THE COLLAPSE OF PARMALAT

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From a financial point of view, the most important event in 2004 was the Parmalat scandal. This subsequently set in motion a proposed reform that encountered such a wide variety of obstacles that the year came to an end before the matter had even been discussed in Parliament. The scandal was the latest in a series of major collapses to have grave consequences for large numbers of investors. This fact and above all the failure of politicians to provide an adequate response in the shape of more efficient, more rigorous regulations throw a spotlight on certain essential features of the Italian economy, the investigation of which will form the object of this chapter.

The first section briefly summarizes the essential aspects of the financial scandals that shook the United States first and then Italy. The subsequent section highlights the similarities and differences between the Italian crises, some of which have their origins in specific aspects of the Italian financial system. The final section retraces the tortuous passage of the proposed reform through Parliament and spells out the political reasons for its failure up to now. In this case too, the explanation for what happened must to a significant extent be sought by referring to certain fundamental problems associated with the Italian financial and political systems.

The Company Scandals: From Enron to Parmalat

For the industrialized world, the twenty-first century began with a chain reaction of company failures of hitherto unknown proportions.

In November 2001, Enron, the seventh-largest company in the United States, suddenly collapsed, revealing a deficit of several billion dollars which, until that moment, had been concealed by all sorts of false accounting. From that point on, other scandals exploded across the United States, in Europe, and also in Italy. Italy's list of horrors also includes a number of quoted companies, leading up to the Parmalat case, which became public a few days before Christmas 2003—and was then revealed in all its seriousness during the course of 2004.¹

These episodes represented a rude awakening for monitoring agencies, entrepreneurs, and scholars from the industrialized countries—particularly the Anglo-Saxon countries—which had deluded themselves into thinking that they had built up a system of rules and self-regulatory codes that was extremely efficient, and certainly impervious to such brazen abuse. As is well known, an important branch of law and economics had produced a system of indicators to measure the effectiveness of countries' regulatory codes, using precisely the Anglo-Saxon, and more especially the American, model as a benchmark.

It was no accident that some compared the Enron disaster with the attack on the Twin Towers. *Toute proportion gardée*, in both cases the United States discovered that it was far more vulnerable than it had ever believed itself to be, and this caused people to question fundamental aspects of its leadership.

If the larger quoted firms can deceive millions of investors with impunity, then the whole edifice of credibility and trust on which the financial system is based is in danger of collapsing. For the United States this would be a mortal blow, not just because it is the hub of the global financial market, but above all because a large part of the wealth of American households is made up of shares, and the future pensions of those currently working will derive from income from the shares in which pension funds are invested. The viability of the promises implicit in pension arrangements, that is, the very heart of the welfare system, is thus heavily dependent on the efficiency of the financial markets.

All of this explains why the American government acted with such firmness, as indeed did the political parties, the judiciary, and the monitoring agencies. In less than a year, a rigorous process of reform was set in motion by means of a bipartisan law (the Sarbanes-Oxley Act): financial sanctions totaling billions of dollars were imposed, and the powers of the Securities and Exchange Commission, the American monitoring agency, were increased.

It is particularly important to emphasize that owing to their unusual rigor and force, these measures easily triumphed over certain attitudes

that tended to minimize the significance of the event and to reject any need for decisive reformative action. It had in fact been suggested that the scandal involved merely a few “rotten apples” (with President George W. Bush himself initially taking this minimalist view); that what had been violated were laws that were already in place and that there was therefore no need to promulgate any others; that for quoted companies, the costs of regulation were already high and should therefore not be further increased.

The mixed crowd of those opposed to reform rested their case, above all, on the fact that the American company scandals all had one basic cause, namely, what Alan Greenspan, the president of the Federal Reserve, described as the “contagious greed” of the managers, who had always been the weak link in the American corporate system. This structural weakness had been greatly exacerbated by the speculative bubble that had characterized financial markets during the second half of the 1990s. It was suggested, therefore, that the fundamental cause of the scandals should be sought precisely within the speculative bubble, which had distorted normative frameworks and increased the temptation for individuals to contravene regulations in pursuit of personal gain at the expense of shareholders, even jeopardizing the very survival of the companies they directed. Now that the bubble had burst, so the argument went on, everything would return to normal, and the American regulatory system would once again be shown to be the best in the world.

