MMT in Italy: A Journey of Activism and Government Policy Making

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"The Italian Job"

How four young guys conceived, promoted, and implemented the largest fiscal expansion of the Italian economy in the last 30 years.

Instead of a historical perspective (found in Warren's biography appendix "THE ITALIAN JOB"), I want to discuss elements that led to our incredible results.

Our background

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Beyond individual will and capacity, and having Warren as an ace, what contributed to our success?

From non-profit associations to a consulting company,

our strategic positioning choice.

Non-Profit vs. Consultancy

- Non-profits seek increased consensus and visibility, which can conflict with politicians' desire for self-promotion.
- Our consultancy aimed to provide services, creating proposals tailored to clients' specific needs but aligned with MMT principles.

Non-Profit vs. Consultancy

- Non-profit organizations do not seek monetary profits but other types of profit, such as increased consensus and visibility, which can conflict with politicians. Politicians, in fact, seek notoriety for themselves, hoping to convert it into votes or more important positions within the party.
- The consultancy aimed to provide services, creating proposals tailored to our clients' specific needs but consistent with MMT principles. These proposals had to be perceived as useful in the clients' political journey.
- To achieve these objectives, three things were fundamental:
    - Great flexibility in adapting formal aspects. For example, M5S's basic income compared to transitional work. We were never too attached to names or brands, not even to that of MMT.

Selflessness

- Taking a step back, giving up your idea without feeling robbed. It is a difficult but necessary self-work.
- In this, Warren was an even more effective teacher than he was on MMT itself. We were inspired by his total dedication and his ability to give without asking for anything in return.
- Despite some friction, we reminded ourselves that we were doing it for a higher good, for our fellow citizens, and we managed to stay united despite the difficulties.

Bending, not breaking

MMT and Italian Politics Case Studies

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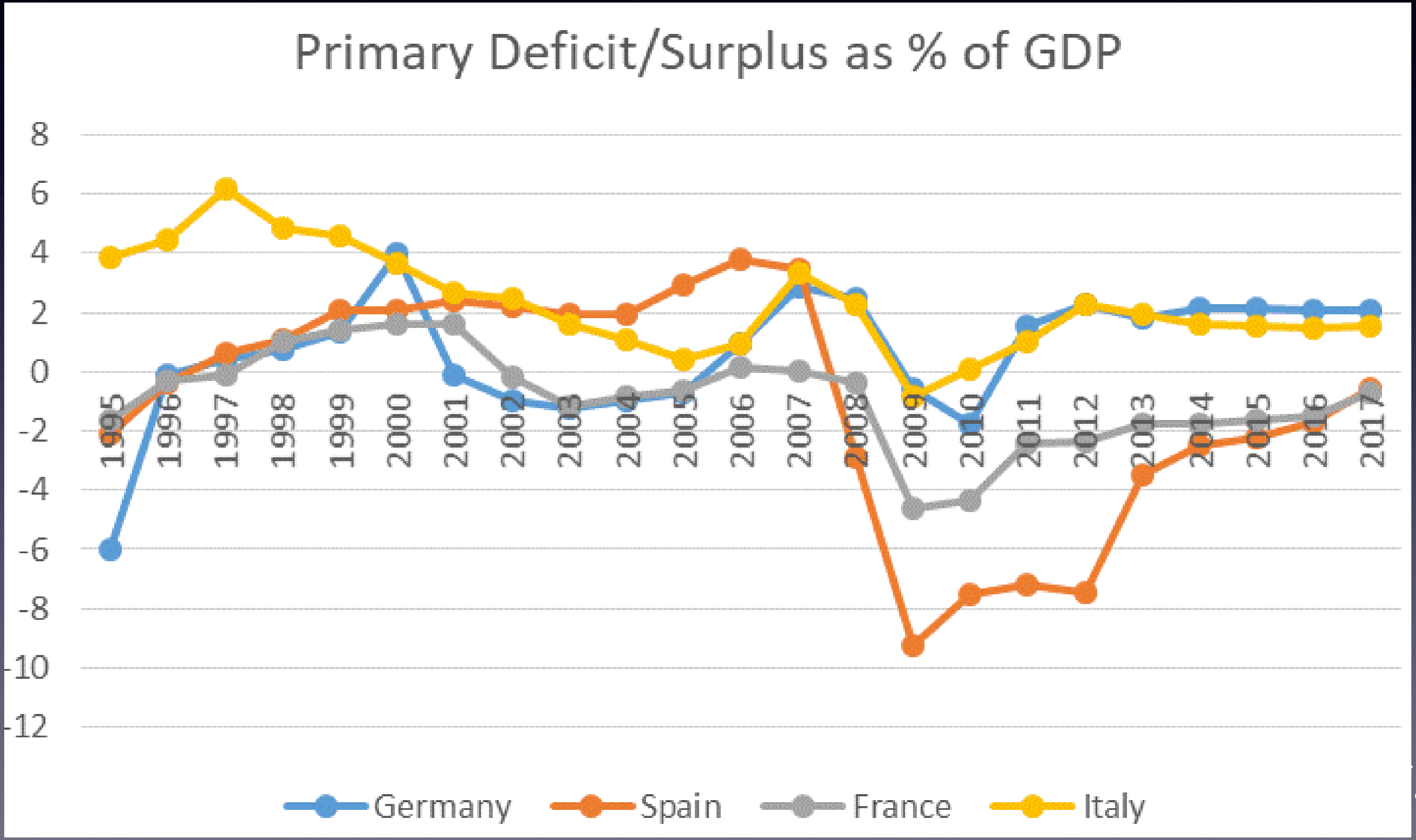
Executive summary

- After 2011, **Italy had not recovered pre-growth trend**, with unemployment skyrocketing
- Euro Area **fiscal rules did not allow for needed fiscal expansion**, with monetary policy unable to provide stimulus and the political class unable to negotiate further fiscal space
- How do we **enable a fiscal expansion** under the existing institutional structure?
- Solutions offered:

  1. **EU-funded transitional jobs programs**
  2. Reassessment of the **output gap** through a **labor supply shock**

After the double-dip crisis (2008-2011), Italian GDP did not recover its pre-crisis trend

Italy was running structural primary surpluses before Covid to tame the debt-to-GDP ratio



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Source: Costantini (2018) on ECB Statistical Warehouse data

«Citizen’s Transition Job» Program: a EU-funded transitional job program presented at the EU Parliament

In the pre-Covid decade, MMT activists in Italy established **contacts with different political parties** to **promote MMT solutions**.

