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Debt

An audit for Italy too

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The book *Debitocrazia*, published by the CADTM [1] was largely written in 2010 and consequently does not take the Italian case into account. However, already last summer, and even before, the experts of the Committee, founded in Belgium at the beginning of the 1990s, had put Italy under observation because, if we follow the most emblematic examples described in the book and the dynamics which underlie the formation of public debt, our country also joins the list of the cases in which we can call for cancellation of the illegitimate or illicit debt. The formation of the Italian public debt enables us to retrace a history of the country and to highlight one of the mechanisms of a way of functioning that is specific to capitalism, in which tax incentives for big companies and for the wealthiest individuals are combined with the use of the state machine to produce a way of managing welfare spending that is centralised and has a class nature.

If we look at the prime ministers who were in power in the years when the debt reached its peak, we see that those who were responsible for the situation were none other than the men of the Christian-Democrat, then Socialist *nomenklatura*, who ran the country for approximately fifty years: Arnaldo Forlani, Bettino Craxi, Ciriaco De Mita, Giulio Andreotti, Giuliano Amato and, since 1994, the year of the foundation of the Second Republic, Silvio Berlusconi and Lamberto Dini. After the advent of the new centre-left, the dynamic of the debt was reversed under the first (1996-1998) and second (2006-2008) Prodi governments. But between 1994 and 2010, the centre-left and the centre-right each held power for eight years: Prodi, D 'Alema, Amato, Berlusconi, then Prodi again and again Berlusconi. Things did not change much.

The debt in Italy

Actually, the increase in the debt was a clear choice of the policies followed in Europe over these last ten to fifteen years, which saw the application of neoliberal policies based on the hypothesis of the reduction of fiscal pressure by reducing taxes for the wealthier layers of society and for private companies.

If in the post-war period the relationship between debt and GDP was 45 per cent, and went down to 33 per cent in 1964 (thanks to the economic boom), the crisis of the centre-left and the first signs of slowing-down produced a rapid rise which took the debt to 55 per cent of GDP in 1973, the year of the oil crisis. The crisis did not produce a constant rise, because of inflation: the level of debt increased to 63% per cent in 1978 and went down again to 59 per cent in 1980. However, it was in those years that the trouble began. The series is so impressive that it is worth describing it in detail: in 1980 the relationship was 59 per cent; in 1981, 61 per cent, in 1982, 66 per cent, in 198, 71 per cent, then 77 per cent in 1984,84 per cent in 1985,88 per cent in 1986,92 per cent in 1987,94 per cent in 1988,98% per cent in 1989,100% per cent in 1990,104 per cent in 1991 and 111 per cent in 1992. Then, the debt increased further to 124 per cent in 1995. It was the Prodi government and the other governments of the centre-left which caused it to drop to 109 per cent in 2001. During the last ten years, apart from the parenthesis of the policy of austerity of the Prodi government, the debt resumed its upward trend to once again cross the threshold of 120 per cent in 2011, the year of the crisis.

The photo gallery of the men of what is called the First Republic [3] confirms the dominant interpretation according to which the debt is the result of criminal policies based on clientelism and fraud, policies that were proper to the Christian-Democrat regime. There is no doubt that this uncontrolled clientelism was an integral part of the abnormal development of the country and constituted the cement of a political majority which led the country from 1948 to 1992. It was also essential to keep the lid on a national situation which was otherwise likely to explode. The debt increased abruptly at the end of the 1970s, the years of the white-hot workers' movement, but also the years of the explosion of the economic crisis unleashed by the shock of 1973. It was a potentially dangerous cocktail. The increase in public expenditure was thus an original means for the Christian-Democrat and Socialist governments to counter the influence of the Communist Party by socially isolating it within a society which was nourished, in particular in the south of the country, by utterly uncontrolled public expenditure.

However, other things weighed more heavily. The relationship between public debt and welfare expenditure was not so direct. Welfare expenditure in relation to GDP increased at the same rate as revenue from taxes between 1980 and 1990, and even decreased after that. Thus in 1960 expenditure on health was 10.5 per cent of GDP; in 1994 it rose to 10.7 per cent, in other words it remained stable. Expenditure on education went down from 10.9 to 9 per cent, while the celebrated expenditure on pensions went from 32.9 per cent in 1960 to 33.6 per cent in 1994. Since 1994, austerity has fashioned Italian economic policy, with continuous reforms of social security and a compression of the Welfare State, an austerity that is summed up in the various economic manoeuvres which have succeeded one another since 1992: by adding together the manoeuvre approved by the Amato government in 1992, the monster-manoeuvre of 90 billion liras, up to the last measures taken by the Berlusconi government in 2011, we go beyond the threshold of 500 billion euros. This is a gigantic upside-down redistribution of revenue.

