Italian government falls over budget

by Claudio Celani

The Italian government fell in a confidence vote on Oct. 9, following a decision by the Communist Rifondazione Party (PRC) to vote against the 1999 budget. Despite the fact that 21 dissident PRC members voted with the government, this was not enough, and the center-left coalition, called the "Olive Tree," led by Romano Prodi, lost by one vote.

Now, all scenarios are open. According to the Constitution, Prodi will give back his mandate to President Oscar Luigi Scalfaro, who could decide to give Prodi another try at forming a new government. At that point, Prodi and his allies will have to beg for the votes offered by former President Francesco Cossiga, an old British stooge who has made a political comeback by founding a party called the UDR, made up of members of Parliament whom he stole from opposition forces. But, if Prodi fails, Scalfaro will appoint somebody else. There are proposals for a "technocratic" cabinet, and there is even the possibility of early elections.

The fact is that the Italian government, like governments around the world, has imploded under the pressure of the world financial disintegration. The first effects of this are already disrupting the putative "financial recovery," which was the only "positive" achievement of Prodi's government. Italians had been promised that the last five years of sacrifices, which amounted to 500 trillion liras in spending cuts and tax increases, were needed in order to balance the budget according to the criteria set for participating in the European Monetary Union (EMU), scheduled to start on Jan. 1, 1999. Now, with a collapse of the projected Gross National Product, and unsustainable speculative pressure on the Italian lira, all indications are that the EMU targets, with the deadline a few months away, will be indeed unreachable.

Rumor has it, that at the Italian-French state meeting held at the beginning of October in Florence, a secret plan for postponing the European single currency was discussed. This would amount to dropping the plan altogether. While the government is concealing the truth, rats are leaving the sinking ship.

The government budget presented for 1999 predicts a growth in nominal GNP of 2.8%. Reality has already forced a revision of this to 1%. Since the world economic situation in the next weeks will dramatically worsen (unless Lyndon LaRouche's proposals are adopted), even 1% nominal growth is an illusion. In addition, there is already under way a reversal of a convergency trend between Italian and German state bonds, a criterion set as indispensable for Italy's participation in the EMU. But, these are minor problems if the already massive speculation against the lira succeeds in defeating (something perfectly possible) the front of European central banks currently involved in supporting the Italian currency.

Against the background of real unemployment already surpassing 5 million, a banking system overwhelmed by a staggering 130 trillion liras in visible losses, and with a collapsing economic infrastructure, the immediate future promises to be explosive.

The question is: Who will succeed Prodi? And: Will there be a change in policy? The scandal involving the Banca d'Italia central bank in the bankruptcy of Long-Term Capital Management (LTCM), the world's largest hedge fund invested in derivatives, not only coincides with the government crisis, but offers a perfect flank for a desired shift toward a pro-national policy.

The Banca d'Italia scandal

The Italian central bank announced on Oct. 1 that it had lost $250 million of its reserves in LTCM. The fact is more astonishing, if one considers that the governor of Banca d'Italia, Antonio Fazio, has been possibly the most outspoken Western central banker against derivatives. In 1994, the same year the investment in LTCM was made, Fazio forced all Italian banks and funds, which had been putting derivatives investments in the "bond" category, to declare them among "risk" allocations. On Sept. 30, after it had been revealed that the Italian central bank had invested in LTCM, Fazio blasted derivatives again in a speech in London, characterizing them as a systemic risk and mentioning the LTCM case as an example!

The apparent contradiction is explained by the existence of an intense factional struggle among Italy's financial authorities, with Fazio on one side, and the "Britannia boys" faction, led by former central banker Carlo Azeglio Ciampi, now Treasury Minister, on the other. The investment in LTCM was carried out by Ufficio Italiano Cambi (UIC), formally a branch of the Banca d'Italia but de facto an independent manager of its central reserves. The head of UIC is Pierantonio Ciampicali, described as a protégé of Ciampi. Furthermore, the mastermind of the investment is Alberto Giovannini, a former consultant to the Treasury Ministry and now LTCM representative for Italy. Giovannini has never left the board of ENEL, the state electricity company owned by the Italian Treasury.