In 2017, several **Five Star Movement** members showed interest in our proposals. MEP Laura Agea supported the idea of a **transition job program** and requested a report on the feasibility of a **EU-funded program**.

The proposal was presented by **Warren Mosler** at the European Parliament's Employment Committee (9 February 2017)

A recommendation was included in the **officially adopted resolution** by the **EU Parliament on minimum income policies**

2.2. Invitation of experts for the consideration of the draft report on minimum income policies as a tool to tackle poverty (Rapporteur: Laura Agea) - [MA]

Decision:

On the basis of the proposals submitted by political groups, the following speakers have been selected in written procedure and will be invited to take part in the exchange of views on 28 February 2017:

- **Warren Mosler**, Visiting professor at the University of Bergamo, Italy
- **Claire Courteille,** Director of the International Labour Organisation's office in Brussels
- **Fintan Farrell,** European Anti-Poverty Network
- **Miguel Laparra,** Vice-president for Social Policy, Navarra Regional Government, Spain

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«Citizen’s Transition Job» Program in the European Parliament’s 2017 report on tools for fighting poverty

Public employment programmes

58. Takes note of certain public employment programmes, which consist of the option, for those who want to and are able to work, to have a transitional job, in the public sector or in non-profit private entities or social economy enterprises; stresses, however, that it is important for these programmes to promote work with rights, based on collective bargaining and on labour legislation;
59. Takes the view that public employment programmes should help to improve workers’ employability and facilitate their access to the regular labour market; recalls that these programmes should include a personalised itinerary and should provide decent wages and lead to decent work;
60. Believes that the creation of decent jobs should be a priority for the EU as an important step towards reducing poverty and social exclusion;
61. Calls on the Commission and the Member States to ensure the full participation of all stakeholders, in particular social partners and civil society organisations, in the design, implementation and monitoring of minimum income policies and programmes;

Source: [Minimum income policies as a tool for fighting poverty]

How to fund a minimum income program in the context of the Eurozone fiscal rules?

- Five Star Movement's official policy had a preference for **guaranteed minimum income** policy (Citizenship Income) over our transitional employment programmes proposal

- We decided to help Five Stars on the implementation of guaranteed minimum income as a compromise between the priorities of the debate and the dissemination of MMT.

- According to first estimates, Citizenship Income's cost was around **1% of Italy's GDP yearly**

- The pre-Covid **Stability and Growth Pact** (Eurozone fiscal rules) had two fiscal surveillance mechanisms:
  - **Preventive arm** – a Medium-Term structural budget Objective (MTO) is set (~0.5% of GDP) and non-compliant countries should adjust their structural budget deficits over time
  - **Corrective arm** - corrective actions are imposed to member countries whose deficit exceeds 3% of GDP or whose public debt exceeds the reference value of 60% of GDP

- Under the existing arrangements at the time, **fiscal space** measured by structural budget deficit is a function of the **output gap** (difference between **actual** and **potential GDP**)

The Stability and Growth pact exerted a pro-cyclical impact on Italy in the pre-Covid decade

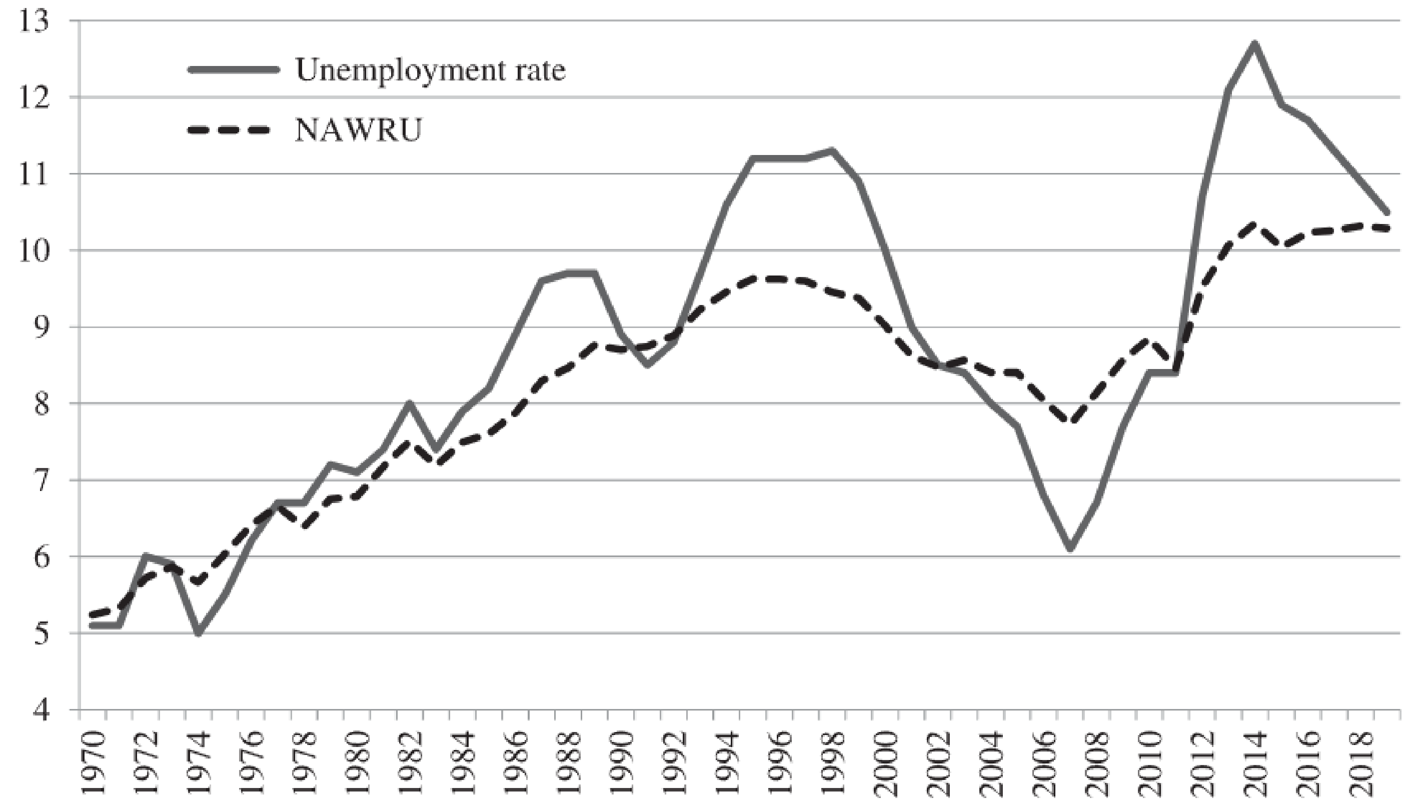

Figure 6. Italy's actual unemployment rate and NAWRU. Source: AMECO (data extracted on March 2018).

