A Four-Century-Old Nemesis Casts Its Shadow Over Upcoming Elections

by Claudio Celani

Jan. 27—The crisis of Monte dei Paschi di Siena, the world's oldest active bank, has again revealed criminal actions undertaken by bankers, supervisors, and governments to cover up the insolvency of major financial institutions, and forced the issue of urgently implementing a Glass-Steagall-like banking separation in the current Italian election campaign.

Monte dei Paschi (MPS, known as Montepaschi), established in 1472, is now facing bankruptcy after posting losses of EU4.7 billion in 2011, and EU1.66 billion in the first nine months of 2012. The bank received its first bailout of EU1.9 billion in 2009, and is now asking for an additional EU3.9 billion. The Bank of Italy has already given the green light for the rescue, and the government is expected to disburse the funds, even if Prime Minister **Mario Monti** will have to pay a high political price at the polls. National elections are scheduled to take place Feb. 24-25.

Emerging Scandals

In fact, the bailout request takes place in the midst of emerging scandals showing that MPS has suffered losses in derivative bets, and covered those losses with new bets and fraudulent bookkeeping. In particular, two derivatives contracts are being investigated by prosecutors, involving losing bets with Deutsche Bank and Nomura, respectively called **"Project Santorini"** and **"Alexandria,"** which increased the MPS losses, but shifted them into the future, allowing MPS managers to cover them in the books. It is believed that this is only the tip of the iceberg.

Montepaschi's troubles started in 2007, when it acquired the **Antonveneta** bank for EU10.3 billion, thereby becoming the third-largest Italian bank. The Antonveneta case is among the murkiest in recent Italian banking history. It was a commercial bank serving business and families in the highly productive region of northeastern Italy. It was first sold for about EU3 billion to the Dutch megabank **ABN Amro**, despite bitter opposition from Italian central banker **Antonio Fazio**. Fazio was accused of teaming up with organized crime figures, forced to resign, and eventually sentenced to prison. He was replaced by **Mario Draghi**, the current head of the European Central Bank (ECB).

Then, ABN sold Antonveneta to Spain's **Banco Santander** for over EU6 billion. And Santander flipped it to Montepaschi for EU10 billion-plus.

Montepaschi head **Giuseppe Mussari** knew that Antonveneta's real value was one third of that figure. Why did he decide to buy it, especially given the fact that MPS did not have enough money? The answer could be provided by Goldman Sachs.

Goldman Sachs, in fact (together with **Citigroup** and **Merrill Lynch**), was the "global coordinator" of the Antonveneta purchase by Monte dei Paschi. But Goldman had already been an advisor to ABN in the takeover of Antonveneta. Thus, Goldman Sachs knew well what the value of the bank was.

The head of European operations of Goldman Sachs during the ABN-Antonveneta negotiations was a certain Mario Draghi, the same Mario Draghi who, in December 2006, replaced Antonio Fazio at the Bank of Italy, after Fazio tried unsuccessfully to squelch the deal. Then, as head of the Bank of Italy, Draghi was responsible for supervision of banking, when MPS faked the books to cover its derivative losses.

Now, both Draghi and his successor, **Ignazio Visco**, as well as former Goldman Sachs advisor and current Prime Minister Monti, are accused of being accomplices of MPS. Former Economy Minister **Giulio Tremonti**, who is running for the Senate on his own slate under the symbol of the Lega Nord (Northern League) party, on Jan. 23, accused Monti of having been aware of the real mess at Montepaschi, and having hidden it from the parliament. Monti pushed through the MPS bailout, attaching it to a confidence vote, Tremonti charged. Furthermore, the government loan can be repaid, not with money, but "with other financial instruments," i.e., junk.

Tremonti also accused Draghi of failed supervision as Italian central banker.

A statement by the current Finance Minister, **Vittorio Grilli**, indirectly confirmed Tremonti's allegation. Grilli said that "the MPS situation is not new, it is not a bolt out of the blue. We had known the existence of problems for one year."