The faction opposed to reform had quickly disintegrated due to the growing surge of indignation about the extent of the scandals and as a result of the solidarity of the reformist front, to whose success the support of both the majority party and the opposition made a decisive contribution. The sequence of events was as follows: the Enron scandal erupted in November 2001; then, in the summer of 2002, the Sarbanes-Oxley Act was approved and the president of the Securities and Exchange Commission was replaced; in 2003 and 2004, new rules and self-regulatory codes were passed, sanctions were imposed at all levels, and the first criminal trials got under way (one of which, as a result of plea bargaining, ended with the imposition of a 10-year sentence). In 2004, the *Financial Times* named New York’s Attorney General Spitzer (who shares his given name—Eliot—with the protagonist of *The Untouchables*) man of the year.

This, in brief, was the political situation created by the American financial scandals. It was the exact opposite of what happened in Italy. There, the scandals could in no way be attributed to financial speculation and therefore could not be explained as the product of unusual circumstances, as if they were a natural catastrophe. The pro-reform

group was quickly sidelined. Yet again, Italy showed itself to be the country of opposition to reform and of staunch resistance to change, whether of the regulatory system or of the established balance of power between vested financial interests.

In order to analyze the specifics of the Italian case and to explain why it differs so dramatically from the American, we must look at the fundamental causes of the financial scandals that have hit Italian firms in recent years. The list of such scandals includes the Cirio and Parmalat affairs, as well as a number of others, and involves both unlisted companies and companies listed on the stock exchange.

The Italian Company Scandals

The most sensational and worrying aspect of the Italian collapses, one that marks them out from those of other countries, concerns neither the size of the deficits that were involved nor the importance of the firms that were affected by them, but rather the fact that the deception they entailed was able to continue undetected for so long. The causes of the Cirio collapse could be traced back to the very origins of the group, which was directed by Sergio Cragnotti—by no accident a financier who had emerged almost unscathed from the Enimont affair (involving what was dubbed as “the mother of all kickbacks”). Parmalat’s financial difficulties had been concealed with impunity for 15 years, with the activities of those responsible eluding the inspections of company auditors, the market, and the authorities. Indeed, in the five years leading up to the collapse, just when it was thought that more rigorous and efficient regulations had been put in place to safeguard investors, the position got worse.

The lines of inspection that were breached involved at least 12 bodies: the board of directors and its audit committee, the board of auditors, the financial inspectors, the analysts, the ratings agencies, the banks that lent the company money, the banks that arranged share issues, the financial press, the Italian stock exchange, the Bank of Italy, and the Commissione Nazionale per le Società e la Borsa (National Commission for Commercial Enterprises and the Stock Exchange, CONSOB).

And yet although Parmalat was considered to be an example of industrial success and one of the few real Italian multi-nationals, it had always had its difficult moments from the financial point of view. Its quotation on the stock exchange, which occurred in circumstances that were none too transparent in 1989, had been the last act of a genuine salvage operation, underwritten by Tanzi’s political protectors and particularly Ciriaco de Mita. Even if during the course of 2004

everyone seemed keen to join the “I told you so” club, it is nonetheless true that the group’s financial situation had always been a cause of puzzlement, intensified in recent years by a series of acquisitions in Latin America that turned out to be something of an embarrassment made worse by devaluations of the local currencies.

How was it possible for a company that had always been considered financially fragile to deceive so many people for so long? If the lines of inspection that were breached were 12 in number, as stated above, over the course of time several thousand people had had a professional interest in the company and had therefore been in a position to discover the deception—or at least to raise the alarm. It is not surprising, then, that the judicial officials who first investigated the matter reportedly spoke of extensive collusion that for years had guaranteed impunity, notwithstanding the unbridled acts of illegality carried out by the main perpetrator. The anomalies were such and so numerous, it was added, that they could hardly have failed to arouse the curiosity of a regulator, however inattentive he or she might be.

