Financial markets target Italy

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12 July 2011

Yesterday afternoon, the finance ministers of the 17 euro-zone countries met at a hastily convened emergency meeting in Brussels. Besides the President of the European Central Bank Jean-Claude Trichet, Eurogroup Chief Jean-Claude Juncker, EU Monetary Affairs Commissioner Olli Rehn and EU Commission President José Manuel Barroso also took part.

The emergency meeting was convened by EU Council President Herman Van Rompuy, who sought to downplay the drama of the situation and stressed to the media that it was just a normal meeting of financial experts to clarify issues of coordination.

But in reality, the European crisis had dramatically intensified over the weekend. Last Friday, there was a sudden rise in risk premiums for Italian government bonds. Major international investors only wanted to buy Italian bonds if they could collect the highest risk payments since the creation of the euro. The shares of Italy's largest bank, Unicredit, then fell by almost eight percent.

“We cannot allow ourselves many more days like Friday,” said one senior official of the European Central Bank (ECB), adding: "We are very concerned about Italy.” Italy is the third largest economy in the euro-zone and a founding member of the European Community.

Italian debt is currently €1.8 trillion. This year alone, the country needs around €340 billion to finance its deficit. In the coming months, the Italian government must raise €120-130 billion on the international financial markets. The raising of risk premiums will increase borrowing costs substantially, further pushing up the debt burden. Much larger sums will be needed next year, according to financial experts. An aid programme for Italy would exceed the current size of the European bailout package.

The immediate crisis was triggered by critical reports from US credit rating agencies, Moody's and Standard and Poor's (S&P), leading to a downgrading of the country's creditworthiness. They said Italy was not only suffering under a growing debt like Greece, but also confronts deep structural problems. Economic growth was extremely weak and is expected to be under one percent for many years.

The reason for the growing debt and "lack of economic dynamism" was said to be a sclerotic labour market. The Berlusconi government had proven incapable of pushing through decisive labour market reforms, they said. "It lacks the will to change things in the labour market," according to analysts at Moody's and S&P. There was a similar situation in the state finances, they said. Although the Italian government had recently introduced an austerity package of €47 billion, serious cuts would only come after the 2013 parliamentary elections.

The stance taken by the rating agencies unleashed fierce reactions in Italy and Brussels. Italian Finance Minister Giulio Tremonti sharply rejected the criticism, ordering representatives from Moody's and S&P to Rome. He described the actions of the rating agencies as unjustified and irresponsible. Both the figures and the allegations were false, he said.

Federico Ghizzoni, head of the Milan Unicredit financial group was even more furious. He said his financial institution had lost almost a fifth of its market capitalization by the end of the week. Speaking to the media at the weekend, Ghizzoni said: "I do not accept that Italy is placed on the same level as Portugal, Ireland and Greece. The numbers say otherwise."

On Monday, the Italian Securities and Exchange, Consob, tightened the rules for so-called short-selling of shares. This concerns the selling of shares that a dealer does not actually own, but merely has on loan. When the price of the shares falls below the original sale price, they buy back the shares pocketing the difference in price, less a fee for the loan of the shares. The new rules tighten up registration requirements on certain futures trading in order to strengthen oversight of the stock market.

The president of the Securities Exchange Giuseppe Vegas, said the negative reports of rating agencies stood in direct relation to speculation by American hedge funds. The managers of large US hedge funds have clearly been speculating for some time on the debt crisis spreading to Italy, he said. They are betting large sums on the value of Italian government bonds dropping. In the last month, short sales on Italian government bonds have widened significantly, according to the *Financial Times*, citing

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investors who were briefed on the strategy of the hedge funds.

"I think the rating agencies have long been a great danger," said Giuseppe Vegas. "Their conflicts of interest as a result of their opaque working methods, because of numerous errors committed by them" meant they were anything but independent.

The US rating agencies also came in for criticism at the crisis meeting in Brussels. EU Internal Market Commissioner Michel Barnier urged that they should no longer be allowed to rate countries in receipt of financial assistance from international lending programmes, and outlined a proposal along these lines from the EU Commission.

The demand of the EU Justice Commissioner Viviane Reding goes even further. In an interview on Monday with *Die Welt* newspaper she raised the prospect of the dismantling of three major US rating agencies, Standard & Poors, Moody's and Fitch. "Europe must not allow the euro to be ruined by three private US companies," the Commissioner told the newspaper.

She could see "two possible solutions," Viviane Reding writes in Die Welt: "Either the G-20 countries jointly decide on the dismantling of the rating agencies. For example, the US could be called upon to turn the three agencies into six. Or independent European and Asian credit rating agencies could be created," said Reding. What was impermissible was that that a cartel of three US companies should decide upon the fate of entire national economies and their citizens.

Other EU officials railed against the speculative actions of the American hedge funds, and called for the establishment of a European rating agency. But on the fundamental question—that the burden of the crisis be imposed on the backs of the population through massive social cuts—they all agree with the U.S. agencies. Every so-called Euro-rescue programme, whether in Greece, Ireland or Portugal, has been combined with massive cuts in social spending.

Without doubt, the US ratings agencies play a major and extremely reactionary role in the attacks on social standards in many countries. But the European banks are similarly criminal. The campaign in Rome, Brussels, Berlin and other European cities against US "financial capital" serves mainly to distract from the class issues at home.

With their attacks on the US hedge funds and ratings agencies, the representatives of the European banks and governments want to stir up nationalist and Euro-chauvinist sentiments and present themselves as victims of a "US financial dictatorship." But this stands reality on its head. First, the European banks are closely networked and active worldwide. Secondly, they agree with their American partners that the billions that were spent in recent years and months to save the banks and the international financial system must now be extracted from the working class.

As in the 1930s, the international crisis is exacerbating the conflicts between the great powers. But this cannot obscure the fact that the international banks are agreed on the need for imposing massive cuts in social spending.

It is no coincidence that at the same time as the euro-zone finance ministers were meeting in Brussels, Germany's Chancellor Angela Merkel urged the Italian government of Silvio Berlusconi to make “visible, and extensive cuts in the budget.”

This would be "a very important signal to the financial markets," the Chancellor stressed, adding: "I have firm confidence that Italy will adopt precisely such an austerity budget."

Like the ratings agencies, Merkel is demanding more cuts than the €47 billion previously agreed at the end of June. This already involves extensive attacks on fundamental social rights. For example, the already miserable state pensions are to be further lowered and the retirement age raised. According to a study by the statistics agency Censis and insurance company Unipol, 42 percent of current workers between the age of 25 and 34 would only receive a “hunger pension.”

In the public sector, the already-agreed recruitment freeze will be extended; civil servants and other public sector workers pay will be frozen, deductions raised, and many social and cultural provisions destroyed. There will be further cuts affecting schools and universities, as well as in the health service.

The employers’ federation Confindustria has welcomed the cuts. Its chair, Emma Marcegaglia, said this was what she had long been calling for. But the most important support came from the union leaderships. Two days before the austerity measures were passed, the two largest unions voted for an “industrial truce” with the employers.

On June 28, Confindustria and the three unions CGIL, CISL and UIL agreed to a social pact along the lines of the house agreement at Fiat. The details have not been made public, but what is known already is that a form of strike ban was agreed, called “Tregua” (ceasefire). It sets aside long-standing workers’ rights and will make it far easier for companies to conclude plant-by-plant agreements to circumvent nationally-negotiated contracts.

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