Neoliberalism to the rescue of business

On the contrary, the sums spent for the payment of interest have steadily increased, and constitute the real weight that is burdening the Italian economy.

The prolonged phase of high rates of interest, decided by the United States at the end of the 1970s, imposed on Italy a "cost of the debt" which ultimately became unbearable.

Moreover, there is an element that is too often ignored. The obvious difficulties of the international economy, which have now lasted for decades – and which temporary booms, such as that centred on new technologies of the beginning of the 2000 decade or the real estate boom half-way through the same decade, do not manage to hide – were confronted by a state which beyond any doubt placed itself at the service of business by cutting taxes and increasing public support. A myriad of massive forms of financing, of incentives and tax exemptions was created, amidst a tangle of conflicts of interest that are difficult to define with precision.

An estimate of the extent of government aid to companies, often open-ended and granted without them providing tangible economic results, and even, in the majority of cases, at the origin of subsequent disasters, was made by Marco Cobianchi, author of the essay *Mani bucate* (Chiarelettere, 2011): "Two columns in the budget indicate the funds which leave public funds and subsidise those of companies: â€˜aid from the current account' and 'aid to the capital account '. In the 2010 budget the sum of these two figures comes to 40 billion euros. However this figure also includes the resources intended for the investments of state enterprises such as Ferrovie dello Stato, Anas and the local haulage companies, for which 15 billion euros are earmarked every year, so that the total of public money destined for the private sector is reduced to 25 billion euros [4].

This figure is an estimate by default because, as we can also read in the essay, there are also the interventions "in support of companies which produce green energy, approximately 3.5 billion euros, and if we add the tax rebates that are continually granted we will not be far from the alarming figure of 30 billion euros: more than two thirds of the public deficit that has to be reduced by 2013 here, a little less than half of what the state pays in interest on its debt in a single year" [5].

As can be seen, this is an analysis that is uncompromising and based on data which, if we project it over decades, makes it possible to put into perspective, by giving a more accurate measure of them, the figures of public debt and the management of the state budget. They then take on a quite different dimension in comparison with expenditure on pensions or the Welfare State.

Beside incentives, there is fiscal policy. There again, received wisdom affirms that in Italy tax pressure is among highest in Europe; the Bank of Italy recently sounded the alarm bell on the perspectives for the next few years, when total tax pressure will exceed the record threshold record of 44 per cent. Actually, according to the data of Eurostat, from 2000 to 2010 tax pressure in the Europe of the 27 went down from 44.7 to 37.1 per cent, a reduction of 7.6 percentage points. The rate of company tax fell from 31.9 to 23.2 per cent, a reduction of 8.7 points. Although globally tax pressure in Italy remained more or less stable, being reduced by only 0.3 per cent in ten years – and it should increase under the impact of the economic measures of the last Berlusconi government –corporation tax went down from 41.3 per cent to 31.4 per cent, in other words it fell by 9.9 percentage points.

The workers pay

Under these conditions, what is the primary source of revenue from taxes in Europe? The answer is easy, work. Whereas the average level of taxation on work in the EU 27 is 32.9 per cent, the average level of taxation of capital is 24.7 per cent (Eurostat figures for 2009).

It should nevertheless be said that the reduction of tax pressure in Italy takes especially another route, namely tax evasion. Here again, the estimates are approximate: 120,160 perhaps 200 billion euros per annum are not regularly paid into the coffers of the state. It would be enough to recover only one third of these sums to have the public accounts in order, to improve the budget situation, to reduce the debt, to increase welfare spending, to improve health and education, to protect pensions. Although the estimate of the level of tax evasion is dubious and ambiguous, the analysis of the taxes that are really paid is certain and measurable. According to the tables published by Bruno Tinti in his study *Una programma contro l 'evasione fiscale* (a programme against tax evasion), published in the review *Micromega*, 88 per cent of Italian taxpayers, that is to say 36,163,280 people, are wage-earners (20,970,919) and pensioners (15,292,361), while the "others" account for 12 per cent of taxpayers (5,359,777). The "others", writes Tinti, "can only be made up of the self-employed, employers, liberal professions, artisans, shopkeepers". The revenue from taxes coming from the first category, wage-earners and pensioners, accounts for 93 per cent of the total, whereas the others pay only the equivalent of 7 per cent of tax receipts from individuals. [6]

The table published by the Ministry of Economy and Finance covering tax in 2010 helps us to better understand the problem.

