

‘The Euro Is a Straitjacket’

Dr. Napoleoni is an economics professor in London, and an advisor to several international agencies. She was interviewed by EIR’s Claudio Celani on Sept. 16.

EIR: You have just published a book, *Contagion*, in which you say that Italy is going to be bankrupt in six months, and you call for a solution, namely an orderly default procedure. Can you tell us how this is going to happen?

Napoleoni: Yes. What I am doing is actually analyzing the situation of the euro at the moment, and judging from the policies which have been applied by the EU in the last 16 months in Greece, we have seen that these policies are not working. On the contrary, the austerity imposed by countries like Greece or Spain is contracting the growth, actually decreasing the GDP over the last 12 months: The GDP of Greece has contracted 7.3%. So, against this background, it is not feasible to think that we would be able to repay the debt.

So, what is happening is that countries are using the debt of the so-called bailout, to sustain the economy, to pay pensions, salaries, because the economy is not growing.

The alternative to this policy, is to use the example of Iceland, and follow a voluntary or controlled default, where the country splits the debt into two parts: the part that is owed to the national banks is guaranteed, while the other part, which is owed to foreign banks, is restructured; this means that a percentage is repaid over a certain period of time. That has the advantage of allowing the economy to grow again, but also has the advantage of getting out of the euro. The euro is a sort of straitjacket which is preventing these countries from having a currency that can be weaker vis-à-vis the currency of richer countries—Germany for example, or Holland. So, it prevents these countries from increasing competitiveness through devaluation.

EIR: What is the prospect that your proposal would

be accepted? What are the reactions, and what is the political situation?

Napoleoni: The reaction in Italy is very negative indeed. Nobody, either on the right or on the left, wants to consider the return to a national currency, to the lira. This is primarily because the Italians are afraid of a wild devaluation policy, which is basically what the Italians have done in the 1970s, the 1980s, and in part of the 1990s, and this policy, of course, brought inflation.

People do not understand that as the international economy is in a deep deflation, the danger of inflation is actually not that high. And in terms of alternatives: Between an alternative which, for sure, will push down growth to negative rates, and the risk of a mild inflation, the second one is a better option.

Limitations of the Euro

EIR: But it seems that in other places, for instance in Germany, the idea of introducing an orderly default for a member of the Eurozone is going to be accepted. The deputy Chancellor of Germany has proposed this for Greece, and maybe the Italians would sooner or later realize that that is good for them too—

Napoleoni: I think that the orderly default that has been proposed by the Germans is a vague idea. This is a tremendous limitation of the euro: When the euro was created, there was a discussion on what a country should do if it needs to get out of the euro; but, we don't have a protocol with a set of rules. So, this is one of the most important technical problems.... There are immense ramifications in the economy about getting out of the euro.

For example, if a company in Italy has a contract denominated in euros with a company in Austria, and all of a sudden Italy decided to default and follow the example of Iceland, what happens to this debt? Is this debt going to be redenominated in lire, or is it going to stay in euros? These are the technical problems that are preventing the European Union from putting forward a sort of program for an orderly default that could be applied to Greece and to other European countries in order to get out of the euro, and start to

grow again. I think these are limitations that show how little we have thought about this union; we got into this union without thinking about all the possible developments.

EIR: Don't you think that the origin of the current mess is that we have a bankrupt state of the entire banking system, which has now affected the governments, and that it comes all from the mistakes of 2008, when they decided to bail out all banks, regardless of what their activities were?

Napoleoni: You mean the links between the crisis of 2008, and what is happening today?

EIR: Yes, that we are today in such a mess because of that decision.

Napoleoni: Yes, you know, this is the theory of pass the bucket or hold the can.... It means we have a problem, which is the problem of debt, which has been accumulating through 20 years of a policy of low interest rates, in order to facilitate the process of globalization.... And of course that did not work; as you see emerging markets are doing much better than we are; we are now asking for money

from emerging markets!

In 2008, in order to avoid a big recession, they simply moved the debt from the banks to the states, and this debt has not been reduced since 2008; on the contrary, it has been growing. Now, the case of Italy is different.... One of the reasons why a default of Italy may cause a major disaster in Europe is that French banks are overly exposed to Italian debt, and so are German banks.

So, anyway it is the same problem. Why are the banks so exposed? Because banks lent money that, in reality, they did not have, and they have been saved by their own states, so that they are still operational, but the hole that was dug during the '90s and part of the 2000s, is still there. So, it is all interlinked.

A possible solution? I think a possible solution is a major, major shrinkage of the financial system. We have to go back to the level of the early 1990s....

EIR: One way to do this large shrinkage without cost to the people would be to reintroduce a Glass-Stea-



lorettanapoleoni.net

Loretta Napoleoni

gall sort of separation, because in that way we would separate the commercial sector of the banking system from the trading sector, and insulate the commercial sector. What do you think about it?

Napoleoni: Yes, yes, I agree. I think we should go back to the Glass-Steagall legislation which was introduced after 1929; we need a separation, we need to backtrack globalization—I have been saying this for years—but in order to backtrack globalization, we need to have a political class that is no longer pursuing the interests of a very small elite. We need a political class that would represent the interests of the nation and of the population, which is clearly not the political class we have at the moment, all over the Western world.

So, the only way to get to a regeneration of this sort, is through a major, major economic crisis. That is terrible, but I do not see today any of the politicians actually promoting this kind of legislation.

Hope in a New Generation

EIR: Do you see a hope in the young people who are now protesting, like in Spain, the Indignados, and other parts of the world?

Napoleoni: Yes, I think that this new generation is a very strong generation; it is actually a generation that is not easily impressed by money, by consumption; on the contrary, it is a generation seeking the true value of life, especially in human relations. This generation is rebelling against an economy which is really giving them no chances whatsoever; is not giving any opportunities to these young people. On top of that, these young people are constantly humiliated . . . which forces them to ask their parents for financial help, because they cannot survive without that.

I think that we are witnessing major changes, and it is interesting that these changes are taking place in the outside world; it is the outside world teaching us a lesson.

If some years ago somebody had told us that the Egyptians would get rid of Mubarak, demonstrating peacefully in the squares of Cairo, we would have said, this is impossible; but it has happened. So, anything is possible, also in the Western world . . . from these young people. But these young people have to make their voice heard *now*, meaning that we need this movement *now*, because the momentum is there.

LPAC Video

An Interview with
Lyndon LaRouche

QEIII and The Fate of Mankind



The latest run on Italian state bonds and the downgrading of the bonds of Greece and Ireland have signaled the final days of the Trans-Atlantic monetary-financial system. The problem is that cowards on both sides of the Atlantic are accepting the continuing bailout of the Inter-Alpha banks, at the expense of the lives of ordinary people and the existence of nations. There is only one remedy: Glass-Steagall.

<http://larouchepac.com/node/18767>