And real unemployment was much larger than officially recognized

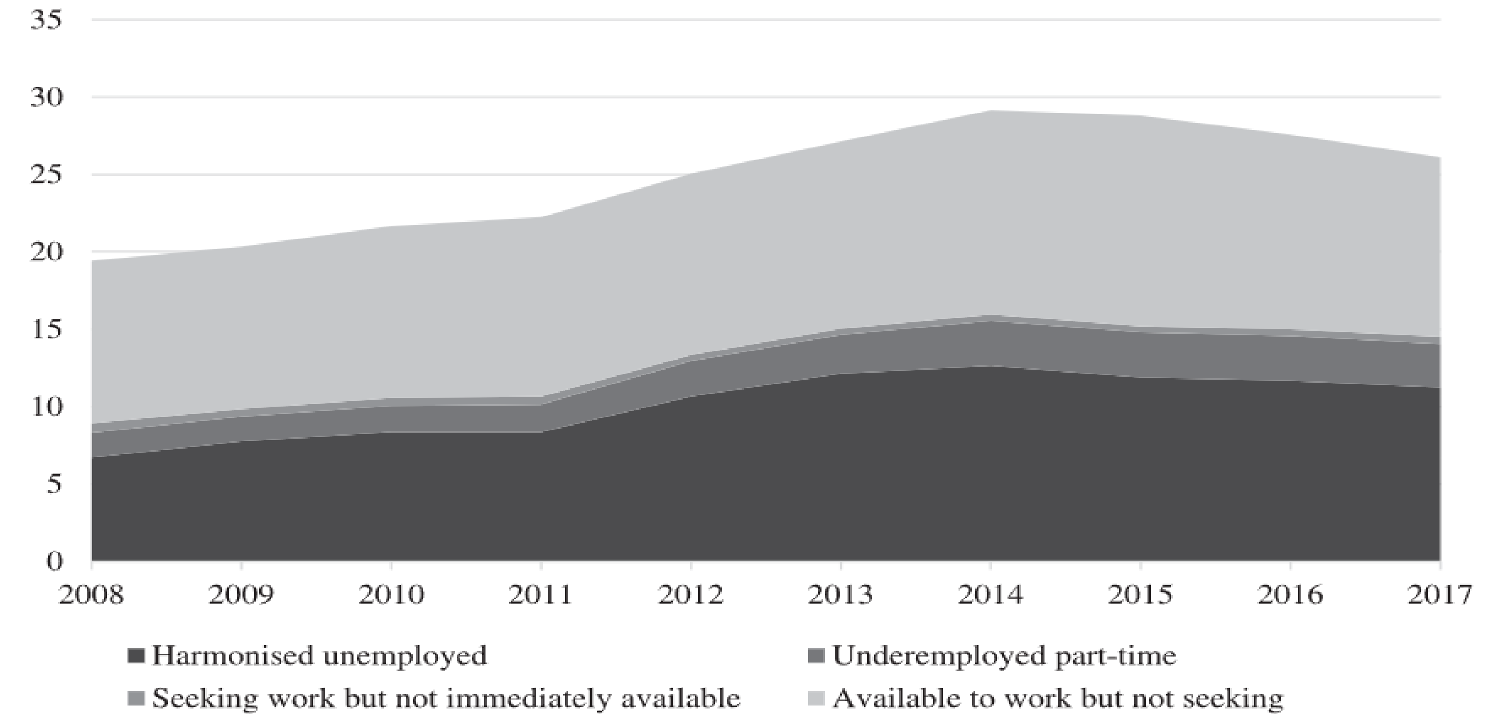

Figure 2. Broader estimates of labor underutilization in Italy. Source: elaborations on OECD and Eurostat. All components are expressed as a percentage of the active population. The latest observations are for the yearly average of 2017.

Fiscal space is a function of potential GDP, which depends on TFP, labor and capital stock

Structural budget balance

$$SB = BB - \beta \times \boxed{OG} - OFF$$

Output gap

$$OG = \left[\left(\frac{Y}{\boxed{Y_{POT}}}\right) - 1\right] \times 100$$

Potential GDP

$$Y_{POT} = TFP \times \boxed{L_{POT}{}^{\alpha}} \times K^{1-\alpha}$$

Potential labor force

$$L_{POT} = \boxed{PART_{rate}} \times POP_{15-74} \times HOURS \times (1 - NAWRU)$$

↑ By increasing the participation rate, output gap is adjusted higher, thereby enabling a greater fiscal space

«Bending, not breaking»: participation rate as a policy tool to increase Italy’s fiscal space under fiscal rules

- An MMT-inspired connection: fiscal space depends on real available resources, such as available workforce, not on financial resoruces

- Idea: Activating inactive workers by incentivizing them to seek jobs at the Employment Centers → Wider output gap → Higher spending allowed on income support

- The proposal was presented in 2017 to Five Star Movement MP Laura Castelli (later Deputy Finance Minister) and to Professor Pasquale Tridico, who was independently working on the same idea.

- After the Five Star Movement formed the government, Professor Tridico became Economic Advisor to the Minister of Labor and subsequently President of the National Social Security Institute (INPS).

- Citizenship Income was crafted by Professor Pasquale Tridico and approved in 2019.

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Output gap, participation and minimum income: a proposal for Italy

Giacomo Bracci, Walter Paternesi Meloni, and Pasquale Tridico

ABSTRACT
Recently, some attempts to increase the stance for fiscal policies in the European budgetary framework have followed the line of reducing the estimated “structural” unemployment rate (NAIRU), with the ensuing increase in the computation of the output gap. A similar effect can be obtained by increasing the actual participation rate. In this paper, we propose the introduction of a deficit-financed conditional minimum income (CMI) to discouraged people which are outside the labor force. By stimulating participation, this measure would bring about an upward revision of Italy’s potential output, and this in turn will contribute to generate a greater fiscal stance. We empirically assess the reliability of this measure by using both comparative statics and empirical estimations carried out *via* the simulation procedure used by the *Output Gaps Working Group* of the European Commission. Assuming one million newcomers in the labor force, our findings indicate that the measure would have produced a greater fiscal space of approximately €19 billion in 2016 and €12 billion in 2017. We also forecast the impact of the introduction of the deficit-financed CMI on real GDP and public finance indicators. We finally discuss the feasibility and the main criticisms of the proposal.

