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Italy's rebel economist hones plan to ditch the euro and restore the Medici florin

30 Comments

Beppe Grillo's anti-establishment Five-Star Movement could work together with the Right-wing Lega Nord to leave the euro CREDIT: REUTERS

By Ambrose Evans-Pritchard, in Rome

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The once-unlikely and remote prospect of an anti-euro government in Italy is suddenly becoming a real possibility, threatening to rock the European Union to its foundations within weeks.

Events in Italy are moving with lightning speed. Key figures in the Democrat Party of premier Matteo Renzi have joined the chorus of calls for snap elections as soon as February to prevent the triumphant Five Star Movement running away with the political initiative after their victory in the referendum over the weekend.

Mr Renzi has not yet revealed his hand but close advisers say he is tempted to gamble everything on a quick vote, betting that he still has enough support to squeak ahead in a contest split multiple ways and that his opponents are not ready for the trials of an election.

It could easily spin out of his control, opening a way for a tactical alliance of Five Star, the Lega Nord, and a smattering of small groups, all critics of

The man tipped as possible finance minister of any rebel constellation is Claudio Borghi, a former broker for Merrill Lynch and Deutsche Bank, and now a professor at the Catholic University of Milan.

"We are coming to the point where Italy must make the real decision: are we for Europe or are we against it?" he told the Telegraph.

"What is emerging is a list of four parties or groups who all have one thing in common. We all agree that nothing is possible until we leave the euro."

"Europe has brought us a depression worse than 1929. It has led to entire peoples being broken and humiliated, like the Greeks, all for the sake of preserving the infernal instrument of the euro. This whole disaster has been adorned by a chain of lies, shouted ever louder because they are afraid that the colossal damage they have done will be discovered," he said.

Dr Borghi said the landslide 59:41 result in the referendum is a shock to Italy's powerful vested interests, or "poteri forti". "They are absolutely scared because none of their tools of control are working any more," he said.

"They invested huge prestige in the campaign. Confindustria [Italy's CBI], the chambers of commerce, and all of Italy's big employers were for the 'Yes' side. They said the banks would collapse, that we would lose all our savings, and that we would all go to Hell if we voted 'No', but it didn't work. It was Brexit reloaded," he said.

Professor Borghi said that withdrawal from the euro would be messy but possibleCREDIT: REUTERS

Professor Borghi said withdrawal from the euro would be messy but there are ways of mitigating the effects, first by creating parallel liquidity and letting it seep into daily life.

"The Italian treasury has €90 billion (£76 billion) in arrears on contracts. These could be paid with treasury bonds issued for as little as €50, €20, €10, or even €5, giving us time to create a second currency.

"When the time comes we can then switch to this new currency. It can be done electronically. We don't even need to print paper," he said.

Prof Borghi said the cleanest option is for Germany to leave the eurozone. If that is impossible Italy can pass a law to convert its debt obligations into lira overnight - or the 'florin' as he prefers to call it, harking back to the days of Florentine ascendancy under the Medici.

"The losses would shift to the national central banks through the Target2 system," he said. This means the Bank of Italy would repay €355bn on liabilities to eurozone peers (chiefly the Bundesbank) in devalued lira. The Bundesbank would face instant paper losses on its credits - effecting €700bn in the likely event that an Italian exit would lead to a general return to sovereign currencies.

The sums are in one sense an accounting fiction. The trial run was the collapse of the Swiss franc peg against the euro in January 2015. The Swiss National Bank suffered vast theoretical loses on its holdings of eurozone debt when the franc revalued, but life went on regardless.

The gamble is that large sums held by Italians in accounts in London, New York, Paris, or Munich, or held in safe-deposit boxes in Switzerland, would flow back into the system as soon as the boil is lanced, and once Italy has returned to exchange rate viability. Foreign investors would view Italy as a far more competitive prospect.

"I don't see any disaster. There is no way to smash our currency since we have a trade surplus. If we had a weaker exchange rate we would have an even bigger surplus," he said.

For Italy's eurosceptics a return to the lira would be a liberation after fifteen years of economic decay that has hollowed out the country's manufacturing core. Industrial output has fallen back to the levels of 1980. Real GDP per capita is down 13pc from its peak.

A report this week from the statistics agency ISTAT said the numbers at risk from poverty and social exclusion last year rose to 28.7pc, and a fresh high of 46.4pc in South, and 55pc in Sicily - the epicentre of the 'No' vote in the referendum.

A study by Mediobanca found that Italy's growth rate tracked that of Germany almost exactly for thirty years. The pattern changed with the advent of the euro, which precluded devaluations and led to a slow but fatal loss of labour competitiveness - like a lobster being boiled alive.

This was compounded by the eurozone's fiscal and monetary contraction from 2010-2104, a policy error that caused the EMU debt crisis and led to a double-dip recession. This is turn pushed Italy over the edge and into a banking crisis.

Exit from the euro would give the country the fiscal freedom to break out of its deflationary trap, and to save its banking system with a state-led recapitalization along the lines of the TARP programme in the US - forbidden under EU state aid laws, unless Italy agrees to swallow the draconian terms of an EU bail-out.

Prof Borghi said the EU's new 'bail-in' rules must be swept aside. "As soon you start wiping out savers and bondholders - who did not behave recklessly - you are telling people that their money is not safe in the bank," he said.

"All the EU has achieved is a collapse in Italian banking stocks by 85pc since last November. You have to step in to save the banking system in a crisis otherwise everything is destroyed," he said.

Prof Borghi is chief economic strategist for the Right-wing Lega Nord, but what is emerging is a tactical alliance between his party and the Five Star Movement, which has more in common with the Left. The two together are running at 44pc in the polls. Their economists are working together in what is becoming a closely-knit school of eurosceptics.

The grass roots of the Five Star party have always been hostile to pacts with any other group, regarding the whole political cast in Italy as rotten to the core. But Mr Grillo says the party is closing in on power and must be prepared to make compromises. "We are in a spiral towards government," he said.

Prof Borghi is under no illusion that leaving the euro can alone solve Italy's deep-rooted problems, but 'Italexit' is a minimum condition. "It is going to be hard, but without our own correctly-valued currency, we are not going to be able to do anything however hard we try," he said.