The nature of the collusion that prevented the normal control mechanisms from functioning properly—and how much of this collusion was of a criminal kind—will be disclosed only when the documents on which the magistrates are now working are made public. However, two opposing, though equally dangerous, suggestions should be rejected immediately. The first is that fraudulent or at least culpable actions were perpetrated at all levels. The second is that everyone outside the closed circle of those who masterminded the deception was a victim. Rather, as in so many tragedies where there is collective responsibility, there existed a sizable “gray area,” having more to do with moral than with legal responsibility, in which several people found themselves operating: those who could have investigated further but chose not to do so; those who put their personal gain before all other considerations; those who chose to believe accounts of the firm’s position that were rosy but which subsequently turned out to be false.

This gray area expanded unstoppably thanks to two convictions that are deeply embedded in Italian economic and political culture. The first is that an industrial giant cannot fail (especially not in a country like Italy with its abundance of industrial dwarves), and therefore that there is no problem for which a solution cannot in the end be found. The second widely held belief is that in family firms the concentration of power in the hands of the patriarch-owner and the obedience that is owed to him, even when his contribution to the business does not include financial capital, are two principles that are never open to discussion.

The history of Italian industry is peppered with episodes where firms (and often their owners too) have had to be rescued and the interests of their creditors have had to be safeguarded through measures of special protection. The results in such cases have shown that the steps taken were not expedient insofar as they involved the expenditure of vast sums of public money, with the result that efficient public companies such as IRI were transformed into veritable quarantine stations, compelled to look after the “state *panettone*.”² That era is now over, to everyone’s relief, for the simple but crucial reasons that the Treasury’s coffers are empty and that the European Union keeps a sharp lookout for any increases in state aid to businesses. Despite that, even among financial experts a kind of unconscious hope persists that sooner or later a solution will be found that will safeguard the interests of the creditors.

Recent changes in the characteristics of financial markets have not eliminated the problem but, on the contrary, have led it to acquire new forms and given it global dimensions. Previously, when company finance was provided solely by the banks, financial difficulties would be resolved by debt restructuring, which resulted in the banks losing significant sums of money only in a small number of cases (of which Ferruzzi is the most significant). In all the other cases, solutions underwritten by the political authorities and by the Bank of Italy were found. Such solutions limited considerably the losses sustained by the banks, which have continued to churn out positive results over the past 30 years. Today, the possibility of finding capital anywhere in the world has led the large international banks to become increasingly interested in lending to companies. Firms no longer worry about excessive debts because there is always a long queue of prestigious financiers who, on receipt of handsome commissions, are ready to organize sophisticated operations of any kind whatsoever, and are able to prop up even the most complicated debt-servicing arrangements.

The second factor to have enlarged the gray area so considerably is one that is more directly concerned with the way in which companies’ internal control mechanisms work. The civil code, the Securities Act (Testo Unico della Finanza), and the code for the self-regulation of quoted companies—the so-called Preda code—set out regulations that should make all acts of illegality impossible. Boards of directors are required to provide general supervision of the management of their firms (paying particular attention to situations giving rise to conflicts of interest) and to satisfy themselves of the adequacy of the companies’ organizational and administrative arrangements. Within companies, appropriate numbers of independent directors must be appointed, and they must constitute a majority of the members of audit committees.

These committees have particular responsibilities, including overseeing the proper functioning of internal control systems, defined as “the totality of processes directed at monitoring the efficiency of the company’s operations, the reliability of financial information, compliance with laws and regulations, and the security of the company’s assets.”³ By themselves, these regulations would be insufficient. In addition, the Securities Act assigns to the board of auditors the task of monitoring a firm’s compliance with the law, with the terms of its articles of incorporation, and with the principles of proper administration. The board is also required to ensure that organizational arrangements are adequate from the point of view of the distribution of responsibilities, the system of internal auditing, and the system for administering accounts, which must reliably reflect management actions.