KEYWORDS
Aggregate demand; fiscal stance; minimum income; NAIRU; potential output

JEL CLASSIFICATION
E27; E62; J08

«Bending, not breaking»: the idea mentioned in the official Citizenship Income Decree

Scenari (dati 2017)	Nuovi attivati (in milioni)	Tasso di partecipazione (15-74)	PIL potenziale (miliardi a prezzi costanti)	Output gap	Correzione ciclica (miliardi a prezzi costanti)	Correzione ciclica (miliardi a prezzi costanti)
Actual	–	62,30%	1605,43	–0,5	5,247	–
Policy 1	1	64,80%	1628,28	–1,98	17,565	12,318

In questo senso, il potenziamento dei centri per l'impiego costituisce una vera e propria riforma strutturale del mercato del lavoro. Lo spazio fiscale aggiuntivo risultante dalla revisione al rialzo del tasso di partecipazione nell'immediato si traduce, nel breve periodo, in un incremento del tasso di disoccupazione definito come proporzione dei soggetti senza occupazione che cercano attivamente lavoro rispetto alla popolazione attiva. Nel breve periodo ciò incide direttamente sulle forze lavoro potenziali così come definite nell'ambito della metodologia ECFIN; quest'ultima tiene conto dello *shock*

Il Reddito di cittadinanza si configura pertanto come uno strumento volto a perseguire una crescita non inflazionistica, grazie alla possibilità di reintrodurre lavoratori scoraggiati all'interno della forza lavoro che si manifesta contemporaneamente allo stimolo alla domanda nel breve periodo; il contenuto incremento del disavanzo necessario a finanziare la misura permette quindi di conseguire un mercato del lavoro più « stretto » senza incorrere in vincoli di capacità che ne vanificherebbero l'impatto in termini reali. In questa direzione sembra andare anche un recente suggerimento del presidente della

(3) Bracci, G., Paternesi Meloni, W., Tridico, P. (2018), « Output gap, participation rate and minimum income: a proposal for Italy »; Bracci, G., Paternesi Meloni, W., Tridico, P. (2018), Reddito minimo e *output gap*: trucchetto contabile o questione politica ?, *economiaepolitica.it*.

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Source: Senato della Repubblica

«Bending, not breaking»: Italian Finance Ministry acknowledges the impact on output gap

La Tabella A riporta gli scostamenti tra le due stime di PIL potenziale e output gap attribuibili al provvedimento. Le prime due righe mostrano gli scostamenti tra tassi di crescita effettivi e potenziali dei due scenari, le restanti indicano gli scostamenti tra i livelli di output gap e delle diverse sotto-componenti.

TABELLA A: DIFFERENZA IN TERMINI DI CRESCITA REALE, CRESCITA POTENZIALE, OUTPUT GAP E SUE COMPONENTI, TRA GLI SCENARI CON E SENZA REDDITO DI CITTADINANZA

	2017	2018	2019	2020	2021	2022
Crescita Reale	0,0	0,0	0,2	0,2	0,1	0,0
Crescita Potenziale	0,1	0,2	0,2	0,0	0,4	0,2
Output gap	0,1	-0,1	-0,1	0,1	-0,2	-0,4
Labour gap	0,0	-0,2	-0,4	-0,2	-0,3	-0,3
Unemployment gap	0,2	0,1	-0,1	-0,5	-0,5	-0,4
Hours worked gap	0,0	0,0	0,0	0,0	0,0	0,0
Participation rate gap	-0,2	-0,3	-0,2	0,3	0,2	0,2
Tfp gap	0,1	0,1	0,3	0,3	0,1	-0,1

Source: [Documento di Economia e Finanza 2019]

The Superbonus 110%: MMT’s claim of money as tax credit in action

Daniele Della Bona

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The starting point

“Today's currencies are simply **tax credits**, the thing needed to pay taxes.”

Warren Mosler

The Trento Boys: From University to Government Policy

- **Daniele Della Bona**: In 2019 he was working as **Economic Advisor with the Undersecretary of State to the Italian Prime Minister** while he was living in Trento from 2017. He was with Warren Mosler while he was visiting professor at the University of Trento in May 2015.

- **Giacomo Bracci**: In 2019 he was working as **Economic Advisor with the Italian Prime Minister** while having his PhD at the Univerity of Trento. He was with Warren Mosler while he was visiting professor as well.

- **David Lisetti**: Founder and Director of FEF Academy. He was with Warren Mosler while he was visiting professor as well.

- **Riccardo Fraccaro**: He met Warren Mosler in Trento in 2015 and we started to work with him right after that. In **2018 he became Minister of Italian Government and then, from 2019, Undersecretary of State to the Italian Prime Minister.**

Introduction to Superbonus 110%

- The Superbonus program, introduced by the Italian Government (Conte II) in May 2020 allowed homeowners to **claim transferable tax credits up to 110% for specific building renovations** such as energy efficiency and seismic safety improvements

- Tax credit claimed by homeowners **could be used directly to reduce fiscal liability or transferred to other party**

- Tax credit **had to be spread over four or five or ten annual installments of equal amounts**

- In June 2024 the total amount of tax credit generated by the Program was **above 200 billion euros** (Source: Italian Treasury)

- This was a proposal **designed and drafted by Trento Boys and politically pushed by Riccardo Fraccaro**

The Goals of Superbonus: another «Bending not breaking» story

- **Reduce the impact on governement deficit while maximizing the fiscal space** within EU Rules

