STRATEGIC SHIFT

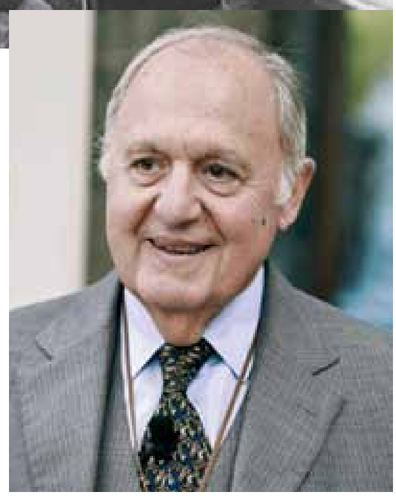
Italy Promotes the FDR Model, Repudiates Austerity

by Claudio Celani

Oct. 18—If you want to know why the City of London, EU headquarters in Brussels, the European Central Bank (ECB) in Frankfurt and chancellorships in Paris and Berlin are so hysterical about the new Italian government, you'll find the answer in the speech that Minister of European Affairs Paolo Savona, the most senior member of the Italian government, made in Parliament Oct. 11. Savona announced that Italy proposes to go back to Franklin Delano Roosevelt and his New Deal, as a policy model. That statement is being read as a declaration of war by the European oligarchies.

Franklin D. Roosevelt Library

President Franklin D. Roosevelt (above) greets enthusiastic supporters in Warm Springs, Ga., on Dec. 1, 1933.



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Paolo Savona, Italian Minister of European Affairs.

Italy's Plan Challenges EU Austerity

In presenting the Economic and Financial Planning Package, the *Documento di Economia e Finanza* (DEF) for the next three years to Parliament, Savona said that he personally would have liked to spend much more than the planned 2.4% of GDP, but the decision was taken to proceed with "prudence" and nevertheless demonstrate that investments and not austerity improve fiscal stability. Savona's speech, in Italian, is available at https://www.youtube.com/watch?v=tGP4XhLX6Pk.

The planned Italian budget deficit, as presented by Savona, is a violation of EU rules, according to which "indebted" countries such as Italy must converge on a balanced budget by cutting the deficit every year. Italy has adhered to that policy for decades, with the result that the country has plunged into a severe depression, with over 5 million poor and a real unemployment figure close to twenty percent.

The new budget envisions measures to alleviate poverty, provide tax relief for small and medium-sized enterprises (SMEs) and free resources for investments in order to achieve a planned 1.4% GDP growth in 2019.

In his presentation in the Chamber of Deputies, Savona explained:

> I must greatly insist on the fact that it is necessary to replicate, a hundred years later, what Roosevelt did with the New Deal and his reforms. He put together the industrialized part of the northern United States with the southern agricultural part—which had serious racist-based problems—and he succeeded. Therefore, it is

> my belief that the experiment we are conducting in this moment is really a large effort of national unity, of coincidence between the interests of the advanced and the backward—economically speaking—parts of the country.
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> The conclusions of the DEF are clear: it is an ambitious program and we are aware of that; but the New Deal program was ambitious too, even if in a different context.... It aims at responding to the increase of poverty since the [breakout of] the crisis especially among youth and large families, and in the southern regions of the country.
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> We all agree that the country needs investments. Therefore, let us start to build a New Deal.... But, the government program is very prudent, because we are aware that we must implement those reforms that Roosevelt started. Roosevelt made a substantial reform in the financial sector, on competition, on industrial relations [read: Glass-Steagall, anti-trust legislation, pro-labor reforms]. Those who know history ... know that he made very important initiatives.

Savona pointed to the fact that Italy's trade balance has produced 50 billion Euros per year of savings surplus, a surplus which is not used. This defines a potential of up to 150 billion for the next three years, the span covered by the DEF, which could be used for investments. Italy is living "below its resources, contrary to what they say, especially at European level," Savona said. The government plans to increase investments by one, four and then five percent in the next three years; yet, nevertheless, critics call this "unfeasible" and illusory.

