced by the government on July 11. The radical free-market faction in the government, which includes Prodi, but whose chief is Economics Minister Carlo Azeglio Ciampi, apparently could not oppose a move which was smartly presented as one of "budget balancing."

Policies decided by financial markets

In a related development, a new book, *Unemployment and Third Capitalism,* by former minister Paolo Savona, now head of the Interbank Deposit Protection Fund, has recently been published. In it, Savona blasts globalization as a dictatorship of financial oligarchies, taking monetary sovereignty away from nations, producing unemployment, and destroying social welfare. Savona, who is an internationally renowned economist, reports on the initiative of the "Fondazione Guido Carli," a quasi-institutional body chaired by Banca d'Italia's Governor Antonio Fazio, to push for a new international monetary order. This proposal goes in the same direction as LaRouche's proposal for a new Bretton Woods system. In the book, written in the form of an interview with journalist Gianni Pasquarelli, Savona says: "A new form of democracy (but I doubt that democracy is the right word to define it) is emerging, in which policies are not proposed by governments and decided by parliaments, but proposed and not infrequently decided by financial markets, above all the international financial market."

Explaining who those forces are, Savona says: "It is those who possess or more simply can move huge masses of money from one place to another, exploiting market liberalization, globalization, computerization of systems and the abdication of monetary authorities from controlling those paper masses. . . . It is an economic-financial oligarchy, that is, a limited number of persons in relationship to the inhabitants of a country or of the world."

Q: "Do you mean an underground government? . . . A world economic government?"

Savona: "In a certain sense, yes, but without 'conspiracy theories.'. . . It works in broad daylight. . . . Markets today count more than parliaments, not to speak about the 'man in the street.' "

Q: "Is this confirmed by George Soros's answer . . . 'I make economic fundamentals of countries'?"

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Savona: ". . .The situation is exactly what you describe. . . . It is the international financial market which has monetary sovereignty. . . . The progress of civilization involves maintaining popular sovereignty and a network of social welfare. . . . Oligarchies controlling the international market do not show social sensibility. . . . For them, cutting the welfare net is the banner under which they fight the new economic battles."

Savona accuses the EU of proceeding with an insane policy, the Maastricht Treaty for a single currency union. "The European Union claims fiscal rigidity . . . awards the rentier and penalizes the productive entrepreneur. . . . This is the vice, the 'big sin' of those who have the responsibility for international monetary creation. . . . For this reason I believe that, if things stay like this, the worst is yet to come."

Q: "Will we have a Great Depression again and a new New Deal?"

Savona: "Maybe, but if this were true, history has taught us nothing! . . . I insist that a more forceful fight should have been engaged to prevent the insanity of Maastricht's rigid parameters. . . . The kind of Europe they propose to us will end up with using unemployment as the unique and prevailing instrument for adjusting international competition . . . to present us with a 'nice' financial democracy."

An anecdote

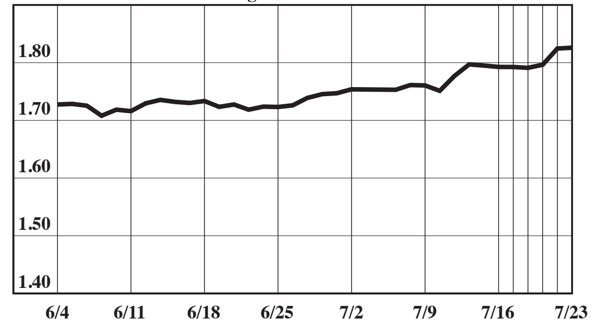
To illustrate the lunacy of people who decide policy in the international financial institutions, Savona recounts an anecdote: "At the beginning of the 1970s . . . I participated at the first meeting of the Eurodollar surveillance committee at the BIS [Bank for International Settlements]. . . . Together with Francesco Masera, head of the Study Center of the Banca d'Italia, we presented a memorandum demonstrating the technical possibility to control, and even neutralize, international financial speculation. Boxed in at the logical and technical level, representatives of other central banks admitted that it was possible to intervene with good probabilities for success, but that there were so few areas of freedom in the world . . . that, if we were to abolish or limit the freedom of moving capital and creating international money, the world would have felt suffocated. . . .

"The Fondazione Guido Carli, recently founded by the Italian Senate, the Bank of Italy, Confindustria [industrialists' association], LUISS university, and Mediocredito Centrale bank . . . wants to bring up again the issue of a functioning international monetary system. . . . The fight could be won; however, not at the level of a single country, but rather through an international agreement. If, for instance, European heads of government intended to regain monetary sovereignty, instead of the simple control over state deficits, demanding that central banks implement this action, maybe we would feel Europe was closer and more civil than the rest of the world. . . . Therefore, the responsibility is still on those authorities which count, the United States and Germany first of all, but Japan as well."

Currency Rates

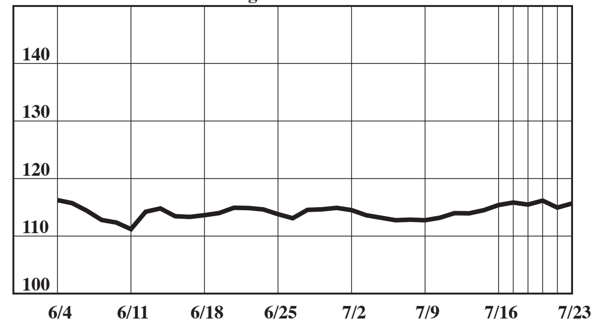
The dollar in deutschemarks

New York late afternoon fixing



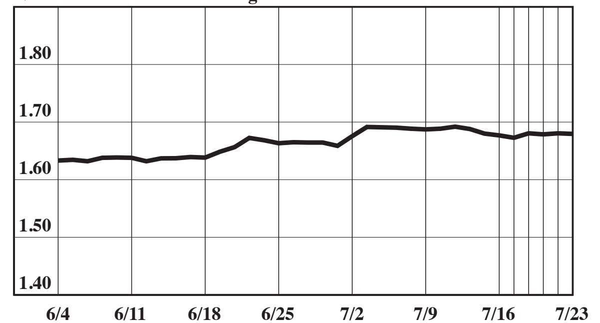
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing