

Italy: Investigators ignore role of banks and political leaders in Parmalat scandal

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More than six weeks after the biggest corporate scandal of 2003 came to light, investigators are about to issue formal charges against Parmalat's top managers. The authorities have, however, shown little interest in exposing the role of banks and leading politicians in this disaster. Meanwhile, the government of Prime Minister Silvio Berlusconi is scrambling to restore investor confidence amid growing anger among those hurt by the multinational's collapse.

Over the past month, Parmalat executives, along with the head of what was the Italian branch of the accounting firm Grant Thornton, have been in custody in both Milan and Parma and have undergone lengthy interrogations by authorities. Although the interrogations are being carried out behind closed doors, there have been a multitude of leaks that, when combined with statements made to the public, begin to spell out how this scandal came to be.

It appears that the former head of Parmalat's finance department, Fausto Tonna, has been the most willing to speak. According to reports, Tonna has elaborated on many of the schemes that Parmalat employed to continue appearing profitable even as the company's debt grew exponentially. The hole in Parmalat's books is currently estimated at over 14 billion euros (\$18 billion) [See The Parmalat scandal: Europe's ten-billion euro black hole].

While the investigation has substantiated the allegations originally reported when the scandal broke, recent testimony has gone further, pointing to the complicity in these schemes of not only the accounting firms, but also high-level public officials and banks. There has been a clear move by the authorities, however, to restrict the investigation to the activities of the founder and former head of Parmalat, Calisto Tanzi, and his circle.

The testimony of Fausto Tonna has, in fact, focused on the role of political figures and financial institutions. Among those who Tonna asserted were actively involved in procuring loans with preferential rates to Parmalat are former interior minister and president of Italy Francesco Cossiga, former agriculture minister Caligero Mannino, and member of parliament Franco Bonferroni (all Christian Democrats), as well as the wife of Lamberto Dini. Mr. Dini, a center-left politician, has served as both prime minister and executive director of the International

Monetary Fund.

In reference to the banks, Tonna said that they illegally exposed thousands of small investors by selling them Parmalat bonds. According to Tonna, there was a clause in the bonds that prohibited their being broken up by the investment banks and resold. In breaking this rule, he argued, the investment banks showed that they were aware of the true state of Parmalat and knowingly passed the risk on to unsuspecting small investors.

In addition to Tonna's testimony, former Parmalat officials have recently come out of the woodwork telling stories of high-level corruption. One such official, Aldo Uva, who was CEO of Parmalat USA from 1999 to 2001, related to the magazine *America Oggi* (*America Today*) that several high-level managers had told him Parmalat would have gone bankrupt in the mid-1980s were it not for the secret intervention of a high-ranking member of the ruling Christian Democrats. In addition, one top internal financial officer disclosed that he had never, in decades of working for the company, signed off on an annual report, "Because that would surely have led to prison."

Other reports from the audit being carried out by PricewaterhouseCoopers have revealed that more than 40 banks granted credit to Parmalat to the tune of over 5 billion euros based on supermarket sales receipts that were obviously duplicated to inflate revenue figures. Citibank alone granted over 300 million euros based on these documents. According to a transcript that has been released, Claudio Pessina, who was a manager in Parmalat's internal accounting department, asserted that Citibank officials were aware of this trickery as early as 1995.

This testimony and the findings of auditors are beginning to tell a story that is much bigger than the tale of a multinational firm that managed to "hoodwink" banks, accounting firms and regulators for decades. It appears that a massive bribery scandal could be uncovered, involving both large banks and high-level government officials—if the investigators would pursue this evidence.

Adding to the intrigue is the recent death of a top finance department aide. On January 23, Alessandro Bassi, Fausto Tonna's right-hand man in the finance department, died in an apparent suicide after falling from a bridge near Parma. According to the investigators, Bassi was a material witness

who had been “very cooperative” in the investigation.