None of these precepts appears to have been respected, basically because no one inside Parmalat (or, indeed, outside it) had ever dared to contemplate the possibility that in cases of conflicting interests, the correct application of the rules might take precedence over the power of the patriarch-owner. Thus it was that neither the Securities Act nor the Preda code had any real impact on what went on in the company. The board of directors continued to be packed with family members, and the audit committee (which had three members) was chaired by Luciano Silingardi, who had made a significant contribution to the growth of the group’s debts, and included the finance director, Fausto Tonna—the person whose activities it was most important for the committee to monitor.

In addition, Parmalat failed to comply with the Preda code’s injunction to separate the office of president from that of managing director, and avoided the election of an auditor from the minority groups at the annual general meeting of 2003 by manipulating the rules on quorums. Bearing all this in mind, it becomes clear how the system of internal auditing could become, as in effect it did, a pure fiction. The slogan that appeals so much to entrepreneurs—“one person in command”—continued to be the rule, while checks and balances of the kind essential to the proper functioning of companies as much as democracies were reduced to pure form. Thus, many considered not only that the company was financially fragile but also that the mechanisms of internal supervision were manipulated in the interests of its owner in full view of everyone.

This continued despite the fact that the group had ever-growing recourse to the public’s savings: its listing on the stock exchange took place through the creation of a series of Chinese boxes in order to keep faith with the long-standing vices of Italian capitalism and to ensure that the founding shareholder maintained total control of the company.

Moreover, as is well known, the number of bonds issued had grown explosively—with the result that they rapidly came to represent the largest proportion of the firm's debts. For those who contributed the lion's share of funds to the company, there was nothing left for them to do but, like Zerlina, to whisper, "Go on, don't worry. I am in the hands of a cavalier." Unfortunately, the cavalier in question revealed himself to be even more depraved than Don Giovanni.

These are the basic reasons why the Italian collapses were different from the Enron scandal: in the latter case, a firm that had irresponsibly ridden the bubble of speculation had created an extensive network of complicity based on the greed of its managers and on the conflicts of interests of auditors, analysts, and investment banks. It had also managed to slip through the network of regulations governing commercial activities (for example, through its failure to consolidate the special-purpose entities in which its losses had been concealed). In Italy, on the other hand, there had been no need even to search for some clever subterfuge: simple deception, based—in the best traditions of Totò—on homemade forgeries, was enough. It was a fraud that the Securities and Exchange Commission called "brazen," but one in which a small circle of swindlers and another (presumably not very large) circle of direct accomplices had been surrounded by a veritable crowd of inspectors who had given up doing their jobs properly.

The banks, in particular, merit close investigation, for they—as in the American case—bore a heavy responsibility (of omission or even complicity) in the financial scandals. In this respect too, however, Italy's problems seem to be different and more complex than the analogous problems elsewhere. The basic difficulty has to do with the conflict of interests in which the banks become caught up when, at one and the same time, they lend money to companies, organize the issue of shares and bonds, arrange the take-up of securities by investors, and act as financial consultants to, and manage the savings of, their clients.

A conflict of interests of such proportions is something new because until recently banks have never performed such a universal range of functions and because share ownership has never before been so widespread. It is not surprising, then, that given this new state of affairs, the banks have shown themselves to be incapable of fulfilling their traditional function as "gatekeepers," to use John Coffee's apt expression. That is, they have failed to act as "reputational intermediaries who provide verification and certification services to investors. These services can consist of verifying a company's financial statements (as the independent auditor does), evaluating the creditworthiness of the company (as the rating agency does), assessing the company's business and financial prospects vis-à-vis its rivals (as the securities

analyst does) or appraising the fairness of a specific transaction (as the investment banker does in delivering his opinion on fairness). Attorneys can also be gatekeepers when they lend their professional reputations to a transaction.”⁴

The general purpose bank, which is the type of bank now prevalent in all the principal financial systems, is a mass of conflicts of interest. It is sufficient to quote such an authoritative source as the Bank for International Settlements, which, in its 2003 annual report, asserted:

