Returning to the Lira

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Introduction

- The currency is a tax credit
- The currency is a public monopoly
- ‘The deficit’ = current year tax credits spent and not yet used to pay taxes
- ‘The debt’= tax credits outstanding
- Tax credits accumulate as ‘cash’, reserves, and securities account balances at the CB

The Problem is Unemployment!

- The currency is a tool to provision the state
- Taxation functions to create unemployment
- Spending functions to employ those unemployed by the tax
- Unemployment is the evidence that state spending is not enough to cover the tax liabilities plus net savings desires

Fixing the Problem

- Unemployment is the evidence that indicates the deficit is too small
- Unemployment is eliminated by hiring the unemployed, or otherwise increasing the deficit with tax cuts and/or spending increases

Options for Prosperity

- The EU won’t allow sufficient deficits to accommodate taxes + savings desires
- The remaining option is a return to the lira
- The critical understanding is that the right size deficit is the one that corresponds to full employment

From Euro to Lira

- All tax liabilities become payable in lira
- All Italian Govt. Employees get paid in lira

- The compensation redenomination is 1:1
- The govt. does not fix a lira exchange rate

Bank Loans and Deposits

- Bank deposits and loans remain in euro
- Borrowers and depositors have the option to convert at market prices
- All lira bank deposits fully insured by govt.

Bank Lending

- Bank lending only in lira
- Bank lending limited to public purpose
- Financial assets not acceptable collateral
- Lending by credit analysis, not market prices

Bank (Lira) Liquidity

- Continuous, unlimited liquidity from the BOI
- Unlimited govt. deposit insurance
- Interbank lending prohibited

Additional Proposals

- Govt. contracts renegotiated to lira
- Permanent 0 rate policy
- No issuance of BTP or CCT
- Suspend VAT to relax the fiscal balance
- BOI funds a transition job for anyone willing and able to work

Dynamics of the Lira

- Strong lira from taxation without deposit conversion
- This allows the govt. to purchase euro as needed to meet prior obligations for initial stability

Fiscal Policy

- The ‘right size’ govt. is politically determined to meet real public service needs
- Taxation is subsequently adjusted targeting the total participants in the transition job at 3% of the labor force
- The trade balance is allowed to adjust to that of full employment conditions

Caveats

- Converting bank deposits carries the risk currency depreciation and inflation
- A positive interest rate policy carries the risk of currency depreciation and inflation
- Banks regulation must tell banks what they can do, and not what they can’t do.