Bank of Italy governor Visco attempted a defense, saying that Montepaschi had delivered false information, but records of Bank of Italy inspectors' findings in 2011, published by the news media, nail the central bank in its responsibilities.

Election Debate

The Monte dei Paschi scandal has become the center of the electoral campaign: Next month, Italians will elect a new Parliament—and a new government. Currently, the Democratic Party (PD) is leading in the polls with 36%, followed by the alliance between former Prime Minister Silvio Berlusconi and Lega Nord, with 24% (Berlusconi claims 32%), and Mario Monti's slate with 16%. If things stay as they are, the outcome will be a PD-Monti government, with either Monti as prime minister, or dictating the agenda.

But the MPS scandal might upset the apple cart. The electoral contenders each try to blame the other party; however, technocrat-turned-politician Monti and the PD are the ones on the grill. Monti now faces a dilemma: If he bails out Montepaschi (as his masters have ordered him to do), he will pay dearly at the polls. If he does not, he risks a systemic blowout, as a consequence of an MPS failure.

The MPS crisis is slowly forcing the Glass-Steagall issue into the forefront. Even if the debate has not yet exploded, it happens that, whenever someone introduces the idea of Glass-Steagall in a discussion, nobody dares to oppose it.

In an interview with Radio Padania on Jan. 24, **Movisol**—the LaRouche movement in Italy—president **Liliana Gorini** explained why Glass-Steagall is the only solution, while Lega Nord Sen. **Massimo Garavaglia** reminded listeners that he had introduced a draft bill for the measure in the last legislature.

The same day, former Undersecretary of State **Catia Polidori**, who is running again for Parliament, reiterated her call for a Glass-Steagall-like banking separation. "The serious MPS case prompts me to relaunch a fight which has seen me for years in the front line within and outside Parliament," Polidori said, in a release published by several wires. "The need has now become an non-delayable priority, to reintroduce the separation between commercial banks and investment banks."

Wires published Polidori's statements, recalling that Polidori was the first signer of a 2010 parliamentary motion calling for banking separation.

In addition, Giulio Tremonti called, not for the first time, for a Glass-Steagall-like banking separation, in an interview with La7 private TV channel. "You should not use citizens' savings to speculate, as it [was decided] under Roosevelt.... The old Italian banking law similarly forbade speculation with savings. Clinton in the U.S. and Draghi in Italy more or less at the same time abolished that law."

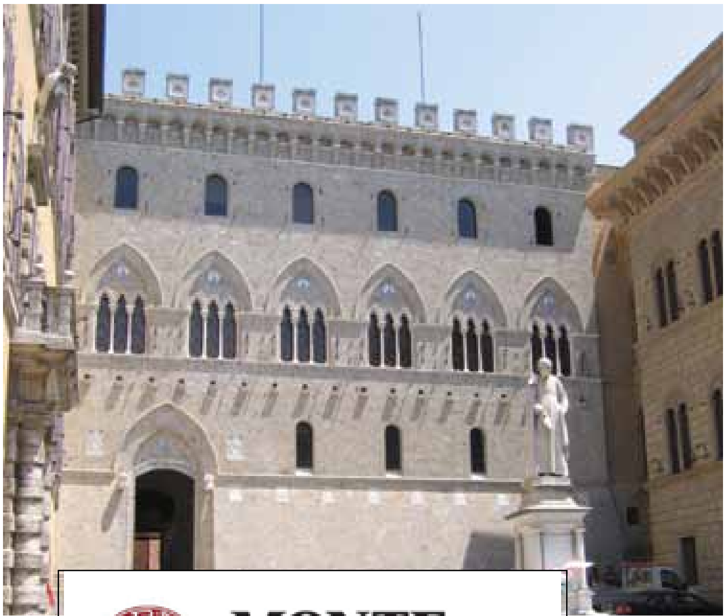
Then, at the MPS shareholder meeting the next day, while world media were focused on the clown show delivered by comedian **Beppe Grillo**, a Member of the European Parliament intervened, calling for an immediate implementation of Glass-Steagall. **Claudio Morganti**, secretary general of the Lega Nord in Tuscany, said: "The reintroduction of Glass-Steagall, abrogated in 1999, would permit the separation of commercial banks from banks that practice speculative and risk activities. I wonder whether it is accidental that, after the abrogation of Glass-Steagall, so many problems with derivatives and toxic assets started. The amount of junk assets being traded on financial markets is tens of times larger than world wealth. Derivatives are a weapon of mass destruction, and only after introducing a bill separating banks, can we proceed with identifying tasks and responsibilities."