In 2010, the tax revenues of the state budget came to 406,671 million euros, a decrease of 2.5 billion compared to 2009. But what accounted for this decrease? The revenue from the *Imposta sul reddit* (IRE, Income Tax) increased by almost 7 billion euros, whereas the revenue from the [Imposta sulle societÃ], (IRES, corporation tax), decreased, even if it was only by 167 million. Other factors were the drastic reduction of the substitute tax on interest and other capital revenues (- 6 billion euros) and the disappearance of the receipts of the exceptional tax for the realignment of accounting values by the adoption of international accountancy standards, which amounted to a loss of 4.4 billion euros. All in all, the level of untaxed revenues of capital on the one hand, and the reorganization of the accounting principles for company balance sheets on the other, produced a shortfall of approximately 10.5 billion euros [7].

So it is a gigantic transfer of resources towards the highest incomes, profits and unearned income that explains most of the problem.

The evolution of wages confirms this. By propagating the idea of the need to guarantee profits in order to increase investment, and thus employment, neoliberal policies, which have increased the debt, have produced a dramatic reduction of wages and of the Welfare State and a generalization of privatizations. According to the IRES-CGIL [8], in ten years, from 2000 to 2010, wages lost approximately 5,500 euros in terms of purchasing power [9], while the net profits of the biggest Italian industrial enterprises (figures from the *Mediobanca* sample) increased by approximately 75.4 per cent between 1995 and 2008; from 1990 until today, there has been a growth in revenues from capital of more than 87 per cent.

The effects of the management of public debt are reflected in these figures. But not only that. Again according to the research of the CGIL, over the last thirty years, the evolution of investment in relation to profits has dropped by 38.7 per cent. In other words, profits were not reinvested in economic growth but in financial investments, which guaranteed subsequent profits thanks to the interest on public debt, to interest on the private debt of workers - increasing as a result of the reduction in wages - to speculation on currencies and derivative products, transforming global finance into a casino. Once the game was over, when the level of debt became too high, the crisis arrived. But with the nationalization of the losses of the big financial institutions, private debt was transferred into public debt in order to make us all pay for it.

That can once again be verified by the data. By dividing the 1,911 billion euros of Italian public debt (as of July 31, 2011) by the 60 million citizens, we get a debt of 31,863 euros per capita. But who owns the debt? Small savers, workers, craftsmen, small companies? No. According to the data of the Bank of Italy, only 13 per cent of Italian debt is held by individuals residing in Italy, 26.8 per cent is in the hands of “monetary financial institution” (banks, investment funds), 13.5 per cent is held by insurance and pension funds, 3.65% per cent by the Bank of Italy, and 43 per cent by non-residents, in other words it is held outside of the country, probably by the big financial institutions (figures for 2009).

The weight of the debt is used to justify austerity policies that are identical all over the world: reduction of welfare spending, attacks on pension systems, freezing or reduction of wages in the public sector, increase in flexibility of work, privatization of vital sectors such as water, energy, transport, health and education, reduction of subsidies to the poorest classes, a squeeze on wages and other payments. The transfer of resources in the state budget from social services to payment of the interest on the debt is brilliantly illustrated by the last conjunctural note of the *Documento di economia e finanza per il 2011* (Document of Economy and Finance for 2011): the expenditure on interest of 70.4 billion euros will climb to 94.3 billion euros in 2014 [10] and its incidence on the wages of civil servants will go from 58 to 78 per cent, on pensions from 30 to 35 per cent, while the incidence on health spending will increase from 63.7 per cent in 2009 to 77.6 per cent in 2014.

It is right to demand the cancellation of the illegitimate part of the debt, that is to say the part accumulated in order to maintain profits, to guarantee the speculation of the big banks and to support a capitalist economy that is in a crisis of market outlets and thus of profit margins, and which needs a financial bubble capable of maintaining activity.

Freeze the payment of the debt and cancel the illegitimate part

So it is right to dispute the legitimacy of a debt contracted in order to implement social policies that are unjust, in violation of the economic, social, cultural and civil rights of the people. In the European countries, the fact that governments chose to get into debt in order to help the wealthiest classes and the most unrestrained capitalism is absolute obvious: the rescue of the banks, the reduction of tax rates for the wealthiest and, as far as Italy is concerned, real aid to tax evasion, which increases the profits of the big companies and the highest incomes.