In the face of this scandal, bourgeois politicians on both sides of the aisle are maneuvering to both make political gain and avoid a more thorough investigation. The Berlusconi government at first attempted to use the scandal to curtail the independence of the central bank. In early January, Finance Minister Giulio Tremonti outlined a plan to bring the Banca d’Italia under government control.

As the scandal grew and the role of politicians in creating the disaster came out, however, Berlusconi backtracked. To Italy’s richest individual, who had long-standing connections with the Socialist Party (which shared power with the Christian Democrats during the 1980s), the thought of public scrutiny eventually shifting to his own media and real estate empires presumably engendered second thoughts. By the end of January, he was quoted as saying that Parmalat was an “isolated incident,” and that the system was merely in need of a tune-up.

Many experts were quick to contradict this assessment. Sergio Cusani, for example, who has himself been linked to high-level corruption during the post-war period, asserted that Parmalat is just the first of many scandals that will come to light. Other commentators have echoed this, stating that the exception to the rule would be a corporation that did not utilise bribery and falsification.

The collapse of Parmalat, along with two recent major bond crises that have cost Italian investors dearly, has caused a great deal of concern among those who have entrusted their life savings to corporations. More than 150,000 investors were left with nearly worthless Parmalat bonds, and 40 percent of the funds invested by Italians are in corporate bonds.

In the face of public opinion clearly at odds with Berlusconi’s assessment of the situation, the government has been scrambling to restore investor confidence. Currently, the cabinet is working on the final draft of a law that would establish an investor protection program to reimburse those who lost money due to corporate corruption. This draft has not yet been spelled out in detail.

An additional fear for investors is the exposure of supplemental pension funds to substantial losses. Although Italy’s state pension fund provides for a higher average payout than, for example, the US Social Security system, more and more workers have been forced to seek additional retirement income by investing in supplemental pension funds, which concentrate on the private sector. This is a significant change from the post-war period, when most Italians invested their savings in government bonds. According to Lucio Francario, head of the supplemental pension oversight commission (COVIP, 14 million euros of supplemental pension funds were invested in Parmalat bonds), as of the end of 2003.

If, as is widely believed, the methods used by Parmalat to accumulate billions in debt are widespread among corporations, the implications for those who have invested their savings in

securities are disastrous, and there is little likelihood that a governmental insurance plan could fully compensate all investors.

As for the official “left” of Italian politics, the response to the scandal has been characteristically weak. At a forum organised by the Italian Communists (PdCI), party leader Oliviero Diliberto denounced isolated “sick” spots within the capitalist system, pointing the finger at off-shore financial groups operating in countries such as Luxemburg and the Cayman Islands. According to Diliberto, these fifty or so “rogue states” are ultimately to blame for global financial instability.

It is certainly true that Parmalat exploited these “fiscal paradises” to hide embezzled funds and create fictitious profits. In addition to the use made by Parmalat managers of their Cayman Islands unit to create truly outlandish balance sheets, authorities have in recent weeks located 17 million euros in accounts opened by Parmalat executives under fictitious names in countries such as Switzerland and Monte Carlo.

Focusing on these “off-shore” activities, however, is the official left parties’ way of diverting attention from what is becoming increasingly clear: equally criminal activities were committed “on shore,” in the halls of government and the board rooms of banks in Italy, the United States, and elsewhere.

The opposition parties in Italy steadfastly refuse to ask the question: What is ultimately driving corporations to take these measures, and why is it that banks and political leaders not only do not prevent them, but actively aid them? This question can only be answered by undertaking a serious analysis of the deepening crisis of global capitalism in the last few decades of the twentieth century.

The fact that a small family business such as Parmalat could grow into a multinational food concern with over 36,000 employees and operations in 30 countries—all the while operating at a loss—cannot simply be attributed to the genius of its founder and the opportunism of a number of small nations.

On the contrary, it is only by virtue of the irrational and anarchic nature of the profit system that such a development could take place. Only through the replacement of this system with a rationally planned economic system, in which production is organised to meet the needs of society, can such scheming and collusion be prevented in the future.



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