Another economic cost associated with large conglomerate institutions whose activities straddle the two channels of intermediation is the potential for the creation of conflicts of interest. The exploitation of synergies in the joint production of financial services can give rise to situations where the institution's actions could benefit some customers, or the institution itself, at the expense of others. Two examples of such conflicting incentives for conglomerate institutions are the underwriting and placing of securities for companies with which the commercial banking arm of the financial institution has ongoing credit relationships, and the provision of research on securities underwritten by the same institution. Recent experience confirms that in such circumstances financial institutions may act in ways that reduce the capacity of the system to process and analyse information.⁵

The analysis seems difficult to refute, though one should add mention of the conflict of interests involved in combining general lending activity and the placing of securities, which was one of the critical aspects in the Cirio and Parmalat cases.

The Failure of the Italian Reform

The specific characteristics of the Italian collapses explain why the proposed reform took a turn that very soon ensured its failure. The analysis carried out shows that the strengthening of corporate governance rules could not cover all eventualities in cases such as Cirio and Parmalat. It was also necessary to address certain structural defects, such as the excessive focus of Italy's regulatory system on banks, in particular its supervisory powers vis-à-vis the financial system (that is, the banks, markets, and insurance companies), which are heavily biased in favor of the Bank of Italy. It was no coincidence that reforms were proposed in the last legislature—by the then majority and by the opposition as well—long before the financial crises came to light.

At the same time, more effective regulations were needed both with regard to banks' responsibilities in placing securities and with regard

to the relations between banks and companies. The financial scandals had uncovered the Pandora's box of questions that everyone had carefully avoided mentioning until then: Why does the Bank of Italy have so much discretionary power without being subject to any of the sorts of accountability requirements that are now commonplace among supervisory bodies in foreign countries? Why are there so many imbalances and contradictions in the framework of supervisory powers? Is it true that regulations governing the separation of banks and companies need updating in the light of today's problems?

It was therefore appropriate to aim at a reform program that was far-reaching, one that would touch on all of these questions and would lead toward a more balanced regulatory system. It was not by chance, then, that the first bill saw the light of day toward the end of spring 2004, with strong support from both the majority and the opposition.

The government, and especially the minister for economic affairs, Giulio Tremonti, made the political mistake of personalizing what was at stake, presenting the proposed reform as something that was directed "against" the governor of the Bank of Italy, rather than as something directed "in favor of" the protection of investments. Tremonti's resignation, following the European elections, very quickly changed the climate and led to the shelving of the reform, which, despite the lip service paid to it, is very unlikely to be revived in 2005, at least in its most ambitious form.

Why did it prove so relatively easy to muster forces opposed to the reform? To understand this, all one needs to do is to examine closely the two main supports on which Italy's bank-centered system rests, namely, the organization of the Bank of Italy, on the one hand, and the relationship between banks and companies, on the other.

The part of the reform that concerned the framework of supervisory powers was very detailed and included the redesigning (and simplification) of responsibilities, the introduction of uniform accountability requirements for all independent administrative authorities, an expansion of the powers and resources of CONSOB, and, finally, a fixed term of office (of eight years, as in the case of the European Central Bank) for the governor of the Bank of Italy. Disagreement flared over this last point, and the "*pax bancaria*" that had broken out between the government and the central bank as a result of Tremonti's resignation led rapidly to the shelving of the other elements of the reform as well. The latter, it must be said, made profound economic sense. The existing regulatory powers are inconsistent with economic theory, with practice in other countries, and with the need (and despite the legal requirement) to avoid duplication of the costs of regulation. They are consistent only with the admonition (which not incidentally

has always appeared beneath the title of the newspaper *Osservatore Romano*) “*quaeta non movere*.”

Similar considerations apply to the leadership of the Bank of Italy, which is the only central bank in the West to have a governor appointed for life and with no fixed age of retirement; appointees are also the only ones to have unlimited power within their organization free of obligations to answer to any collegial body. And as if this were not enough, the Bank of Italy is the only central bank to have a stake in private organizations (the ex-banking foundations), which in their turn have substantial interests in the very banks that are subject to central bank supervision.

