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Senator Ivo Tarolli

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## Cooperative Solutions To the Global Crisis

**Sergei Glazyev:** We have Sen. Ivo Tarolli of Italy as our guest. I would like to thank him for finding time to come to Moscow, and to accept our invitation to take part in these parliamentary hearings, which are on a topic urgent not only for Russia, but for the entire world.

**Sen. Ivo Tarolli:** Good morning! I wish to extend my warmest thanks to Chairman Glazyev for organizing this seminar, which is in my opinion of great political and economic importance. The topic of the stability of the world's financial system is especially relevant today. While the world's GDP is estimated at \$38-40 trillion, and only part of that accounts for the real economy, the yearly total flow of capital amounts to over \$400 trillion. The world GDP/financial economy ratio is one to ten. It is clear that financial instability undermines the stability of the entire economic system. Besides, I wish to stress that the effects and consequences of the so-called "regional crises"—the crises in Southeast Asia, in Latin America, in your country, etc.—are not confined to those regions alone: Because of the huge flows involved, they have consequences on the global financial system as well. In this connection, I wish to make a few remarks:

1. According to observers, there are two reasons or factors which have influenced and transformed the global market: a) financial liberalization, which has caused the free movement of capital and the creation of competing groups and financial sectors; b) technological and financial innovations. If globalization is to bring benefits to all countries and peoples, governmental and parliamentary institutions, as well as the World Trade Organization and all international economic and financial bodies must be so organized as to promote the well-being of mankind and protect its cultural diversity. This requires an integrated and internationally agreed action favoring: a) the opening of developing markets; b) debt reduction; c) more substantial aid to development; d) wider access to technologies; e) a new international cooperation model, in which governmental initiatives involve a significant and direct participation of private parties, banks, and volunteer associations—including NGOs, the more organized among such associations.

2. The World Trade Organization should become an engine that promotes growth for all, in particular by harmonizing "regional" policies and supporting initiatives aimed at reducing developing countries' state of dependence. The so-called "Seattle movement" posed a number of questions that

need to find an answer. How do we prevent globalization from limiting the sovereignty of weaker countries? How can the principle of democracy be reconciled with the principle of free trade? How do we counter the negative effects of globalization? Is it possible to protect "local" interests and avoid that a single culture be imposed on the entire planet? The answers to these questions are to be found in the following factors: a) a better coordination of governments; b) a greater involvement of parliaments, which must be responsible for "guiding" governmental action rather than confining themselves to "ratifying" decisions; c) more comprehensive and detailed information intended to raise people's awareness; d) identification of new international fora, or promotion of a more active role for existing ones, so that they launch initiatives and proposals; e) finally, in his latest annual report, Banca d'Italia Governor [Antonio] Fazio stressed that negotiations in the WTO context should be resumed, taking into account the problems of developing countries, safeguarding the environment and local culture, and liberalizing trade—primarily for food and textiles.

3. International development cooperation must play a leading role in this context. I believe Italy and all major industrialized countries should take the following steps: a) strengthen their management structure and their capabilities in planning aid initiatives; b) increase the level of development aid with respect to the GDP in order to reach a 0.24% average over the next three years; c) revise their objectives and criteria relating to development aid programs; d) involve not just governments, but also private subjects, banks, volunteer associations, and NGOs; e) devote greater attention to the effectiveness of projects and supplies. As regards lending policies related to developing countries, a greater synergy is needed between governmental action and initiatives by private subjects and banks. Following the example of Japan (which grants 75% of its loans to Asian countries), the U.S. (which allocates 50% to Latin America), and Germany (which allocates over 40% to Eastern Europe), Italy—and Europe as a whole—should allocate development aid in a more effective manner.

4. The debt of developing countries is a problem which cannot be addressed solely in terms of human and Christian solidarity: it is an issue of social justice and economic stability.

For the globalization of the economy to be an opportunity for all, an instrument of inclusion and freedom for all peoples, and not a way to isolation and poverty, certain rules must be established.

Rules are not meant to bridle the markets or hold back the economy, but rather to stabilize the latter and build a future that is socially sustainable.

At present, however, it is not so. Africa, a continent with 750 million people, has been virtually excluded from the benefits of globalization, and that is neither fair nor desirable.

Latin America was charged \$140 billion (280-300,000 billion liras) in 1998 on account of debt service alone—a huge

burden to bear.