The fact that Savona was chosen to represent the government in the vote on the budget outline has a high political significance. Usually it would be the Finance Minister to do so, but Giovanni Tria was at an IMF meeting in Bali. Tria could have been represented by one of his deputies—or even by the Prime Minister, given the importance of the matter. The choice of Savona is a nice little revenge against those—at European level—who had vetoed his original nomination as Finance Minister, recognizing that even with a "ministry without portfolio," as Minister of European Affairs, Savona is nevertheless being called upon to play a key role in the government.

His speech was interrupted several times by strong applause, culminating in his request for a glass of water and his remark: "I drink water." Everybody saw a reference to EU Commission chairman Juncker, one of his opponents and a notorious boozer.

The Chamber approved the DEF with 331 votes against 191, the Senate with 161 against 109.

EU Rejection: What Does It Mean?

The Italian plan must now get the approval of the EU Commission, which has already announced that it will reject it and demand "corrections." However, when arriving at an EU summit Oct. 17, Prime Minister Giuseppe Conte told journalists that "there are no margins" for corrections.

EU institutions and leaders are split on how to deal with Italy. On one side, the hawkish faction wants to break Italy with a combination of political and financial warfare, in order to force it drop its plans and submit to the Troika (EU Commission, ECB and IMF), which would impose an even more brutal austerity regime. This faction—according to Reuters, which quoted a "high ECB official"—is ready to block Emergency Liquidity Assistance to Italian banks, similar to what they did in 2015 to force Greece to accept the Troika.

That scenario would start with rating agencies downgrading the Italian sovereign debt, causing a run on Italian bonds and a dramatic rise in refinancing costs for the Italian government. This in turn, would create a banking crisis, as Italian banks would be forced to replace such bonds with new capital or face insolvency.

A foretaste of this scenario was provided when an Oct. 5 letter sent by EU Commissioners Vladis Dombrovskis and Pierre Moscovici to the Italian government in fact did unleash a mini-run on Italian bonds, increasing the spread between Italian and German bonds to 300 points. A level of 400 points is considered to be unsustainable for Italian banks.

A second letter by the same duo, hand-delivered by Moscovici in Rome Oct. 18, rejected the Italian budget proposal as "a particularly serious non-compliance with the [Stability] Pact's obligations" and a deviation "without precedents in the history of the Stability Pact." The letter provoked another sell-off of Italian bonds and a plunge of the Milan stock market.

The next day, Moody's downgraded, as expected, the Italian debt to one notch above non-investment grade (junk). An Italian debt and banking crisis is not around the corner, as it would need four rating agencies, all issuing a "junk" rating, for the ECB to stop accepting collateral from Italian banks.

European Central Bank (ECB) president Mario Draghi.

EU Commission chairman Jean-Claude Juncker.

The Hawks Are Playing with Fire

Nevertheless, the hawkish faction in the European elite is pushing a self-fulfilling prophecy as exemplified by a Reuters report of Oct. 11, which forecasts that an Italian debt crisis is inevitable, and a "Greek treatment" for Italy.

Quoting "five senior sources familiar with the ECB thinking" at the IMF summit in Bali, Reuters wrote that "the ECB's Governing Council could require that an economic program be in place in Italy before it gives its all-clear to large amounts of ECB cash being disbursed, much like it did in Greece." Reuters reminds its readers that in February 2015, the ECB first ceased accepting collateral from Greek banks, forcing them to turn to the more expensive Emergency Liquidity Assistance (ELA), and then shutting off the ELA in the summer when the Greek government refused to agree to a bailout, leaving Greece with little choice but to close the banks.

However, another faction, which according to a source includes ECB president Mario Draghi, is afraid that such tactics won't work, that Italy wouldn't back down and that would be the end of the Euro. Thus, Draghi and other EU officials recently softened their tones on Italy and invited others to do the same.

Speaking to Harley Schlanger in her Oct. 11 webcast, Schiller Institute founder Helga Zepp-LaRouche said the hawks in the EU are "playing with fire" with their confrontationist line against Italy. "The [financial] system is disintegrating, and it's just a question of time when this will happen," Mrs. LaRouche said, commenting on the IMF economic outlook report that warns of the danger of a global "depression."