It has been suggested that this situation, however anomalous, can be justified in terms of the contribution it makes to ensuring that the central bank remains independent of government, an overriding benefit that lies at the heart of the European treaties, as well as of monetary union. The objections to this argument are both historical and institutional in character. The historical objection is that notwithstanding this guarantee of independence, the Italian public debt has reached the levels that are now too familiar thanks in part to a monetary policy that has been overly accommodating. Only in 1981, with the “divorce” between the central bank and the Treasury that took place at the start of Carlo Azeglio Ciampi’s governorship, did monetary policy really come to be made independently. The institutional objection is that if the guarantees of independence provided for by the European treaties are to be considered satisfactory, then all that is necessary is to apply to the Bank of Italy the same arrangements that apply to the European Central Bank—that is, to give the governor a non-renewable term of office of eight years. No one has so far been audacious enough as to suggest that the Bank of Italy should be entrusted to a board of governors.

The mere proposal of a fixed term of office provoked cries of outrage because its sponsors imprudently included in the bill a transitory provision on the basis of which, if it became law, a new governor would have to be appointed immediately. In an opinion officially requested by the government, the European Central Bank expressed the view that the provision was incompatible with the European treaties insofar as it looked like an *ex lege* revocation of the governor’s mandate, and on that basis it emphatically rejected the provision. Nor was it considered acceptable to give the existing governor a guarantee of a further eight years (which, it should be remembered, would still have allowed him to be the longest-serving governor of modern times). Thus it was that a further, laborious political compromise was arrived at, whereby the reform would have no retroactive force and therefore would not affect the governor currently in office. Yet not even that solution was

thought to be satisfactory. If Parliament is unable to legislate in this area, sensitive as it is, then one must conclude that the vested interests involved are so strong that not even a matter as important as offering better protection to ordinary savers is powerful enough to overcome them.

The interests involved are, of course, ones associated with the financial system. Yet why was it possible to penetrate this sanctuary in the United States but not in Italy? Once again, the answer is to be found in the central place occupied in Italy's financial system by the banks, and especially in the links that have been created between banks and industry in recent years. These ties have ensured the existence of a network of interests stronger than would otherwise have been the case—one able to offer formidable resistance to all attempts at reform.

It must be emphasized that the links being created between banks and industry are seriously jeopardizing one of the fundamental principles that had been firmly defended by the Bank of Italy, particularly when Ciampi was governor, that is, keeping banks and industry at arm's length from each other. In the 1980s, Italy's central bank, under Ciampi's guidance, began to transform the Italian banking system, gradually eliminating two main sources of inefficiency, namely, public ownership (which placed banks under the influence of the party secretaries) and the lack of competition. In this situation, one of the basic watchwords was "separateness." The need to keep banks and industry strictly apart was suggested both by economic theory and by the painful experience of the 1930s, when industrialists squandered their capital in order to control their creditors (and protect themselves), instead of concentrating on production.

As was its custom, the Bank of Italy made a significant contribution to analysis and debate, and this led, in 1990, to the regulations that were initially included in the anti-trust law. Significantly, however, the banking sector was exempted from its provisions, the relevant powers being entrusted not to the newly established Anti-trust Authority but to the Bank of Italy itself.

A lot of water has passed under the bridge since then. The face of the banking system has changed, and in seeking to remain competitive, businesses are having to deal with problems that are entirely new. The regulations, however, remain the same and, not surprisingly, no longer meet today's needs. In the first place, they are quite unbalanced, restricting the activities of the banks much more closely than those of industry. In fact, the Basle criteria create an additional disincentive for banks to acquire enterprise assets because they require such an absorption of capital (and therefore lower levels of profitability) as to compel every director who has the creation of wealth for his

or her shareholders at heart to ration investments scrupulously. The market, that is, is reinforcing and extending the effects of the original regulations regarding separation.

None of this, however, obtains so far as industrial enterprises are concerned, since the more they are in debt, the greater their incentives to acquire capital from the banks in order that they can play the part of “majority debtors,” as Sergio Siglienti’s apt expression has it.

