

10 Aprile Italy: Has the Five Star Movement given up on Italexit?

An important step towards a full-fledged programme. The Five Star Movement in Italy has taken an important step in clarifying the main lines of its programme. The movement, led by Beppe Grillo, has started to develop a full-fledged programme its own way, i.e. through a series of online votes. This is described as 'direct democracy', despite the fact that, usually, no more than a few thousand activists vote, without guarantees on transparency. This time the movement offered the choice of 3 foreign policy priorities to 135,000 registered members. Only 17% made a choice. Apparently, the pre-determined 10 proposals were the result of four years of work by 5SM MPs in the Italian and European parliament. All the 10 proposals are part of the programme anyway. The programme appears to attempt to link far-left anti-globalisation and pacifist themes with Le Pen's protectionist stance. Still, I reckon this is a significant step to shape up what is still a cacophony of ideas. **Importantly, there is no longer an explicit call for exit from the Eurozone, i.e. Italexit, although it is not clear whether it remains valid the call to change the Constitution to allow referenda on international treaties (euro).** The three key foreign policy priorities voted on-line by 5SM supporters are: (1) introducing a "fiscal currency", (2) fighting international trade treaties such as TTIP and CETA, (3) more sovereignty.

What are the 10 points of the programme? (1) More sovereignty, (2) rejection of war as a right of all people, (3) de-militarisation, and introduction in the Mediterranean sea of a peace zone free from nuclear weapons, (4) transforming NATO into an exclusively defensive system, (5) changing Europe to avoid fiscal austerity, promoting an alliance of Mediterranean countries to fight fiscal rules and achieve deep reform of the EU, including dismantling of the Troika and the ESM, introducing a "**fiscal currency to allow the government to make public investments and support citizens' income**", (6) recognising the Palestine state, abolishing all economic embargos and introducing an embargo on weapon trade, scraping of sanctions against Russia, pulling Italian troops out of NATO missions, (7) widening foreign policy alliances to multilateral agreements with emerging countries etc. (8) fighting against the blackmailing of international financial institutions camouflaged by structural reforms, (9) fighting against international trade treaties such as TTIP and CETA, and (10) protecting jobs and the environment in international treaties (trade protectionism).

What was Grillo's stance in the past? Clearly, the key issue is what is the 5SM's stance on the euro, but also that of public debt. I have reported in the past the foreword of a letter by Beppe Grillo and Manlio Di Stefano addressed to the President of Ecuador Rafael Correa on their blog: "When you became President, you inherited a country in ruins due to foreign debt and in 2006 you decided to stop killing your people and considered the World Bank and IMF as not welcome in your country; then you imposed an audit on the debt that certified immorality and clear irregularities by North American and European financial institutions. Once we go to government, we will take the Ecuadorian government as a model for future relations with the European Troika and the IMF. We have some urgent domestic duties. And we will put the national interest first. At the right time, we will respect international obligations, but our priority is now very clear: life first and debt afterwards. The incompetent and corrupt international bureaucracy must respect our country". Not only the 5SM was in favour of Italexit by means of a referendum (widely publicised in their blog), but also hinted at default on Italy's public debt.

How about more recent statements on Italexit? Just a few days ago (23 March) Luigi Di Maio, who is perceived to be the main candidate for becoming Prime Minister and was among those having the least aversion versus the euro, came out with a statement in front of the Foreign Press Association in Rome saying that "The Euro is not democratic. We must prepare procedures to get out". He also confirmed the 5SM's intention to go for a "non-binding referendum to ask Italian citizens if they want to get out of the single currency", following a change in the Constitution to allow for that (at the moment Italy's Constitution does not allow for a referendum on international treaties). He added, "A sovereign state must be able to manage its own currency" suggesting the possibility of returning to the lira. Is the proposal of a "fiscal currency" a sign of a shift in 5SM's strategy towards the euro, or is it the first step towards Italexit?

