

‘Face and Solve the Real Economic Problems’

Economist Antonino Galloni was the Director General of the Italian Labor Ministry during the 1990s. Previously, he had served in other economic departments of the government. He is currently the chief auditor at INPDAP, the Italian government department which manages pension funds and all properties of state and public agencies. Galloni is the author of several books, the latest of which is dedicated to a critical analysis of “sustainable development.” He was interviewed on Oct. 20 by Paolo Raimondi of EIR in Rome, who is Italian chairman of Lyndon LaRouche’s International Civil Rights Movement/Solidarity.

The Italian government, like others in Europe following the European Union’s and International Monetary Fund’s “Lisbon guidelines,” has announced a “pension reform.” It would increase the retirement age by a full five years, starting in 2008, and gradually to transform the pension system from a public “pay-as-you-go” system into a privatized one with payouts dependent on speculative returns.

On Oct. 24, a four-hour general strike took place, organized by all Italian trade unions, to protest against the “pension reform.” Demonstrations with tens of thousands of workers each took place in Rome, Bologna, Milan, Turin, Naples. Trade unions threaten to keep up this mobilization if the government does not withdraw its reform plans.

EIR: Overall, in Europe, nations are implementing pension reforms. Pressures in this direction have come from the European Union, from the European Central Bank, but also from the International Monetary Fund. It has been reported that even rating agencies threatened to downgrade the Italian public debt if Italy does not proceed with the pension reform.

Galloni: I believe that the idea to downgrade the Italian public debt is very stupid. . . . What is more worrisome is the fact that these agencies—these so-called international economic experts, who often propose policies leading to disasters—can heavily affect the economic policy of a country. Often they have a negative effect.

Let us take the problem of the pensions in Italy and in other parts of Europe, including Germany. Undoubtedly, we have presently a problem in being able to sustain pensions in Italy, a problem which is directly related to the level of the national income, to GDP. We have to consider two aspects: One is the problem of the short-term sustainability, and in this, the reform implemented in 1994-95 by then Prime Minis-

ter Dini functions in a satisfactory way. The problem in Italy lies not in the area of pensions. Our problem is located in the functions of the operator, INPS, which is responsible both for the distribution of pensions and for social assistance, that is unemployment checks, short work subsidies, disability pensions and other forms of social assistance.

If we analyze the budget of INPS from the standpoint of the employees alone, we find out that INPS has a surplus! It has a surplus for good and bad reasons. The good aspect is the existence of an equilibrium between the payments from the working population and the pensions which are currently paid; the bad one is represented by the fact that there are millions of workers who pay contributions, about 13% of their gross income—young workers, who will reach the retirement age in about 30 years—and it is already clear that they, then, will not receive adequate pensions. Presently they are supporting and financing the system [of public assistance]. . . .

If we look at the assistance expenditures in Italy, you should keep in mind that we do not have real subsidies for the unemployed, but unemployment is taken care of by a mix of pensions, which in the past have been distributed with excessive generosity as fallout costs of large industrial restructurings and reconversions which have generated short-work and related costs. One should also remember that with this method, we have implemented a number of needed restructurings with fewer “tears and blood” consequences.

The second aspect is much more important than this monetary one and is the structural, macro-economic one. We are moving towards a so-called society of the elderly. This society is a good thing when the elderly have a significant income capacity; because an elderly population with an adequate income level, equal to other layers of society, will demand services (health care, transport, culture, food, etc.) and goods of higher quality. If we deprive the future elderly of a large chunk of their income (for example, the current [pension] reform will additionally take away 12 billion euros from their income), then we will depress even more the demand and the economy by a corresponding dimension. Consequently, private investors will make less investments in the productive sectors. . . . This touches also the so-called pact among the different generations.