In the second place, the ways in which enterprises acquire shareholdings in banks are more complex than at the time foreseen by Parliament, which set an insuperable limit of 15 percent and an authorization threshold of 5 percent. The problem is that the law does not take into account a practice that is more common today, namely, that instead of shareholdings in banks being acquired by single companies, they are acquired by groups of companies able to co-ordinate their actions, even establishing cartel agreements.

This not only threatens to undermine the separation regulations but can be very dangerous for the stability of intermediaries, as has been already learned by experience. The Bipop collapse was encouraged by a web of protection and collusion among shareholders, which was supported by a network of entrepreneurs that were heavily in debt to the bank. One of them (Ardesi), which had even been authorized to exceed the share threshold of 10 percent, risked ruining not just one, but two banks.⁶

It is not difficult to imagine further embarrassing cases arising in the future, even without considering companies that are pathological cases. If a number of entrepreneurs were to seek joint acquisition of over 30 percent of the share capital in a listed bank, they would be forced to launch a public takeover bid and therefore to assume absolute control. The provisions of the Securities Act thus conflict with those of the banking code. This raises the possibility of a conflict, having the proportions of a Greek tragedy, over whether to obey the laws of the land or those of the gods. Naturally, this tells us that no group of entrepreneurs will ever be so naive as to exceed that fateful threshold and will seek every kind of assistance and company protection possible. The result will be to consign to obscurity and the worst expedients the controlling ownership of a considerable proportion of Italy’s banking system.

Once again, it is obvious that the situation requires a change in the law, but it is equally obvious that every attempt at legislation carries the risk of unsettling existing arrangements and understandings that were reached with extreme difficulty. Postponement of the reform is thus a price that has been paid to maintain the status quo, and as far as Italian investors are concerned, the observations I made in 2003

in relation to the Cirio case are even more true today than they were then: “[N]either the politicians nor the authorities have yet done anything concrete, and the likelihood that lessons for the future will be drawn from this sad episode is steadily diminishing. The victims of the Cirio affair, unlike those of [Michele] Sindona, [Roberto] Calvi, and [Raul] Gardini, will not even have the satisfaction of having contributed to some small improvement with regard to regulation. They appear cursed by a fate not unlike that of the unknown soldier.”⁷

– Translated by Doug Thompson

Notes

1. The crisis broke following the missed payment of a bond in the sum of €150 million that had matured. Following the disclosure of serious deficits—to the tune of several billion euros—and of accounts crudely falsified, Calisto Tanzi, the “patron” of the company, was arrested. At the end of 2004, Tanzi, who had been released on bail, was investigated for serious crimes, which included, among others, fraudulent bankruptcy.
2. This refers to IRI’s rescue of a well-known food company, Alemagna. Among other things, the company produced *panettone*, a typical Milanese cake.
3. Comitato per la Corporate Governance delle Società Quotate (Committee for the Corporate Governance of Listed Companies), *Codice di Autodisciplina* (Milan: Italian stock exchange, July 2002).
4. J. C. Coffee, “Understanding Enron: It’s about the Gatekeeper, Stupid,” Columbia Law School, working paper no. 207, 30 July 2002; and J. C. Coffee, “What Caused Enron? A Capsule Social and Economic History of the 1990s,” Columbia Law School, working paper no. 214, 20 January 2003.
5. Bank for International Settlements, *73rd Annual Report*, 139–140, <http://www.bis.org/publ/arpdf/ar2003e.pdf>.
6. The shares had in fact been bought thanks to funding granted by the Banca Popolare di Milano, the shares themselves being used as a guarantee. The collapse in price of the shares, however, quickly reduced the value of the guarantee itself. On this aspect, and on the Bipop collapse in general, see G. Franzini, *L’assalto al cielo* (Rome: Editori Riuniti, 2003).
7. M. Onado, “I risparmiatori e la Cirio: ovvero, pelati alla meta. Storia di ordinaria spoliatura di azionisti e obbligazionisti,” *Mercato Concorrenza Regole*, no. 3 (2003): 499–536.