According to Mr. [Michel] Camdessus, former IMF director, poverty is the biggest world problem and is “morally offensive, costly and socially dangerous, besides being a risk factor for international financial markets.”

Rich countries should therefore take action: They should realize that helping poorer countries makes everyone richer.

It’s a long way to go, but we do not have a desert ahead of us. We represent one of the most advanced parliamentary realities in the world.

### **The Italian Parliament’s Law on Debt**

Last July, the Italian Parliament passed a law establishing the following: 1) total or partial cancelling, over a three-year period, of credits [owed] toward Italy, for a total amount of \$6 billion; 2) the above measure will be extended to the 62 highly indebted countries receiving easy-term loans from the International Development Association; 3) partial or total cancelling of debt may be also extended to countries affected by natural catastrophes or huge humanitarian crises; 4) for the above measures to be applied, recipient countries must commit to: a) respect human rights and fundamental freedoms; b) renounce war as a means to settle controversies; c) pursue welfare and full social and human development, promote the reduction of poverty; 5) Article 7 of the above law engages the Italian government to address the International Court of Justice to obtain an opinion on the “consistency between international norms ruling developing countries’ foreign debt and the general principles of the law and of human and peoples’ rights.”

### **A Proposal To Cancel Debt and Erase Poverty**

We are convinced that the above measure, important and useful as it is, is not enough. Cancelling the debt does not mean erasing poverty.

For this reason, we proposed a new bill — already passed unanimously by the Foreign Affairs Committee of the Italian Senate — which complements the existing law, in that it identifies a model and a method which may concretely help free developing countries from poverty.

The Italian government approved the proposed legislation and submitted it at the [Group of Eight] Okinawa Summit of July 2000.

The bill, introduced by the Centro Cristiano Democratico (CCD), contains innovative proposals; it has gained approval at domestic and international level for the following reasons: 1) it does not engage governments alone: it involves civil society as well; 2) it identifies a mechanism designed to make new financial resources available for developing countries; 3) it involves internationally recognized NGOs in the management of resources; 4) it establishes priorities for the assignment of resources.

The basic idea is to create specific Funds in developing countries which would be based on local currencies: they would receive the financial resources to be used to build

schools, hospitals, and housing, or to extend micro-credit to the poorer people — thus enabling them to start the small businesses that account for a fundamental economic activity in those countries — or, finally, to promote projects concerning food and agriculture or the supply of drinking water.

To avoid such phenomena as illicit profits, the improper use of funds, corruption or colonization, Funds may be managed in each country by a joint committee composed of two people appointed by the local government, two people appointed by the Italian government, and one person appointed by the UN. They will have to be selected among those designated by local, Italian or UN-recognized NGOs operating in the areas concerned.

Considering the lack of accurate and updated data and information on the issue, an observatory might be established at the Presidency of the Council of Ministers for the detection and monitoring of the Italian situation concerning public and private credit with respect to poor and developing countries. This would also provide information on the initiatives taken by the international bodies active in that sector.

In order to find the resources necessary to cancel debts or reduce interest — which would allow indebted countries to pay their debt — the Italian government is going to support the application, at least at the European level, of a tax on all currency-based international transactions, which are currently tax free; it will be a very small amount, comparable to bank commissions applied on all currency-based operations.

Given the current huge expansion of financial transactions, the above tax may help collect remarkable resources. If a 0.05% tax were applied all over the world, it would be possible to collect a sum exceeding half of all interest on developing countries’ foreign debt, currently amounting to over \$250 billion (500,000 billion liras).

The proceeds from the application of the tax concerned will be used as follows: a) one-third will be used to create an insurance fund against any possible insolvency of financial institutions, as a protection with regard to the reliability of international capital markets; b) two-thirds will be used to support the above-mentioned development fund.

If applied as suggested (one part to establish an insurance fund in favor of a free and safe capital movement and one part to promote development initiatives, which are the only measures that can ensure a safer debt repayment), without disrupting free market rules, the tax can contribute to poor countries’ development and help them strengthen their ability to repay debts.