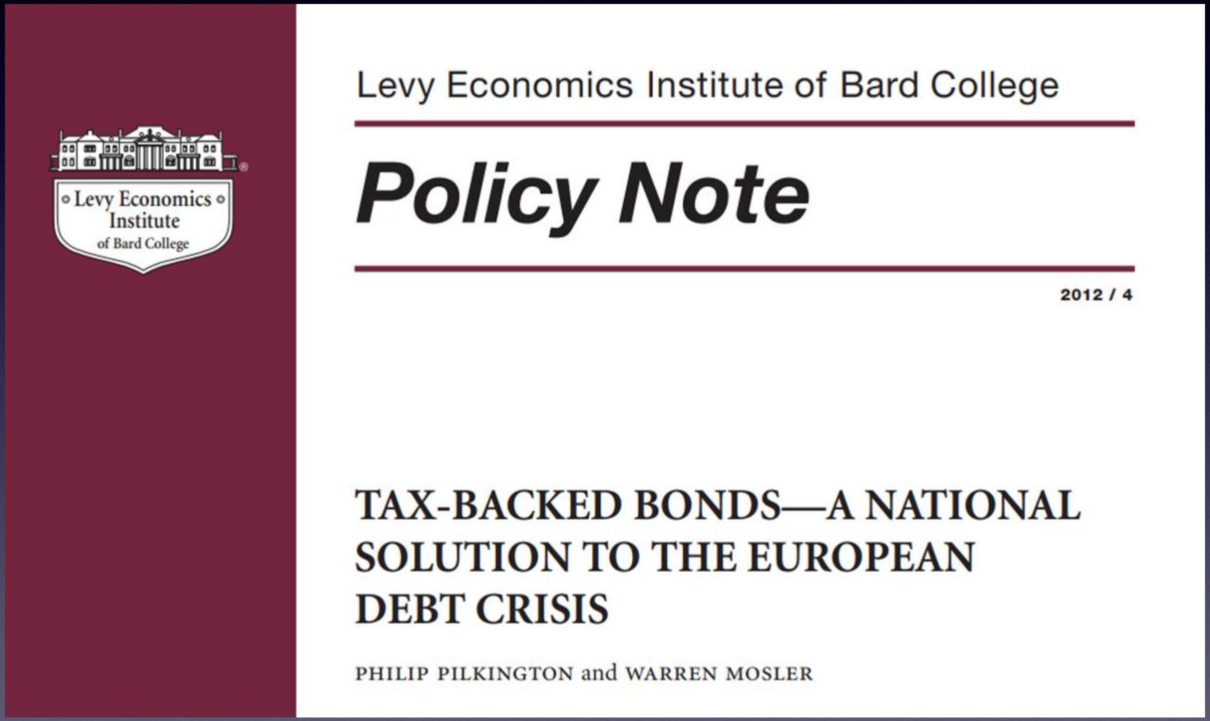
- **Environmentally friendly policy** and addressing the seismic issues of large part of Italy

- **Reducing the time to effectively make public investments in Italy**, which is usually very long

- Direct the **investment towards the sector with higher multiplier** (construction for Italy has historically higher impact)

Theoretical Basis: Tax Backed Bonds and Non-payable Tax Credits

“Tax-backed bonds would be similar to standard government bonds except that they would contain a clause stating that if the country issuing the bonds does not make its payments—and only if the country does not make its payments—**the tax-backed bonds would be acceptable to make tax payments** within the country in question and would continue to earn interest.”



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Policy Note

2012 / 4

TAX-BACKED BONDS—A NATIONAL SOLUTION TO THE EUROPEAN DEBT CRISIS

PHILIP PILKINGTON and WARREN MOSLER

The need to reduce the government deficit and the use of Non-payable Tax Credits

ESA 2010 **defines “non-payable tax credits (also known as non-refundable or ‘wastable’)**, which are those limited to the amount of the tax liability. All amounts of tax credit that exceed the taxpayer’s liability in the period in force are ‘lost’.

Non payable tax-credits are treated “as negative tax revenue and not as expenditure, […] **impacting the accounts for the exact amount used each year, instead of recording the whole amount in one single year, as will be the case for payable tax credits. […] impacting government net lending/borrowing when they are used to reduce the amounts of taxes to be paid.”**

Banks' Involvement as market maker and the 110% mechanism

The Superbonus **tax credit was paid out in the amount of 110% of the expenses in four or five or ten annual tranches depending on the kind of interventions made**. The credit can be paid in one of three ways:

1) As tax credit to directly use to reduce taxation.

2) As an invoice discount applied to the vendor, up to 100% of the total amount of the invoice. The vendor then receives 110% of that discount amount as deduction.

3) Tax credits can be transferred to entities like banks and insurance companies. In some cases, these institutions can grant loans backed by the credits.

Today there's a secondary market in Italy where banks sell credits to corporations (since banking sector tax capacity is tapped), which then use the tax credit to reduce their fiscal burden.