Morganti also said he is opposed to nationalizing Montepaschi, as someone is pushing. "I would never nationalize a bank such as MPS, which is full of toxic assets. Taxpayers would be forced to cover the losses and recapitalize it. Such losses must be paid by those who actually created them, without expecting Father State to step in."

In a talk show on the national RAI2 channel, former minister and candidate for a right-wing slate, **Giorgia Meloni**, claimed that her slate "is the only party which, in its program, calls for separating commercial banks from speculative banks." Her opponent, Democratic Party representative **Francesco Boccia**, answered that he agrees on that proposal.

MPS and Derivatives: a Very Old Story

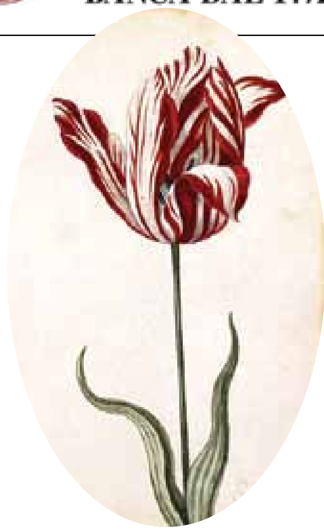
Gambling is not a new experience for Monte dei Paschi di Siena. The bank, founded 20 years before Columbus discovered America, was originally dedicated to local agriculture and pastoralism (*paschi* means pastures). But it soon become a global investment bank, and played the central role in the famous Amsterdam-based "Tulip bubble" (or "Tulipmania") in the first half of the 17th Century. It was during that financial bubble, one of the largest in history, that MPS invented derivatives.



The global financial crisis has now overtaken the world's oldest bank, Monte dei Paschi di Siena (shown here in Siena's Palazzo Salimbeni), whose speculative activities date back to the Tulip craze of the 17th Century, when the "Semper Augustus" tulip bulb sold for the equivalent of $340,000, in today's currency.

MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

In 1593, Monte dei Paschi, which was the most powerful bank in Europe, operating on the Amsterdam commodities exchange, financed the Dutch merchant Johannes Van Bommel, who imported tulip bulbs from Turkey. Tulips shortly became a sort of fetish for the ruling class, and their price skyrocketed. The mania spread throughout the continent, and in all cities, exchange shops for buying tulip shares were opened, on a MPS license.



In 1630, the price of a tulip bulb called "Semper Augustus" reached the equivalent of today's EU25,000. That same year, a certain "Messer Cucinotti," plenipotentiary accountant for MPS in Amsterdam, had a brilliant idea: financial derivatives. MPS issues insurance contracts on bulb shares and insures them at a subsidiary in London, which sells the potential profits in six months. Those who purchase that asset sell it again, at a higher price, and so on. The result of his scheme was that one single asset in 1632 had been owned by 186 different owners at totally different prices, starting with 1 and ending with 75. Traders were so aware of the inconsistency of those derivatives, that they were called "wind trade," or "trading clouds." MPS loaned money to buy bulbs and demanded real estate as collateral, creating a speculative financial bubble which, in December 1635, amounted to 15 times the entire wealth of Europe.