UIC's speculative investments were already under investigation by the Rome prosecutors' office, which in 1997 had received a complaint from a UIC employee. While the prosecutors' work will now accelerate, the scandal has prompted several Parliamentary inquiries. The Finance Committee, which is going to hear from both Fazio and Ciampi, is well acquainted with LaRouche's proposals and analyses. If they wanted, they could use the opportunity to force a reversal of all free-market policies adopted since 1992.

The UIC case could also relaunch the ongoing investigation, promoted by the LaRouche movement in Italy, of George Soros and his 1992 attack against the lira. Significantly, when *EIR* editor Jeffery Steinberg confronted Soros in Washington on Oct. 6, the international speculator blurted out: "Italians like to investigate everything."

On a related front, the pro-national faction is resisting pressure coming from the International Monetary Fund and other institutions to lower interest rates, in order to help refinance the derivatives bubble. Thus, it is not accidental that Ciampi, the newly elected head of the IMF Interim Committee, called on his own central banker, Fazio, to comply with the IMF request, in a meeting in Washington on Oct. 4. Fazio answered: "I cannot do it, I must defend the lira."

The battle against the EU

One aspect of the UIC scandal leads to the role of supranational institutions dictating European policy. LTCM's Giovannini is also chairman of the European committee to evaluate the impact of the introduction of the euro on financial markets. This committee issued a report in 1996, recommending guidelines of "transparency" for the monetary policy of the coming European central bank, the European Monetary Institution. This is helpful to show the real nature of the EMU system, at a moment when tensions among national interests and the dictatorial constraints imposed by the European Union (EU) authorities are mounting.

One conflict pits the Italian government against the European Union over the opening, scheduled for Oct. 25, of the new international airport in Milan, Malpensa, a facility whose modern infrastructure will increase Italy's capacity for international connections by 30%. The EU has vetoed the opening, on the pretext that it must wait for a rail connection to Milan's downtown (to be ready next May), and because it is now served only by a highway. In reality, as former state manager Vito Gamberale has stated, "It is natural to put EU Commissioners Kinnock and Colemann [both British], who are leading the assault [against Malpensa], together with the interests expressed by British capital, as well as with the interests that British capital want to develop in Italy."

Gamberale's views are shared by a broad front, including government and opposition parties, and promise a very interesting fight, which will intersect and shape the government crisis. If the Italians open Malpensa as scheduled, it will be the first time that a member of the EU has won a major confrontation with that supranational bureaucracy.

How long will Tony Blair last?

by Mark Burdman

"It's the end of hot air." This was how one influential Briton, in an Oct. 6 discussion with *EIR,* described the shock now hitting Britain, as the reality of the global economic collapse hit the country in earnest. "Hot air" was his reference to the ideological hyperventilations, about a so-called political Third Way and about "Britain's leading role in the age of globalization," emanating from British Prime Minister Tony Blair and his entourage. As reality hits Britain, this and other British influentials estimate, Blair's aura of popularity and decisiveness will evaporate, and his tenure in power will likely be a lot shorter than most have been expecting. Facile manipulation of words and image, will not be enough to bail him out, as the going gets really rough.

Relevant signals to this effect were contained in an Oct. 5 commentary in the London *Times* by Lord William Rees-Mogg, one of the leading mouthpieces for the European oligarchy's "Club of the Isles," centered on the British monarchy. Rees-Mogg focussed on the international financial crisis, claiming that the world is now in the "first deflation crisis since the 1930s," that "fear is universal," and that the situation is "very dangerous." He stressed that "the lesson of the 1930s" is that a global financial crisis like the present one is "destabilizing and dangerous for governments." Noting that President Suharto of Indonesia was forced to resign from office, and that other governments are reeling under the effects of the crisis, his lordship pointed to the fact that, in the last Depression, the Labour Party's hold on power was also short-lived. Today, he asserted, Blair's tenure in power might also be brief, as people turn toward "realism" rather than "idealism," to deal with the global crisis.

Blair had better watch his back. His lordship is a known specialist in journalistic and intelligence-world dirty tricks, who has, for example, been up to his ears in the assault against the U.S. Presidency ever since Bill Clinton came into office in 1993.

Where things are heading in Britain, in all likelihood, is toward some kind of "national unity" government, along the lines of the "National Government" formed in 1931, in the midst of the Great Depression.

As *EIR* frequently summed up the case during 1997, Blair is a reincarnation of that period's Labour Party Prime Minister J. Ramsay MacDonald. MacDonald, an intimate of King