Policy Spotlight
Italy’s mini-BOT Proposal

Author: Michael Svedman

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Background

While several prominent figures associated with the League, including former Deputy Prime Minister Matteo Salvini and former president of the Senate Finance Committee Alberto Bagnai, have expressed support for the idea of using small denomination government bonds to pay public arears, there is no “official” mini-BOT proposal. A unanimous vote in Parliament on May 30, 2019 to adopt a motion inviting the government to accelerate the payment of public arrears by issuing mini-BOT was non-binding and did not spell out the details of such a plan.

Most discussions of the mini-BOT center on a detailed overview of the plan advanced by Claudio Borghi, the chief financial advisor to the League, in a 2018 pamphlet titled *Mini BOT: Democracy and Sovereignty*. The name ‘mini-BOT’ refers to small denomination, non-interest-bearing treasury bonds (or Buoni Ordinari del Tesoro). The government would use large issues of the notes to pay a portion of its public arears. The notes in turn would be redeemable against future tax obligations as well as in exchange for public goods and services. According to Borghi, the guaranteed liquidity these public uses would provide would allow the mini-BOT to circulate widely throughout Italy at par with the Euro and even encourage their acceptance in private commercial exchanges.

But the mechanical aspects of the mini-BOT only tell part of the story, and throughout his pamphlet Borghi articulates a powerful link between national political sovereignty and the state's power to issue money. On his account, the state without monetary sovereignty lacks the meaningful authority to realize its political goals. This inability to actualize the will of the electorate in turn vitiates the very notion of a democratically elected representative body. In short, monetary sovereignty is one of the key powers in the structure of the state as a political expression of the popular will. Along with the power to make laws and control the national border, monetary sovereignty is foundational to Borghi's account of the sovereign state.

Two features of this argument should be noted. First, it is antithetical to the basic premise of the EU project, which rests on the idea that economic convergence across the eurozone is compatible with sovereign political diversity. This idea reflects neoliberal orthodoxy in treating the market as a distinct sphere of human activity governed by its own internally consistent and apolitical logic. Second, Borghi's rhetoric mines deep veins of populist sentiment. He invokes the image of the state as the agent of technocratic elites in Brussels rather than its proper master the Italian

people and channels this resentment into an agenda that joins economic stimulus
with political self-determination.

The ongoing budget conflict between Italy and the EU illustrates the
practical dimensions of this ideological contest. On June 5, 2019, the European
Commission issued a report under Article 126(3) of the TFEU concluding that
Italy’s 2018 budget had not complied with EU budget criteria and recommending
that Excessive Deficit Procedure (EDP) was appropriate. In response, the
Italian government adopted a mid-year budget on July 1, 2019 with the headline
deficit expected to reach 2.04% of GDP as compared to the Commission’s spring
projection of 2.5%. On July 4, in recognition of the mid-year budget and a 2019
spending freeze clause, the Commission determined that opening EDP would no
longer be warranted as Italy had signaled its commitment to sound fiscal
policy. Yet with public debt above 132% of GDP, well in excess of the 60% limit
enshrined by EU policy, Italy remains at the center of a budget crisis. The
tension between the Italian government’s political priorities and EU fiscal
guidelines demonstrates the political pressure the Commission can exert through
the European Central Bank, budgetary surveillance, and constraints on public
spending. Indeed, this conflict animates some of the central issues not only in

Italian politics but across the EU's shifting political landscape.

In the view of many commentators, the recent vote by Italy's Five Star to form a new ruling coalition with the center-left Democratic Party (PD) signals the resolution of a prolonged crisis in Italian politics. Following the 2018 general election, the Italian government had been controlled by a fractious political alliance between the hard-right League and the left-populist Fiver Star Movement. Both the League and Five Star campaigned on broadly euro-skeptical platforms playing to widespread Italian resentment over economic stagnation, immigration, and sweeping austerity measures entailing cuts to government spending and public benefits. In response to these issues, both parties have expressed support for a parallel currency like the a mini-BOT. The formation of a new government alliance may blunt these fears, but the debate surrounding the mini-BOT proposal continues to trace the economic and political fault lines running through the EU project.

Policy Debate

The mini-BOT proposal articulates two goals. First, to stimulate the Italian economy and give the Italian government the freedom to increase spending without running afoul of EU budget constraints. And second, to restore Italy’s political legitimacy as a sovereign state. The policy debate surrounding the mini-BOT forks at both of these major points. Simply put, what are the economic and political consequences of introducing a de facto parallel currency within the eurozone?