In this context, Mrs. LaRouche remarked, anyone trying to put Italy up against a wall—

> is playing with fire, because a banking crisis could trigger a systemic collapse. In 2008, the whole world was more or less unprepared for the crash because they were not listening to the warning my husband had already put out, very clearly, on July 25, 2007. And contrary to 2008, when everybody was unprepared, those people who are now trying to cause the Italian government to capitulate and continue with the austerity, if they push too hard, I think one should not forget that both Italian government coalition parties, the Lega and the Five Star party, have Glass-Steagall not only in their party program, but also in their coalition treaty. So, if somebody from the outside pushes them into a crash, I would not exclude the possibility, or I would actually say it's quite probable, that they would implement Glass-Steagall as a self-defense.

If the "moderate" faction in the EU prevails, there will be a formal rejection of the Italian budget proposal, but without financial warfare. This means that a "violation" procedure against Italy will be started—such procedures are routine in the EU—and sometime down the road Italy will be faced with a fine amounting to 0.2% GDP.

"It is better to pay a 0.2% fine than producing a 4% drop in GDP" as the Monti government did in 2011-2012, said Alberto Bagnai, head of the Senate Finance Commission and an ally of Savona.

If the hawkish faction prevails, get ready for Armageddon.

Plans to Cooperate with China in Africa

In related actions, the Italian government moved ahead with plans to cooperate with China for the development of Africa.

On Oct. 16, Italy's Ministry of the Environment and the Lake Chad Basin Commission signed a protocol for an Italian grant of 1.5 million Euros, to finance a feasibility study for the great Transaqua infrastructure project in Central Africa. Transaqua is a 2,400 km waterway that will refill and refresh the dying Lake Chad and, at the same time, build transport, energy and agro-industrial infrastructure that will create an economic recovery for the entire Sahel region. The Transaqua idea was developed by Italian engineers in the seventies and was in the drawer until last February when, at an international conference in Abuja, Nigeria, it was adopted by the heads of state and government of the Lake Chad basin and other African leaders.

Xinhua

Italian Prime Minister Giuseppe Conte (left) and Chinese Premier Li Keqiang, meet at the EU-ASEM leaders' summit in Brussels, Belgium on Oct. 19, 2018.

The success of Transaqua has been the joint product of a campaign by the Schiller Institute over decades and of the relentless fight of its author, Marcello Vichi, who led the early studies for Transaqua when he was director of the Bonifica engineering firm in the seventies.

The Italian grant was announced at the Abuja conference, and the decision is now formalized. Further bureaucratic steps must follow before the study can start, but the wagon is now rolling. Romina Boldrini, CEO of Bonifica, said: "It is a historical event." Dr. Vichi added, "For the first time after many years, Africans and Europeans agree on the project." Now we must make up for the lost time."

Meanwhile, Bonifica has teamed up with the giant Chinese construction engineering company PowerChina, which is bringing its experience in building a 1,500 km canal in China and other large infrastructure. Bonifica and PowerChina have formed a strategic alliance for Transaqua and made a joint presentation at the Abuja conference.

This is a model for tripartite cooperation in Africa, which is the strategic policy promoted by the Italian government. By the end of the year, a Memo of Understanding (MOU) will be signed between Italy and China for such cooperation in the framework of the Belt and Road Initiative. Intense contacts have been going on between Italian and Chinese officials in the last months (See *EIR* Vol. 45, No. 41, Oct. 12, 2018, pp. 5-10.) As of this writing, Prime Minister Conte is meeting his Chinese colleague Li Keqiang in Brussels, while Finance Minister Giovanni Tria is receiving Tu Guangshao, Vice Chairman and President of the Chinese sovereign fund, China Investment Corporation (CIC), to work on partnering for industrial investments.

The MOU with the CIC, to be signed in 2019—in addition to the strategic one between the two governments—aims at "putting together not only capital but also know-how and analyses to promote cooperation between the two countries and begin common initiatives with direct and indirect spinoffs based on mutual dialogue."

Francesco La Camera, Director General, Italian Environment Ministry (left), and Amb. Mamman Nuhu, Executive Secretary of the Lake Chad Basin Commission sign protocol for an Italian grant of 1.5 million euros to finance a feasibility study for Transaqua, on Oct. 16, 2018.