In the same way, with regard to international law, there does not exist an absolute obligation to reimburse debts: for states there is first of all the obligation to protect human rights and the economic, social and cultural rights of their population. As an example, let us quote article 103 of the Charter of the United Nations, which establishes the superiority of the Statute of the United Nations, which moreover imposes “the raising of the standards of living”, “full employment” and “development in the economic and social order”, over all other obligations contracted by states. Similar examples can be drawn from the Universal Declaration of the Rights of Man (1948, article 28), the Pact on Economic, Social and Cultural Rights, (1966, article 1) and the Declaration on the Right to Development (1986, article 2).

This legal basis can be found in various international texts, as cited above. Among the illicit or immoral causes which engender the illegality of a debt we can cite: the purchase of military material on the basis of article 26 of the UN; debts contracted to apply structural adjustment plans (see the Convention of Vienna of 1983); debts contracted without the populations having knowledge of them; and in many other cases. These are characterised as “odious” debts because they are directed towards measures that are not in conformity with international law, with the protection of human, social, economic and cultural rights. Private debts transformed into public debts are also illegitimate.

In this sense, we can only approve of the proposal put forward by the CADTM, which in Italy was taken up within slightly different frameworks [11]: the unilateral suspension of repayment of the debt to enable a public audit (a verification of the accounts) under citizens’ control, in order to determine the parts of the debt to cancel, repudiate or renegotiate because of their illegitimacy, illegality or their odious nature.

This is the first step that is necessary in order to build a relationship of forces capable of reducing the financial tension. Once the moratorium had been obtained, it would be necessary to carry out the audit, which is fundamental in order to have an in-depth analysis of the debt and for which it is essential that there is the participation of citizens, movements, associations, and trade unions, which can designate their own representatives on the Audit Commission which must be set up. Obviously, such an objective requires a broad social mobilization, since today there does not exist a government capable of accepting such a proposal. But, at the same time, this proposal can help to choose a possible government for the country: a government which would really have at heart the future of the population, workers, young people and pensioners, the different social layers affected by the crisis, could only respond positively to such a proposition and turn its back on the interests of the big banks and finance companies.

Who pays?

Once the illegitimate or illicit debt has been identified, the corresponding amount must be paid by the financial institutions and the people with the highest incomes who have a direct responsibility for the outbreak of the crisis. Cancelling the debt, whose cost, otherwise, would fall on the poorest, on workers, on those in precarious work, on students, constitutes a first step towards restoring social justice. After that it is necessary to define a precise list of those who hold titles to the debt, in order to protect those who live on a modest income and for whom the titles to debt represent an entire lifetime’s savings (they represent, as we have seen, a small minority). It should also be said that those whom the audit made it possible to identify as being responsible for infractions relating to the debt should be punished and obliged to make financial reparations. The unilateral moratorium will also serve to renegotiate rates of interest and a timetable for reimbursement of the debt considered as legitimate or legal, taking into account that the part of the state budget allocated to such payments cannot call into question the satisfaction of the fundamental needs of the population: health, education, Welfare State, wages. If, for example, it is decided that the cost of reimbursement cannot exceed 5 per cent of the state’s revenues, as the CADTM proposes, that will represent a reduction by half compared to the present situation: at the end of 2010, in fact, this part of the state budget was 9.7 per cent.

The objections of the left

Among the fundamental objections to non-payment of the debt, that is to say to the moratorium on repayment, with freezing of reimbursement instalments, there are those which come from the world of the banks, of capitalism and finance and which, obviously, are opposed to the proposal because they see there a threat to their own interests. But there are also other objections, which come from the left. We can deal with three of them:

1) **The default would be paid for by the population and by workers and pensioners**. However the problem could be avoided by an act, sovereign, of moratorium and not of suspension of payment, of default - from which the sectors to be protected would be clearly excluded, by virtue of the interests of the community. For example, the savings of workers, pensioners and all those who, with an income dependent on work, have always paid the taxes that were due.

