The Parmalat scandal and globalization: impact on the Italian economy

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17 April 2004

Although it will be more than a year before those involved in one of the biggest cases of corporate fraud in European history are brought to trial, the impact of the Parmalat scandal can be seen throughout the economic landscape. Food giant Parmalat, Italy's eighth-largest industrial empire, collapsed late last year amid fraud accusations against top company executives and scandal involving several major players from the world of international finance.

Several changes in governmental oversight of business practices in Italy are taking shape, all allegedly intended to "clean up" the system which led to shoddy practices. But while the changes will likely make Italy more palatable to international finance, an innocent party—the international working class, beginning with 15,000 Parmalat employees who face the loss of their jobs—will be the ones punished.

The "ripples" caused by the mid-December discovery of a 14 billion euro hole in the dairy giant's books are above all transforming the Italian economy in line with the globalization of production and finance.

Foremost among these changes is the restructuring of governmental oversight of corporations that is promoted as ensuring "corporate transparency." The expressed purpose of this change is to allow the market, as opposed to the "old boys club" of politicians and state bank functionaries, to determine which companies flourish.

The biggest development thus far is the creation of a bureau charged with oversight of the Italian financial markets. There are currently a number of separate commissions, such as the Insurance Oversight Institute (ISVAP) and the Commission overseeing Supplemental Pensions (COVIP), which Silvio Berlusconi—prime minister and media mogul—asserts will be more effective as a unified body. Berlusconi's aim, however, is to weaken Banca d'Italia, the Italian central bank, which oversaw the issuing of bonds by Parmalat—2 billion euros of which were purchased by small investors in Italy since 1997.

The central bank has created problems for the government of late by disputing its economic projections. By creating a new authority, the government will be more able to pursue its agenda without interference, and pack the new organization with those loyal to Berlusconi's business interests.

Another change being demanded by international investors is the restructuring of the corporate bankruptcy laws to protect creditors and investors. Previously, Italian companies which filed for bankruptcy protection were typically dissolved, which left little likelihood that creditors would recover what they had lent. In addition, each investor had to file a separate claim against the company to seek repayment.

Both of these features are unacceptable to large lenders and investment banks outside of Italy. During the post-war period, local, politically connected investors and state banks were the main investors in the Italian private sector, and it was only with the onset of globalization that foreign investors began to penetrate the Italian market. Parmalat was one of the first major experiences international investors—mostly US investment banks—had with the Italian market, and the company's collapse caused many to question whether Italy was a safe place to invest.

The response of the government to these fears has been swift. Following the Parmalat implosion in December, the Berlusconi government immediately rushed through emergency funding for the company so it could continue operations. In addition, Enrico Bondi, who was appointed to oversee the company's restructuring, has proposed that the debts to international lenders be converted into Parmalat stock, so that these parties would have a voice in the direction of the new company.

Yet another reform intended to bring potential investors back to the financial markets is that of the auditing industry. As the Parmalat scandal was just one of many international cases of corporate fraud this decade, the universal ineffectiveness of the auditing industry is acknowledged even by the bourgeois press. Indeed, as a recent edition of the *Wall Street Journal* noted, in the past, outside auditors simply took senior management at their word when assessing whether a company had problems with its financial reporting.

Now, Italy along with the other EU member-states are moving ahead with the formation of watchdog groups modeled on the US Public Company Accounting Oversight Board, which was created in the wake of the scandals at Enron, WorldCom, etc., in 2002. Another, radical, new practice, is that the auditors will have to make a pronouncement of their own on the overall internal accounting practices of each firm they audit.

Although the government's actions have been calculated to reassure international investors that Italy is an attractive place to do business, the changes will not result in increased accountability of corporations to those small investors who have been forced to gamble their life savings on the financial markets. As has been stated repeatedly by Parmalat managers during the interrogations, they were rather open with their business partners in some of the world's largest corporations, from Bank of America to Citibank to Deutschebank, about what they were doing, and received no censure.

In fact, the *New York Times* reported recently that both Goldman Sachs and Deutschebank actually structured some of their loans to Parmalat in a way that indicated they knew the company could not stay afloat much longer. Parmalat actually made large upfront payments to the investment banks with the promise of larger investments from the companies several years later. In this way, the two companies actually came out ahead, since Parmalat collapsed before they had to pay out the bulk of their promised investments.

The complicity of international finance in Parmalat's activities throughout this period shows that Italy's change from a local to global player will by no means signal a "cleanup" of the economy. On the contrary, the transformation of Italian business practices is simply moving from one of palm-greasing between local businessmen, politicians and state bank governors, to one of international corruption on the scale of Enron.

And, just as Bush and Co., shortly after being installed in the White House, allowed high-level officials from Enron to write their energy policy, the Italian government of billionaire Silvio Berlusconi will continue to operate as the delegate of Confindustria, the Italian employers' association, while also taking their orders from international finance.

In other developments, the judge in the preliminary hearing in the Parmalat case has denied prosecutors' requests for a "fast track" trial of those directly involved in the scandal. Prosecutors presented preliminary evidence against high-level officials from Parmalat, Bank of America, Deloitte Touche Tohmatsu and Grant Thornton International, but the judge ruled that they had presented only enough evidence to proceed immediately to trial against the Parmalat officials.

While the ruling came as little surprise, some within the bourgeois press were dismayed, as the leaked account of the evidence highlighted acts by high-level Bank of America managers as far back as 1993 that were explicitly designed to mislead potential investors in Parmalat ventures. One instance in particular saw the B of A officials stating that Parmalat's expansion into the Brazilian market had already recruited two significant outside investors—these "outside" investors were nothing more than Parmalat subsidiaries in the Cayman Islands.

The ruling was followed by the granting of house arrest for Calisto Tanzi, Luciano Del Soldato and Fausto Tonna, who had been in jail since December. Only Giampaolo Zini, the attorney and alleged mastermind of the scandal, remains in prison.

Meanwhile, the interim leadership of Parmalat has announced a "streamlined" restructuring of the multinational. Enrico Bondi's proposals are mostly centered on a rationalization of the company. The staff is to be reduced from 32,000 to 17,000. Most of these losses will come in non-European operations, as the number of countries in which Parmalat will produce will be reduced from 30 to 10.

Thus the resurrection of Parmalat will be managed by sacking the only Parmalat employees who have been creating the any real wealth for the company.