During the past Summer, I read an interview with a responsible figure of the youth organization of the CDU [Christian Democratic Union] in Germany, who insisted that society should not have paid for an operation to implant a plastic, technologically advanced hip for a 80-year-old man; but, taking in consideration the age of the person, society should have spent less resources and given him a cane to support himself. This theory—leaving aside the moral and ethical aspect—reveals complete ignorance of how the economy works. The point is that if the elderly can have a plastic hip, and everything else containing the most sophisticated technologies, micro-technologies, etc., which are clearly more costly, then we will have more investments in these sectors, more qualified jobs



Demonstrations and strikes by the Italian trade unions—this one by the CGIL confederation in Turin—continued for the second day on Oct. 27, to stop the Berlusconi government's "pension reform." The privatizations are in fact ordered by the International Monetary Fund and the European Union bureaucracy. Economist Galloni says they represent the destructive speculative economy.

in these sectors, with a higher income. This helps to create more qualified and more stable jobs for the young generations. If we give to the elderly only a wooden stick, this will be produced by a less qualified worker with a lower income. . . .

Two concepts are counterposing themselves: the merely financial one related to short-term sustainability—which we should not ignore completely, because we have financial limitations which we must take in consideration and solve, but this is a limitation, not an objective. And . . . the economy needs a frame of investments in productive sectors and purchasing power, also for the elderly layers, which can generate new productive and better paid jobs for the youth and better social service for the elderly.

EIR: The Italian government has presented its plan for a pension reform. On Friday, Oct. 24, there was a general strike against it. Can you tell us more about the proposed changes and the current pension system in Italy?

Galloni: The Italian pension system is currently almost entirely composed of a compulsory public system that is financed as a pay-as-you-go system. It is divided into almost 50 different schemes, although five of them cover about four-fifths of the total. Over 70% of the total pension expenditure is attributed to old age and early retirement. After a number of reforms in the '90's, the entire system has been moving towards a "contribution-based regime," which takes into account both the amount of contributions paid throughout the entire working life, and the life expectancy of the pensioner at retirement age. That is, the lower the age of retirement, the lower is the pension, and *vice versa*.

The new regime proposed will be fully operating in the years 2030-35. Also, the eligibility requirements are gradu-

ally increasing: a minimum age of 65 for men and 60 for women. Pensions are indexed to price changes instead of real wage growth. All pensions are then taxed as labor income, allowing for deductions for lower-income brackets.

After 1992, new forms of integrative insurance, like the privately-funded pension system, began to take off, particularly in pension funds whose participation is done on a voluntary and personal basis. The Italian Treasury Ministry has indicated a number of criteria for a "healthy and prudent management" of the private pension funds, and has detailed by law a number of limits to the use of financial instruments, like the limits to the use of derivatives contracts. One cannot underestimate, or forget, the disastrous effects of the bankruptcy of the speculative funds, the Long-Term Capital Management Corp., or the new economy collapse, and the involvement of many pension funds in these financial disasters.

EIR: How do you see the future?

Galloni: I have two developments before my eyes: The first one is that the Italian economy is collapsing, even if, in the best scenario, at a slow speed. It is collapsing particularly in the traditional productive sectors, based on small and middle-sized industries; the same ones that were able to sustain the productive competitiveness of Italy. . . . If we cut, drastically and in a generalized way, demand and consumption—and this will happen with an excessive pension reform—then we will provoke a macroeconomic problem as well. The paradox is that I will bet more on the "System Italy," on its GDP and on its public debt, if this reform did not cut too much on future pensions; I would bet against the survivability of the system if the pension reform undercuts the income and the future purchasing power of the elderly and future pensioners.

It is time to turn attention away from the mere financial or monetary fixation, in the economy and in the pension system in specific, and get back to the fundamentals of the real and physical economy and production of goods and services. It is only through the increase of labor productivity that more wealth is created in the society. This is why I fully support programs for new and large investments in infrastructure projects, in real production, in science and technology, in education and health care. I know that this is also on the agenda of Lyndon LaRouche, who has presented a very ambitious worldwide plan of large infrastructure, like the Eurasian Land-Bridge, combined with a courageous and much needed global reform of the international monetary system, a new Bretton Woods. I had myself the opportunity to participate in a number of conferences on these issues.

EIR: Recently, the IMF and the free-market system have been challenged in many parts of the world, also because of the collapse of the economies of entire nations.

Galloni: Let me pick up a political aspect in our Western countries in this regard. Let us take Blocher in Switzerland. This person is not a Le Pen or a Haider, but is an ultra-free-

marketeer. Here we have free-market populism and a form of Catholicism all together. And we do not understand any longer which Catholicism we are dealing with. I consider myself a democratic Catholic and I do not feel part of the free-market tendencies which want to eliminate the elderly because they cost too much, and want to cut pensions and other similar measures.