What does it mean a "fiscal currency"? Gennaro Zezza, an economic professor who made the proposal, explained that "discussing whether it is technically possible or not to leave the euro is not even appropriate here, as you surely can, but certainly the political costs to be incurred would be high". Therefore, the issue is "finding less aggressive alternatives vis-à-vis our partners", namely the introduction of a "fiscal currency". According to the professor, the tax money is "a financial instrument that is issued and accepted by the government in paying taxes." This sort of bitcoin, however, would not be legal tender as using it as a means of payment among private citizens would not be compulsory. It would be issued and accepted by the government to pay taxes. "For example, to pay part of the salaries of unemployed who are given a job or an additional part of pensions. And as this currency is accepted, one-on-one with the euro, by the government for the payment of taxes, I do not see why it should not also be accepted by individuals for private transactions". "Therefore, the proposal of the 5SM is no longer leaving the euro but rather introducing this parallel currency". "The benefit would be to restore purchasing power to the government, not constrained by fiscal treaties". "The euro is going to fail anyway sooner or later, and inevitably the countries will have to find a solution. This proposal allows an immediate start with an alternative mechanism." "The fundamental problem would be the trust that citizen will have on this new currency. If you see it as a desperate

move by a government that is at the end of its rope, people will be reluctant to use it. However, it will allow creating jobs and putting an end to the crisis and thus I do not see why it should not be accepted" [translation is mine]. The idea of a parallel currency famously emerged in Greece in 2015, but the economics have been analysed for a while (Bruegel even prepared a small literature review on this subject). There are also respectable economists who have addressed this topic in the past. The current proposal by the 5SM (and professor Zezza, and before him Biagio Bossone, Marco Cattaneo, Enrico Gazzini, Stefano Sylos Labini and others) has an Italian twist: it is a way to bypass the fiscal straightjacket. Zezza expects it to provide 100bn leeway on the public budget.

Would it work? Technical details for Italexit are daunting. It would be very easy to attack the 5SM's programme based on poorly prepared plans for an exit. The alternative would be for the Movement to scale back plans and leave them in the background in order to come back to them at a later stage. This would justify focusing for now on a much more reassuringly limited plan for a parallel currency. Referring to Greece's 'Plan B', i.e. the introduction of a parallel currency, Yanis Varoufakis once put it: "And of course this could be euro-denominated, but at the drop of a hat it could be converted to a new drachma". So, it could be a sort of Trojan Horse for a full-fledged Italexit. An alternative interpretation would be that the 5SM has genuinely changed strategy, i.e. no longer Italexit but just a new way to get yet another flexibility instrument on public finance. Unfortunately, this is simply not going to work for two reasons: (1) the ECB is the sole issuer of banknotes and bank reserves. That means it is the monopoly supplier of the monetary base. By virtue of this monopoly, it can set the conditions at which banks borrow from the central bank. It would be against its monopoly to introduce a separate currency. Proponents would argue that the new currency would not be a legal tender and thus this critique would not apply. If it were not a legal tender, it would be an IOU backed by future fiscal revenues. For the holder, it would be similar to a tax credit as —worst case scenario— it could only be used for paying taxes. However, (2) this would not give rise to additional fiscal flexibility. Time of recording must, as prescribed in national accounts rules, focus on economic substance over legal form, that is when the economic activity took place, which generated the tax liability (tax credit for the citizen). ESA 2010 would imply an immediate recording of the government liability: "If the moment of the determination of the tax liability is taken as a proxy point of accrual, the time of recording should be established when the tax liability is assessed and not at the time of the effective settlement of this liability by the taxpayer." It is amazing how people spend time in Italy focusing on ways to get around fiscal rules, without addressing the fundamental underlying problems of the economy. Bottom line: this is not going to fly, but it could divert attention from another impossible task, i.e. Italexit. Interestingly, this apparent shift in 5SM's strategy was by-and-large ignored by the Italian press.