### **A New Bretton Woods**

Back to the issue of governing the globalization of financial markets, I presented a motion last March which engages the government: to promote concrete measures designed to help stabilize the international monetary system and ensure an equal distribution of benefits, which can make the world economy sound and fair, especially for developing countries; to propose, at the international level, the organization of a

new conference with heads of state and government, similar to the Bretton Woods conference of 1944, with a view to creating a new international monetary system and taking the measures necessary to eliminate the mechanisms causing financial instability and adopt programs for the relaunching of the real economy; to submit this proposal to the European Parliament in Strasbourg, to the European Commission and to all EU institutions responsible for European economic policies, as well as to individual European governments through bilateral agreements; to support similar initiatives promoted by other governments and parliaments, starting with those of developing countries.

I thank you very much, again, for your kind invitation and for your attention.

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Andrei Kobyakov

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## World System More Overheated Than in 1929

*Dr. Kobyakov is an economist at Moscow State University and columnist for Ekspert magazine. Translated from Russian.*

It so happens that my presentation will develop some ideas in parallel to what Mr. Tennenbaum had to say, although we certainly did not consult beforehand. Probably we both saw the same logic in the events that are unfolding, and therefore some aspects of my speech and his will resonate together.

First of all, I should like to draw your attention to the greatly increased frequency of financial crises, during the past one-and-a-half to two decades. Moreover, their ripples have been felt planet-wide, which is testimony to globalization— to its flip side, the negative side.

It should be noted, however, that during this period the destabilizing impulses came chiefly from the periphery of the world financial system. For that reason, it seems to me, this system has not yet experienced the kind of really strong crisis that can happen. The next crisis may turn out to be significantly more destructive in its scope than all prior crises, because its epicenter may be at what would seem to be the bulwark of that financial system: the United States of America, and the U.S. markets of what used to be called fictitious capital. Actually, now, perhaps, that term can re-acquire its original meaning, freed of ideological dogmas.

This series of crises, and their growing frequency, is no accident. I remind you that the Chairman of the Federal Reserve System, Alan Greenspan, is of the opinion— although he may not have repeated it in quite some time—that the

world is experiencing waves of a single, big crisis of the world financial system. He identified the Mexico crisis of 1994-95 as the first wave, and considered the 1997-98 Asia crisis, which then hit Russia, to be the second wave. He himself forecast that a third crisis was just over the horizon, or rather a third wave of this crisis, which would be more destructive than the preceding ones. And here you have it, with a kind of cruel irony: The mechanism of such a crisis may already have been sprung. There are some indications, that its catalyst was the crash on the American stock market.

In the 1990s, the U.S. economy gave rise to a number of interconnected excesses, each of them fraught with the danger of worldwide tremors. The first excess, which has burst like a soap bubble, or like an abscess, was the stock market. You have already heard figures today, on how the Nasdaq has fallen 55% on the year. At its lowest point so far, in March of this year, it had fallen almost 65% from its high, after which it rose a little bit, but not dramatically. I think there are grounds to say that we shall see this market move downwards again.

### Causes of the Stock Market Crash

In order to understand the causes of this crash, one must first sort out the causes for the stock market boom in the first place. Because the U.S. stock market boom, by all conceivable parameters, surpasses in scope the boom that took place in the 1920s, which preceded the famous crash of the New York stock market in 1929 and the subsequent Great Depression. This means such parameters, as the ratios of market capitalization to GDP, to a company's net earnings, to the net value of its assets, and so forth. By all these parameters, there is nothing analogous to today's market, in the world system. It is more overheated than in 1929.

Take one popular parameter, the price-earnings ratio, for the U.S. stock market as a whole. This is the ratio of the price of a share to the net earnings per share. Just before the collapse that began last year, this parameter was at 30-35, a level not reached even in 1929.

Comparing paid-out dividends on shares, to their price, the prices exceeded dividends 93 times over, which means that the dividend yields had fallen to 1%, sometimes even less. This, too, shows a previously unthinkable degree of overheating. It is not clear when the ownership of securities became essentially a speculative activity, but it is clear that to make fairly risky investments, if it were just for the purpose of obtaining a 1% yield as dividends, is nonsensical.

And if we take these parameters, for the companies most typical of the modern U.S. economic system, the companies of the so-called New Economy, which are supposed to be the vanguard of the U.S. economy, here the overvaluation is nothing short of a joke. The figures are astronomical. For example, the P/E ratio for the well-known Internet provider Yahoo! was more than 1,200. Think about this. The significance of this figure can be understood, if we imagine that there's an investor who wants to purchase that entire company. It means that he will pay a price for it, which he can