GDP Growth Impact

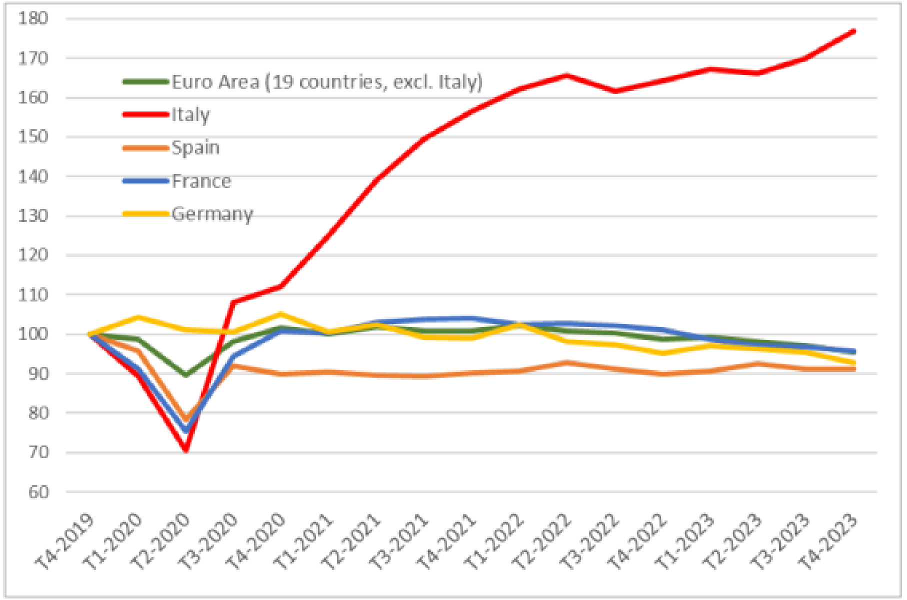
The Construction Sector Effect

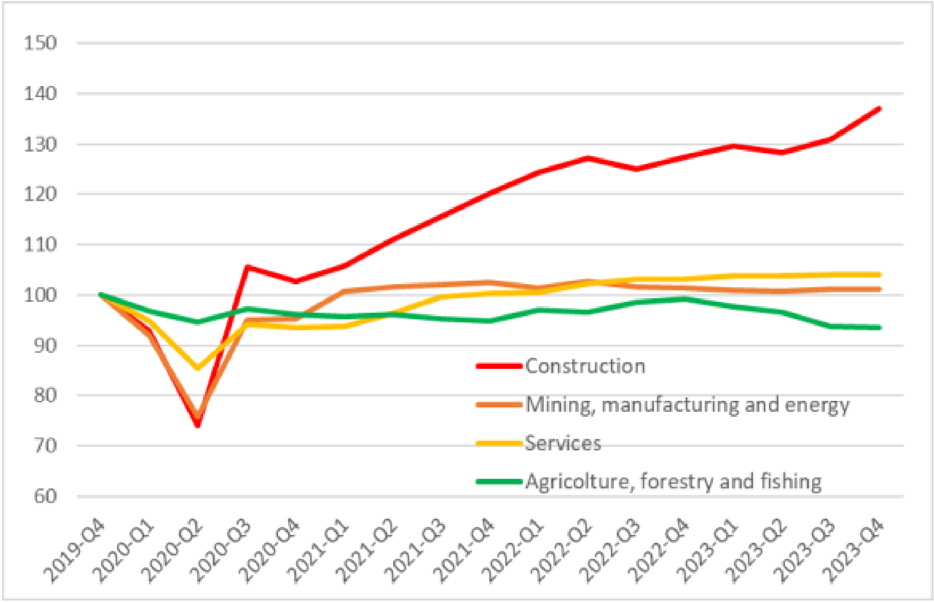
Figure 2: The Covid-19 crisis

(volumes; 2019-q4=100)

(a) dwelling investments in the Euro area

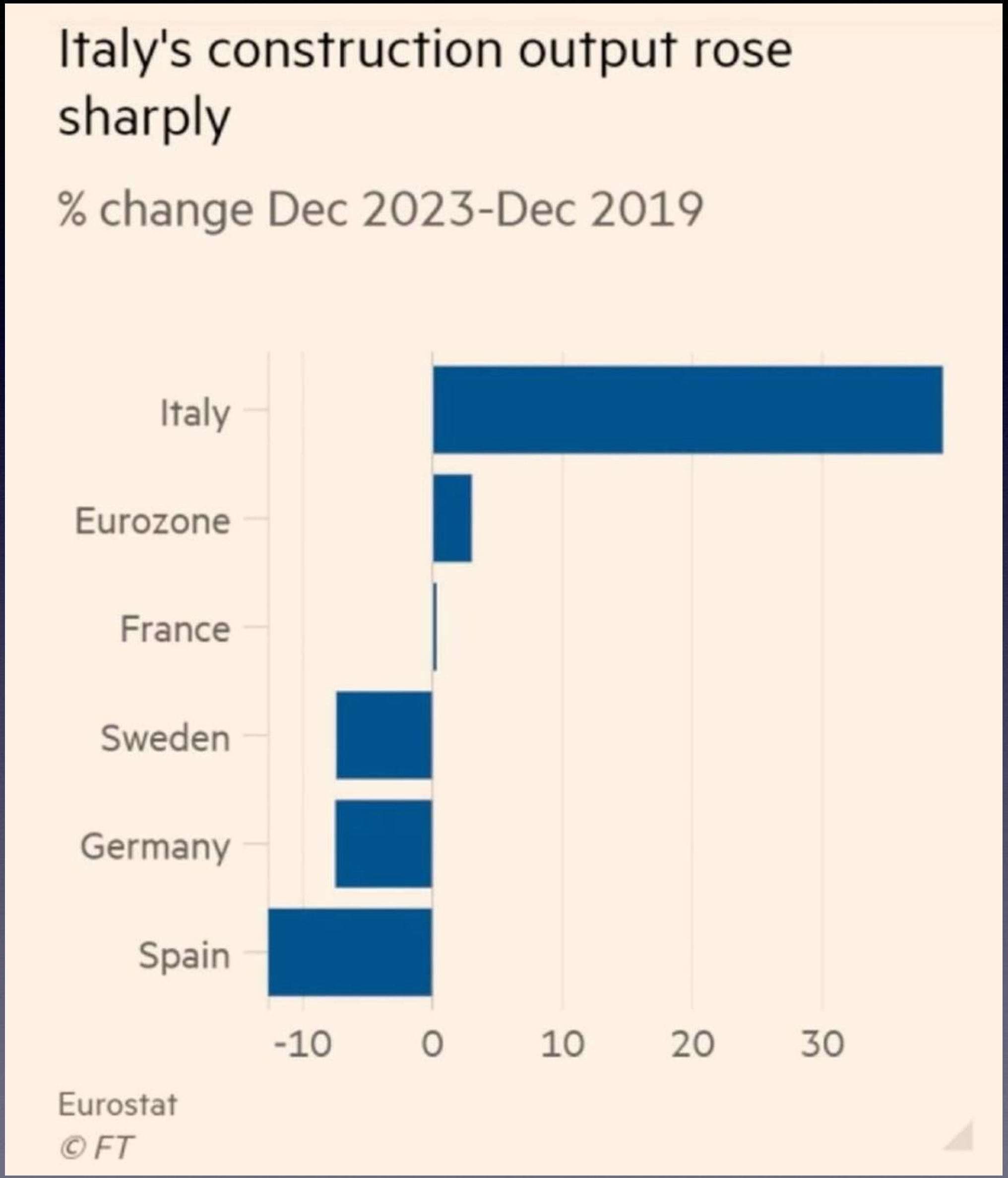
(b) sectoral value added in Italy





Source: Own elaboration on Eurostat data.

