Will Italy Lead the Way Out of the Euro?

by Claudio Celani

While all nations in the world are suffering under the continued bailout of the financial system, European nations are a special case. Within the straitjacket of the Eurosystem, the nations of Europe are engaged in a cannibalistic race for the survival of the fittest. The situation is comparable to persons left without food in a cage, who start to eat each other in order to survive.

The food is the "money" needed to refinance government debts which have ballooned through bank bailouts. On one side, EU member states have been forced to adopt brutal "slim-fast" programs in order to make their debts "sustainable," but this has had a minimal effect in reducing the global refinancing needs of the Eurozone. Whereas weaker states such as Greece are excluded from capital markets, stronger countries such as Germany, France, and Italy are now in a beggars' competition to find money to refinance their budgets.

So, while on the surface, Eurozone member-states pledge unity behind the sacred mission of saving the euro, under the surface they are engaged in a brutal competition to save themselves—and who cares for the others.

In this race, Italy is the weakest link, due to its high government debt, amounting to EU1.9 trillion, i.e., 120% of GDP. Under conditions of monetary and economic sovereignty, such a huge debt would not be a problem—as the case of Japan demonstrates. However, Italy not only has lost monetary sovereignity under the euro, but thanks to free-market reforms of the last decades, has turned what was a 100% domestic debt into a 50% foreign debt. Italy is now vulnerable because over EU900 billion of its debt is held abroad. More important, one half of that 50% is owned by French banks alone.

As a result of the cannibalistic dynamic described above, a run on the Italian debt began at the beginning of this year, with Deutsche Bank, a primary dealer in Italian bonds, selling 90% of its Italian debt. Then, in May, Moody's suddenly announced that the Italian debt was put on a 90-day watch, with the perspective of a possible downgrading.

Moody's announcement unleashed a sell-off on the markets, so that in one month, yields on Italian bonds rose by one full percentage point. Five-year bonds went over the 5% mark, approaching the level that would make Italy's debt, the second-largest in Europe, unsustainable. Since Italy's debt is so large, there is no way that the Eurozone could bail it out, and therefore a default of Italy, in itself not a disaster, would however be the end of the Eurozone and trigger a global chain-reaction collapse.

Panicked by this perspective, the City of London and the European Central Bank (ECB) ordered Italy to implement a second austerity package, after the first one of last March, in order to "calm down" the markets. The ECB, backed by France and Germany, put this as condition for purchases of Italian bonds on the market, in order to support their price.

That is what Italy did, implementing an EU131 billion package of deeper cuts and new taxes with the idea of reducing the deficit to zero by 2013. Furthermore, the government committed itself to introducing a balanced budget provision to the Constitution, as demanded by the "Euro Plus" treaty agreed upon in March by Eurozone leaders.

'In the Hands of the Usurers'

Like similar cases in the past, Italian leaders and Italian public opinion were thrown into a state of psychosis and fear by the British-controlled media, so that such actions were taken without thinking twice about

Italian Prime Minister Berlusconi (right) isn't smiling so broadly these days: He's been put on a short leash by the British-run President Napolitano; Finance Minister Tremonti (left), meanwhile, has waged a rearguard fight against draconian pension and health-care cuts.

them. State President Giorgio Napolitano, a supranationalist and a British agent of influence, went beyond his constitutionally ceremonial role, and literally put Prime Minister Silvio Berlusconi under his direction, dictating policy on behalf of the ECB.

Finance Minister Giulio Tremonti waged a rearguard fight, refusing to introduce so-called "structural reforms" such as pension and health cuts. Such reforms were explicitly demanded in a confidential letter sent by the ECB at the beginning of August, signed by current ECB chairman Jean-Claude Trichet and by future chairman Mario Draghi (now, head of the Bank of Italy).

Speaking at an international forum in Cernobbio, Italy, on Sept. 3-4, Tremonti said: "We are in the hands of the usurers."

So far, only the LaRouche movement in Italy, and very few other prominent people have dared to call for Italy to stop "pleasing the markets." The head of the LaRouche movement in Italy, Liliana Gorini, issued a call Aug. 15, for Italy to reject the "balanced budget" constitutional law, leave the euro, and implement a Glass-Steagall reform to restore national credit. A similar call in this direction came from economist Loretta Napoleoni (see interview, below).

On the surface, such patriotic calls are isolated. Italian policymakers swear allegiance to the euro, as Berlusconi said in Brussels on Sept. 13: "The Euro is our flag."

However, privately they tell you another story. As Martin Wolff wrote in the *Financial Times,* "The extent of the [euro] breakdown was not brought home to me by the resignation of Germany's Jürgen Stark from the board of the European Central Bank, nor by the looming Greek default, nor by new constraints imposed by the German constitutional court. What brought it home to me was a visit to Rome.

"This is what I heard from an Italian policymaker: 'We gave up the old safety valves of inflation and devaluation in return for lower interest rates, but now we do not even have the low interest rates.' Then: 'Some people seem to think we have joined a currency board, but Italy is not Latvia.' And, not least: 'It would be better to leave than endure 30 years of pain.' These remarks speak of a loss of faith in both the project and the partners."

The economic, political, and social situation in Italy is loaded and ready to explode. The question is whether the current elite is ready to provide leadership, or whether it will be swept away by the coming revolution.