Behind such developments, and similar ones which raise worries also in Italy, is that people are afraid of the effects of the economic crisis. This is coming out in Italy in relation to the immigration question. If there is a problem of criminality related to illegal immigration, this has to be dealt with. But there is a problem of uncertainty of the economic future. . . .

We have then two conservative types: One is the ultra-free-market approach, which is manifested in people like Blocher and also in the Berlusconi government, which does not consider macroeconomic aspects properly. In Italy there are some exceptions, like the Tremonti Plan for large infrastructures.

And there is also a left-wing conservative approach that does not admit that we are in a process of changing. Globalization is like gravity. It exists; one has to see if it is built on price-competition—and in this case the Italian textile products are no longer competitive with Chinese products—or if it is built on quality. And then one has to look at the global environment, with education, culture, and science on the front line.

These are the big perspectives of the future which could create some uncertainties. On one side, we have to help the countries of the Mediterranean, and of the South in general, in their own development; and at the same time, we have to accept the idea of living together with them.

In this respect, I believe that the way the fight against international terrorism is being conducted, is very dangerous. Had we in Italy, in the '70s and '80s, faced the Red Brigades terrorists with the same approach which Bush and Cheney today are using to face pseudo-Islamic terrorism, we would have lost that war; with the probable result, today, of having the Red Brigades recognized as an institutional force. The U.S. administration is supplying justifications and resources to terrorism, instead of fighting against it and separating terrorists from the people.

EIR: How do you see the political situation in Italy in the coming months?

Galloni: It depends on the solution to a big problem dominating Italian political life. After the semester of the Italian chairmanship of the European Union ends in December (until then, there will be no significant internal development), a group of experts will have to express their opinion on State President Ciampi's proposal to guarantee immunity to the five most important institutional persons of the Country—the President, Prime Minister, President of the Senate, President of the Chamber of Deputies, and President of the Constitutional Court. If the [immunity] bill is declared unconstitutional, then

Berlusconi, who is facing a trial in Milan, could be convicted. Berlusconi will resign and will try to convince Ciampi to call for early elections, hoping to win with some type of plebiscite.

It appears that against this, there is Gianfranco Fini, leader of Alleanza Nazionale and vice premier, who—in agreement with Ciampi and part of the center and the left—will try to create a Fini government to complete the legislative session. In this period, the court could sentence Berlusconi—who would thus lose all chance to be a future political leader, opening a new political era.

EIR: Do you have a proposal for a serious pension reform?

Galloni: There are primary and secondary problems. Secondary does not mean irrelevant or unimportant problems: Here we are dealing with limits, financial compatibilities, etc. which have to be solved. But the most important aspect is to face and solve the real macroeconomic problems.

I am proposing a pension system based on three levels: a minimum “redistribution” pension for everyone, of 1,000 euros monthly, even if the person has been able to make only very modest social insurance payments; a pension up to 1,500 euros for those who have made larger payments; and a so-called “capitalization” pension for those who had a higher income and paid to have a higher pension. Society has to govern this system, among other things, to maintain a higher level of consumption.

But the fundamental point is to bring a productive policy back in the government of society and the economy. . . . Instead of financial investments in the markets at very high risks, as we have seen in the past, we should use these [pension] funds to sustain investments in real production, in infrastructure, in services which retired people will require later. In turn, such investments will create more wealth, additional tax revenues, and new jobs for the young generation. I have recently presented such proposals and I am studying specific projects along these general lines.

As to the persistent pressures for a drastic privatization of the pension fund: One should consider the behavior of the stock markets, whose movements notoriously do not always reflect real economic processes. And also, that we have the problem of speculation.

If the system is in a real development phase, without deflation or depression policies—without cutting, for example, the level of future pensions—in the long term the market will increase its value. But in the very long term, this increase cannot exceed the level of interest rates. In the middle term, capitalization and market gains will be higher in comparison with a simple investment in a bond portfolio. The big risk is that financial speculation tries constantly to pump capital gains beyond the real development possibilities, using up resources and savings, and at the end threatening to destroy investments. We have to sterilize this speculation, as the primary and indispensable condition to thinking of a possible, partial privatization of pension funds.