Italy outperformed other Eurozone Countries



Debt/GDP Ratio improved

Italy Government Debt to GDP

Summary Stats Forecast Download

Italy's public debt decreased to 137.3% of GDP in 2023, down from 140.5% in the previous year and below the government's target of 140.2%. This reduction was supported by robust inflation, which led to an increase in nominal GDP. source: National Institute of Statistics (ISTAT)

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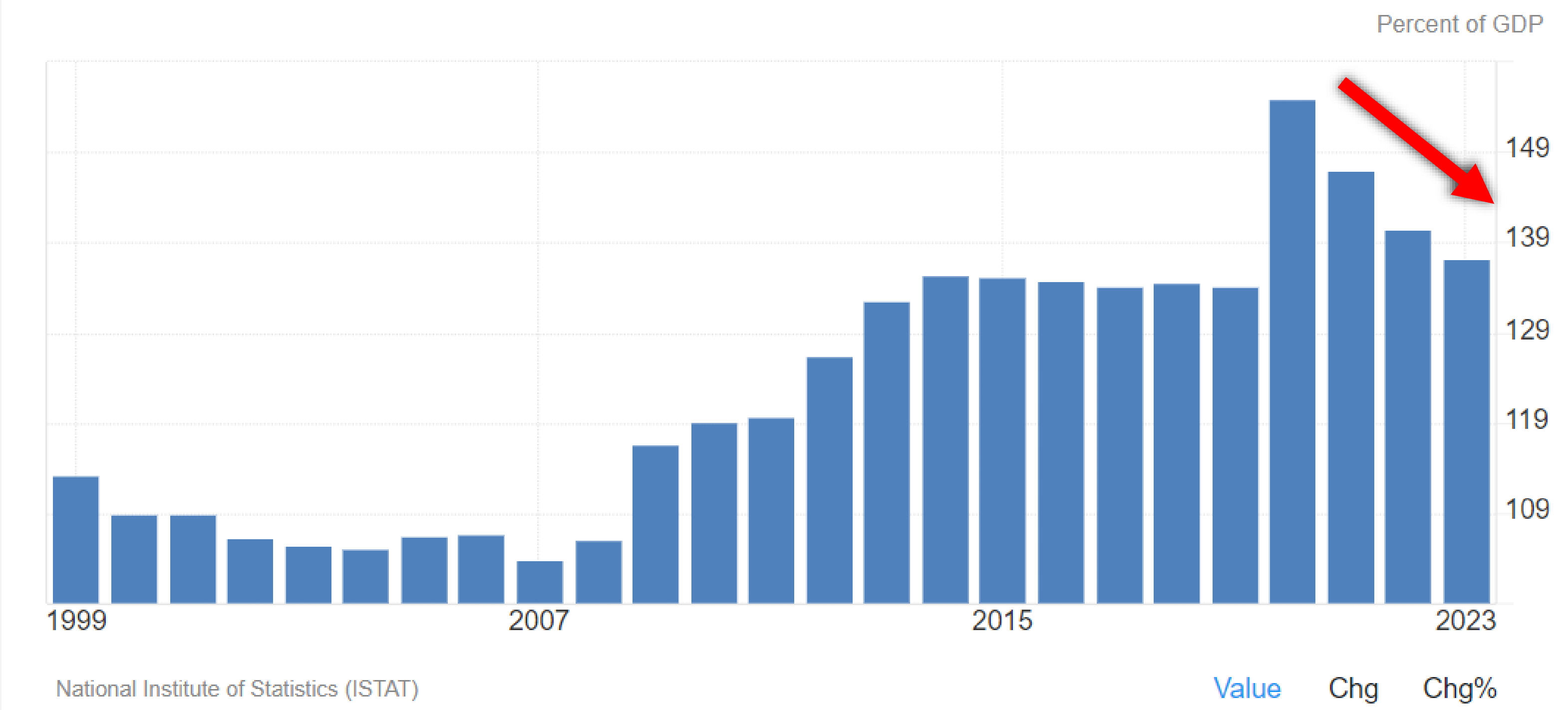

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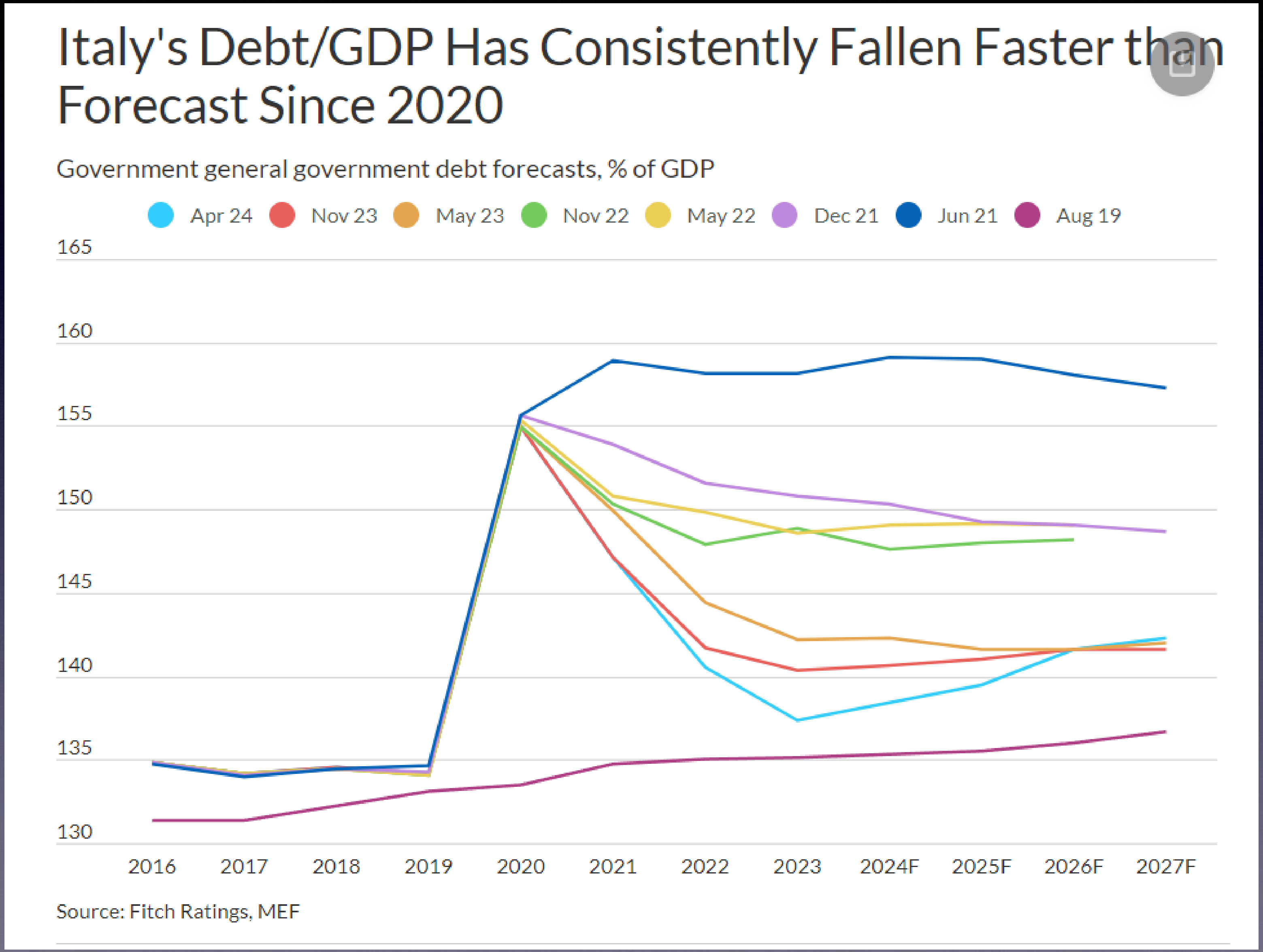
Even Debt/GDP Ratio Forecast improved