According to its supporters, the mini-BOT would promote Italian economic growth by increasing productive capacities across the economy and lifting the burden of austerity imposed by EU fiscal and monetary policy. The basic idea is that productive potential is lying dormant in the economy because limits on public spending have restricted aggregate demand while the deflationary effect of sweeping austerity measures across the EU has depressed wages and growth. By injecting liquidity into the economy in the form of fiscal money, the government could stimulate demand and reverse these downward pressures. Bossone and Cattaneo have written perhaps most extensively about the potential benefits of a parallel currency system like the mini-BOT for Italy’s economy. Their work concentrates on the Keynesian multiplier effect of increased government spending, which would improve wages, production, and fiscal revenues. Their model holds that such spending would generate enough tax revenue to offset the cost of the tax rebate.

Critics of the mini-BOT, however, argue that the mechanism would weaken Italy’s fiscal position precisely because it would decrease the overall tax take. By accepting mini-BOT for tax payments in place of euros, the Italian government would dilute its tax revenue stream and increase the burden of its euro-denominated debts. Skeptics also question whether the mini-BOT would actually trade at par value with the euro. Borghi is notably vague about exactly how the mini-BOT would maintain par value with euros, and several commentators have predicted that their value would be discounted in private transactions, in turn driving up the cost to the government of mini-BOT denominated contracts relative to contracts for similar goods and services in exchange for euros. Papadia and Roth suggest that the mini-BOT would be most attractive to risk-loving traders, and thus shift wealth from budget-constrained taxpayers selling them at a discount to actors who could afford to speculate on their value.

Perhaps more urgent than the debate over the mini-BOT’s probable economic outcomes are the questions it raises about the political consequences of introducing a parallel currency within the European monetary union.

The threshold question is whether the mini-BOT proposal is legal under TFEU rules. Article 128 restricts the issue of legal tender within the monetary union to the European Central Bank. According to Borghi and others, the mini-BOT would not have “legal tender” status and therefore would comply with TFEU guidelines. Borghi points out, for example, that private sector actors could not be compelled to accept or recognize them. There is also a question of whether the mini-BOT would constitute debt such that the parameters set by Stability and Growth Pact (SGP) guidelines would apply to any issue of the notes. For the proponents of fiscal money schemes, such notes are not properly thought of as debt because they are not redeemable for anything and no ‘put’ date or maturity attaches to them. Borghi argues that, rather than contributing to Italy’s public debt, the mini-BOT would simply repackage existing debt into a liquid vehicle in order to free up public resources. Critics counter that the mini-BOT proposal is a blatant effort to circumvent SGP guidelines. Indeed, according to the Bank of Italy, the mini-BOT and all fiscal money would constitute debt from an accounting perspective. In general, these questions are matters of political and legal determinations as much as they are economic.

Finally, many critics and proponents alike recognize the mini-BOT as a covert method of going off the euro and ultimately precipitating a so-called Ital-exit, or Italy’s withdrawal from the European Union. Borghi’s emphasis on sovereignty clearly signals the euro-skeptical valence of the mini-BOT proposal. He characterizes the wide circulation of the mini-BOT his proposal envisions as a “spare tire” that would allow Italy to transition seamlessly to its own currency in the event of an Ital-exit. Likewise, Stiglitz has also argued that introducing a parallel currency represents an effective blueprint for a European Union member state to leave the monetary union. Its critics see in the mini-BOT a fundamental threat to the liberal consensus of the entire European Union project. To borrow language from a recent article appearing the New York Times, the mini-BOT "would threaten to bring the entire eurozone tumbling down because it would erode the very premise of the euro as a single monetary unit." In short, the mini-BOT debate traces the same fault lines as the rise of far-right and otherwise populist political factions across Europe.

Additional Resources

- For a summary of the features of the mini-BOT proposal, see Francesco Papadia and Alexander Roth, Mini-BOT in the government programme of the Five Star Movement and the League, Breugel (June 5, 2018), https://bruegel.org/2018/06/mini-bots-in-the-government-programme-of-the-five-star-movement-and-the-league/#_ftnref3.
- For an overview of the policy debate, see Silva Merler, *The Italian mini-BOT debtate*, Breugel (June 11, 2018), https://bruegel.org/2018/06/the-italian-mini-bot-debate/.
- For more theoretical work on parallel currencies in the EU, see Biagio Bossone et al., *A parallel currency for Italy is possible*, Politico (July 7, 2018, 10:10 AM), https://www.politico.eu/article/parallel-currency-italy-possible-eurozone.