Italy pushes surprise flank to bypass EU debt trap

Even as Brexit continues to dangle over the European Union like the sword over Damocles' head, Italy is considering action that strikes even greater fear into the EU's dictators, as it moves towards policies that would reassert national sovereignty in a dramatic way.

The leaders of both parties in Italy's ruling coalition—the Lega's Matteo Salvini and Five Star Movement's Luigi Di Maio—are pushing to create a means of paying Italy's deficit outside of the EU's suffocating rules. Under the proposal the government would issue special treasury bills to pay off debt to its domestic business creditors (vendors) up to €53 billion, erasing its deficit in one stroke. While the bills are not legal currency, the vendors would accept them as payment because they can use them to pay their taxes. They can also use them to purchase goods from other companies, which would be willing to accept them as payment because they can also use them to pay taxes.

Known as *mini-BOT* Treasury bills (mini-Buoni Ordinari del Tesoro, mini-ordinary treasury bills), they will be issued in denominations ranging from €5 to €100. One of the main authors of the proposal is Senate Budget Committee chairman Claudio Borghi, of Lega Nord. While money supply will effectively increase, he suggests, the mini-BOTs will not be accounted for in the budget, as unlike currency they have no forced circulation or legal rate—accepting them as payment is entirely voluntary.

On 28 May a non-binding motion calling on the government to test the feasibility of the proposal was voted up by all parliamentary factions. Economy Minister Giovanni Tria has stated that the Treasury is not examining the proposal, but in a 15 June interview with *La Repubblica*, Borghi said he is confident the government will move ahead with the plan. Saying Tria and Prime Minister Giuseppe Conte had been "frightened by the wave of disinformation" about the proposal, he declared, "I am confident that they will be persuaded." In any case, he continued, the "political responsibility" belongs to the parliament. "We are the ones who decide."

The plan has caused a furore across Europe, with EU officials calling it a stealth plan to introduce a parallel currency to pave the way for a Euro departure. But, in reality, that is the least of their worries because it is an *assertion of sovereignty* by Italy against the EU, which could even lead to the establishment of a credit system to mobilise the productive capacities of the nation, and inspire other European nations to do the same. Some Italian MPs would be aware that the young American republic, under the tutelage of George Washington's Treasury Secretary Alexander Hamilton, issued debt certificates as a mechanism to pay off its wartime debt, which instruments ultimately became the national currency and the capital for a national bank.

European Central Bank President Mario Draghi has declared the proposal illegal because the bills do not take the form of either money or debt, but its proponents insist they don't have to. They function in the same way as a voucher. For example, a four-cent discount fuel voucher is not legal tender, but is worth something to the bearer who uses it to buy petrol at, say, a Coles or Woolworths service station; neither does it place a new debt against the issuer, i.e. Coles or Woolworths, which is merely providing a discount. In Italy's case, as the notes are issued by the government, they are transferable because their government backing will make others willing to accept them as payment. Whilst not technically a currency, they *have currency*.

The EU is unhappy because this allows Italy to get around EU and Maastricht provisions, which limit the amount of debt nations can issue, and government deficits, not for the sake of the economy, but for the euro. Left-wing German website NachDenkSeiten has foreshadowed that the Italian government could even use the mini-BOT program to issue emergency liquidity to banks in a banking crisis, if the ECB shuts off liquidity, which is one of the main weapons it holds to force Italy into line.

Die Welt warned that it is the first step for an "Italexit", under the headline "Italian Parallel Currency Is What Will Explode the Eurozone". Chairman of Italy's Senate Banking Committee, Senator Alberto Bagnai, declared in a statement that "there is no plan" to exit the euro.

Needed: a European New Deal

Nonetheless, Sen. Bagnai is taking aim at the strictures of the EU's European Stability Mechanism (ESM). In a Senate speech on 11 June, he took on an EU Commission proposal to provide the ESM the capability of "establishing the creditworthiness of countries and their sovereign debt", empowering the ESM to declare nations in default. Bagnai called this "a stealth design by our northern brothers to allow a controlled default by a Eurozone member".

The changes are proposed along with other reforms of the ESM to bring about a fully-fledged EU Banking Union, to be discussed at the upcoming Euro Summit on 21 June. They include establishing a bank-contributed credit line to back up the Single Resolution Fund serving as a last resort to resolve—that is, to "bail in"—banks during a crisis.

In an article for London's *Financial Times*, Bagnai challenged EU rules, such as "the rules that national government deficits should not exceed 3 per cent of gross domestic product and that government debt should stay below 60 per cent". Those rules, first proposed in the 1992 Maastricht treaty, have been since tightened and changed for varying circumstances, restricting Italy for instance to a deficit worth 1 per cent of its GDP.

The Italian government is demanding “a radical change of course in economic policy”, wrote Bagnai. “At a time of low inflation, we must stop making price stability the yardstick of success. Growth and employment must (cautiously) replace it.” Rules are not neutral or objective, he asserted, but “reflect the power relations prevailing at the time of their adoption”. Failure to reassess rules “can lead to political strife”. He suggests “a ‘golden rule’ that capital investment should not be considered in the deficit ... including both physical and human capital”, calling on Italy’s European partners to commit to a “European new deal.”

Australian Alert Service 19 June 2019
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