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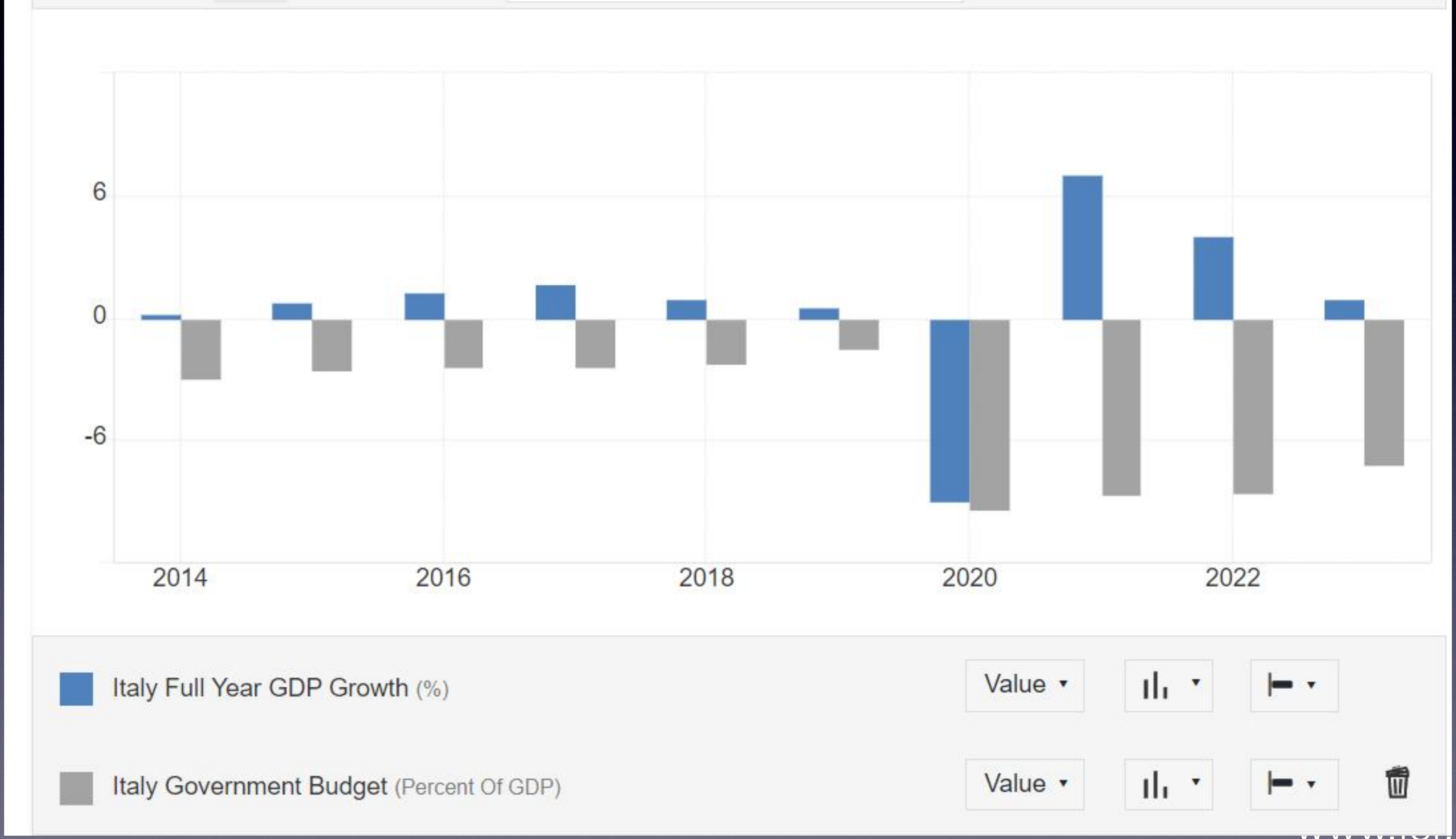
Employment sky-rocketing

Nomisma – an independent body – estimated and "**increase of 641,000 employed in the construction sector and 351,000 employed in related sectors**" thanks to Superbonus Program (Nomisma February 2023)

Good or Ugly Deficit?



Scaling Back Under Subsequent Governments and New EU Rules

- The new criteria in the new version of the Manual on Government Deficit and Debt, ISTAT, in agreement with Eurostat, “**classified the superbonus 110 and the external redecoration bonus as ‘payable’ and, consequently, recorded in expenditure” the full amount of the credit accrued in the year in which the taxpayer incurred the expenditure giving rise to the tax benefit.**

- So, **this worsened the public deficit in year 2023** (the new version was announced in March 2023)**, pushing the government to cut the program**; this worsened economic growth triggering the start for a new austerity spiral.

The New Narrative

Italian economy + Add to myFT

Italy commits to cut deficit despite soaring cost of tax credits

'Superbonus' scheme balloons to €219bn compared with €140bn estimated last year

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Italy's 'Superbonus' Spending Puts Its Debt Ratio on an Upward Trajectory

Tue 23 Apr, 2024 - 13:15 ET


You either die a hero or you live long enough
to see yourself become the villain.

Contact for more information

We are available to support you for the implementation of this proposal in your country

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