At one point, some investors came up short, and began to sell their tulip-based assets, causing a chain-reaction. In February 1637, a panic sale disrupted markets, provoking the largest financial collapse in modern times. Entire cities, such as Amsterdam, Hanover, Lvov etc., were devastated by the collapse. Families were forced to surrender their farmland to MPS; the land then ceased to be cultivated, provoking a famine, while MPS acquired immense properties throughout Europe.

...and Today

Things have not changed much today. MPS operates on the same principles as it did in 1472. The bank is still controlled by the same families—even if their names have changed, the funds (*fondi*) that those families are grouped around, are the same. Montepaschi bank is controlled by the MPS Foundation, which in turn is controlled by local authorities and notables. Political power in Siena has historically been "leftist," representing a strong bankers' influence, first on the Italian Communist Party (PCI), and eventually on the Democratic Party.

The two central figures in this connection are former Prime Minister **Giuliano Amato** and his ally **Franco Bassanini**, a former minister, and member of Parliament from Siena. Amato and Bassanini have been the sponsors of Giuseppe Mussari, the MPS CEO who launched the Antonveneta operation and the subsequent derivatives orgy (Mussari left MPS in 2012 and became head of the Italian Banking Association, wherefrom he resigned in January 2012).

Both Amato and Bassanini are members of a pro-British supranational oligarchy which is engaged in the post-Westphalian project of destruction of nation-states, called Euroland.

Amato, a member of the British Fabian Society, is directly responsible for the draft of the Lisbon Treaty, the de facto current EU constitution. He was assigned the job after both French and Dutch voters rejected the original draft treaty, and, as he explained in a 2001 interview, he put forward the same text, calling it by another name.

As prime minister in 1992, Amato played, together with Mario Draghi, a key role in starting the process of privatization and sellout of the Italian financial and industrial sector which has become infamous under the name of the "Britannia plot," after the 1992 meeting on board of the British royal yacht *Britannia*, and in drafting the 1995 legislation that introduced the system of universal banking in Italy.[1]

Amato founded the **Colloquia** in 2002, a British-Italian conference that takes place every year in Pontignano, Siena, sponsored by MPS.

Amato and his virtual Siamese twin Franco Bassanini founded the think-tank **Astrid**, dedicated to elaborate projects for "reforming" state administration. Bassanini is also a key figure in an international scheme to dupe Russian leaders in a swindle called the **Long Term Investors Club (LTIC)**. In a mockery of LaRouche's Eurasian Land-Bridge project, LTIC pushes East-West infrastructure projects but, instead of calling for a credit system able to finance those projects, it pushes the illusion of financing them with private capital. As head of Italy's state owned **Cassa Depositi e Prestiti (CPD)**, Bassanini and the LTIC push the idea that the CDP and similar institutions in France and Germany be put under partnership with private capital, thus curbing their potential credit expansion. Ultimately, the LTIC is a swindle, nurturing the illusion that the current private monetary system can be saved, and even finance development.

As the MPS case shows, this is a hopeless proposition.

An article published Jan. 26 by LTIC members **Paolo Raimondi** and **Mario Lettieri** betrays a clumsy effort to cover up responsibilities of the Bassanini-Amato group in the MPS fraud, by claiming that Montepaschi's involvement in high-risk ventures is due to the presence of shareholders such as JP Morgan, or Nomura. But JP Morgan has little more than 5% of the shares, whereas the MPS Foundation, controlled by the Amato-Bassanini group, has over 46%. However, an interesting link with JP Morgan could be pursued. The man who worked on the financing of the Antonveneta deal in 2006 was the deputy director general of MPS, **Marco Morelli**, who came from JP Morgan, where he was picked up by Bassanini and his wife, **Linda Lanzillotta**, a former undersecretary of State in the Prodi government who, between 2001 and 2006, was an advisor to JP Morgan. Morelli stayed at MPS until 2010, before going over to **Intesa San Paolo** and after that, to **Merrill Lynch**.

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1. See Claudio Celani, "The Multiple Personalities of Italy's Premier Giuliano Amato," *EIR*, Aug. 11, 2000.