2) **After the moratorium a state would have great difficulty being financed again on the domestic and international markets: nobody would give it any credit again .**

The cases of Argentina and Ecuador demonstrate the opposite, it depends on the situation. In any case, for Italy, it is a question of rebalancing the recourse to "domestic" loans. Faced with a debt of 1,763.8 billion euros, the net wealth of Italy (net of private debt) in 2009 amounted to 8,600 billion euros (9,448 billion euros of gross wealth, including 4,800 billion in real estate). Of this gross wealth 37.7 per cent is financial (3,561 billion, more than double the debt), made up as follows: 29.8 per cent in banknotes, currencies, bank deposits and postal savings; 44.2 per cent in private financial holdings, foreign financial deeds, shares, participations and collective investment funds; 17.7 per cent in technical insurance provision; 3 per cent in commercial credit and only 5.5 per cent in government bonds [12]. On the other hand, almost a thousand billion is held in liquid form. It would be enough to make this mass of wealth useful to rebalance any possible insufficiencies.

3) **A default means leaving the euro and facing a strong devaluation with a collapse of workers' purchasing power**. The evolution of wages in the last ten years, since the introduction of the euro, does not justify talk about maintaining purchasing power. Europe can take a different road, the road of a social Europe which refuses the dictatorship of the banks. As an alternative, leaving the euro would not have worse consequences than opting for the status quo.

Beyond the debt

The reorganization of the debt is an operation which, to prove effective, cannot be conducted in a vacuum; it presupposes on the contrary a broader programme. It implies, in fact, accompanying this operation with a policy which increases wages, reduces precarious work, restores social rights and enlarges them, for example to immigrants and safeguards common property. We need a process of nationalization of the banks and insurance companies, to which big capital has had recourse only to save its own interests, and which must serve, on the contrary, to manage debt in a different way and to insure ourselves against financial speculation.

We need a tax reform which finally attacks tax evasion – most of which is the prerogative of the big companies, as is demonstrated by the financial brain-racking and the widespread use of chartered accountants Ã la Tremonti [13] – and which makes high incomes pay more and those who struggle to survive pay less, much less. A strongly progressive tax reform, with clear and not too numerous tax breaks for wage-earners, capable of cumulating tax on high incomes and property, and thus on inheritance, unearned income and speculation. A real Patrimonial Law Mark 2 in order to radically redistribute resources.

It is necessary to reopen the debate on this Europe, including the single currency, in order to build a Union that is really democratic and based on consensus and the participation of the people. That is why we are taking part in the popular petition to demand a referendum on Europe.

It is necessary to drastically reduce military expenditure, through the reduction of missions abroad and reduction of spending on armaments, which should be transformed into spending on ecological infrastructures and the rehabilitation of the environment.
We must put back in the centre of the economy work and its dignity, economic and social rights, with the extension of social guarantees: a guaranteed minimum wage, social income, the reduction of working time, the right to work in opposition to galloping precariousness.

It is necessary to resolutely confront the question of the environmental sustainability of economic development, the ecological defence of the environment against the destruction engendered by profit and by the interests of the big multinational companies.

And all that has a meaning if we guarantee a new popular participation with forms of direct democracy and self government on every level. These Parliaments and their governments have served their time; we need a revolution in the forms of participation and of management of government: referendums on all the crucial questions, organs of direct participation, self-management and rational and democratic management of the economy by new democratic institutions from below.

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[1] French initials for the Committee for the Abolition of Third World Debt

[2] French initials for the Committee for the Abolition of Third World Debt

[3] The term "First Republic" refers to the political system of the Italian Republic from 1948 to 1994. It is especially used in the journalistic milieu to indicate a profound change in the system of political parties and their representatives, and thus not a genuine change of regime.

[4] Marco Cobianchi, *Mani Bucate*, Chiarelettere, Milan, 2011. pp. 10-11

[5] Ibid.

[6] 4| Bruno Tinti, *Un programma contro l'evasione fiscale*, *Micromega* 7/11/2011.

[7] *Rapporto sulle entrate tributarie 2010* – Mef- http://www.rgs.mef.gov.it/_Document.. .

[8] The IRES is the Institute of Economic and Social Research, a non-profit-making association, founded by the CGIL, the principal Italian trade-union confederation.

[9] http://www.cgil.it/dettagliodocumen...

[10] http://www.mef.gov.it/primo-piano/p...

[11] The proposal for a public audit is being defended by the www.rivoltaildebito.org campaign and by the campaign for the freezing of the debt; http://cnms.it/campagna_congelament.. .

[12] http://www.bancaditalia.it/statisti.. n/banc_fi n/ricfamit/2010/suppl_67_10.pdf

[13] The reference is to Giulio Tremonti, who was the long-serving Minister of the Economy and Finance in Silvio Berlusconi's governments between 1994 and 2011, and who carried out policies unashamedly favourable to finance capital.