

# Italy: The Third Shock

by Claudio Celani

Dec. 7—This time, the earthquake with its epicenter in Italy was a political one, and is sending shockwaves globally. On Dec. 4, Italian voters overwhelmingly rejected a constitutional reform bill that would have enslaved them once and forever to a foreign dictatorship centered in the European Union (EU). This is the third shock, after Brexit and the electoral defeat of Obama/Hillary Clinton, delivered by the worldwide revolt of the forgotten citizen against a political establishment responsible for an economic crisis and wars which are driving millions of people into poverty, despair and death.

Not by chance, the highest percentages of “No” votes in the Dec. 4 national referendum came from southern regions, such as Sicily and Sardinia, which have the highest rates of youth unemployment and poverty, and from the northeastern region of Veneto, the hardest hit by the post-2008 industrial desertification and a high rate of suicide among small industrialists. With voter participation of nearly 70% domestically (66% when voters abroad are included), Italians gave a lesson in wisdom by rejecting 60-40 a Constitutional reform dictated by the EU and by investment bankers. The aim of the reform, as stated in the introduction to the bill, was “to exhaustively rationalize the complex multilevel system of governance, articulated among the European Union, the state, and local autonomies.” No less than four new Constitutional Articles would have established EU law as on the same level as Italian constitutional law.

The Italian Parliament had approved Prime Minister Matteo Renzi’s constitutional reform with a simple majority, corresponding to the government’s parliamentary majority. Italy’s Constitution prescribes that constitutional changes need approval in a national referendum if a two-third majority is not achieved in Parliament.

As Professor Luciano Barra Caracciolo, an active member of Italy’s judiciary branch and author of the political blog “Orizzonti48,” explained to *EIR*, the reform was aimed at “transposing” onto a constitutional level “European policies,” i.e., “a political direction shaped abroad, in a Brussels dominated by financial



*Italian voters overwhelmingly rejected a constitutional reform dictated by the European Union and by investment bankers.*

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and oligopolistic lobbies, independent of any electoral result in Italy. This especially concerned the so-called ‘guidelines’ and the ‘resolutions,’ by the Commission and the EU Council. It was a far-reaching constitutional change, ‘unique in Europe.’”

Along with this unprecedented suppression of national sovereignty in its own constitution, the Italian parliamentary system would have been turned into a mere notarial function for decisions taken by the executive branch, which, in turn, would only be a transmission belt for Brussels “guidelines.”

In fact, one of the two chambers, the Senate, would be suppressed and replaced by a smaller body composed of a selection of regional legislators and mayors. In the scale of political corruption, regional legislators are at the top of the list, but they would now be granted immunity. The Senate would no longer be allowed to vote on no-confidence motions against the government, nor vote on the budget, but it would vote on international treaties and participate in “decisions aimed at shaping and implementing European Union legislative acts and policies.”

No less than four articles of the proposed new Constitution (55, 70, 80, and 117), for the first time mention Italy’s membership in the European Union, and put EU law at the same level as Constitutional law. In total, Renzi’s reform would have changed 47 Articles of the Constitution.

The introduction of “EU Law” in an explicit form in the Italian constitution, would ensure that, even while provisions for the General Welfare remained, the latter could be totally and “legally” violated by Acts of the European Union, which the Constitutional Court could no longer challenge, because they have the same force as Constitutional Law. This would have made possible what [JP Morgan had advocated in a 2013 paper](#): namely, that “socialistic” features of Constitutions in some European countries, especially in Southern Europe, should be eliminated or neutralized.

“The constitutions and political settlements in the southern periphery, put in place in the aftermath of the fall of fascism, have a number of features which appear to be unsuited to further integration in the region,” the report said. “The political systems in the periphery were established in the aftermath of dictatorship, and were defined by that experience. Constitutions tend to show a strong socialist influence, reflecting the political strength that left wing parties gained after the defeat of



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*Italian Prime Minister Matteo Renzi announced his resignation Dec. 5, 2016, as the Sunday referendum overwhelmingly rejected his constitutional reforms.*

fascism. Political systems around the periphery typically display several of the following features: weak executives; weak central states relative to regions; constitutional protection of labor rights; consensus-building systems which foster political clientelism; and the right to protest if unwelcome changes are made to the political status quo.”

The JP Morgan paper is strikingly consistent with the substance of Renzi’s reform. Someone has even said that the reform was written in such bad Italian, that it might have been translated from English. In order to ensure that “the right to protest” be neutralized, the Renzi reform was coupled with an electoral law which would give a parliamentary majority bonus to any party that achieves 40% of the vote in the first run, or comes first with any number of votes in the second run. Thus,

a party with, say, 20% of the national vote could end up in gaining 55% of the seats in the new Chamber, the only legislative body now entitled to vote confidence in the executive. This electoral bill has been compared to the 1923 “Legge Acerbo,” the law that allowed Mussolini to gain a majority in the Parliament.

Furthermore, the candidates elected to the Chamber of Deputies would not be chosen by the voters, but by the party leadership: it would not be possible to vote for a single candidate, but only for the entire slate. The party decides who is on top and who is on bottom of the slate, therefore deciding who gets elected and who does not.

The combination of the constitutional reform and the electoral law would have created a monster, with a legislature *de facto* run by the executive, and the latter run by the party leadership. Totalitarianism anyone? Italy’s political system as established by the 1948 Constitution—the first ever in the history of the Italian nation—has indeed been unbalanced in favor of the legislative, but Renzi’s reform would have made it unbalanced in favor of the executive, and to a deadly extent. A real correction would be a reform in favor of a Presidential system, i.e. a real separation between the executive and the legislative powers. When the Constitutional Congress gathered after World War Two, Italy was coming out of Mussolini’s dictatorship, and the Constitutional Fathers were concerned to create a political system that would hinder a repetition of the fascist dictatorship. Thus, they fell into the trap laid by the British, and adopted a pure parliamentary system, where the government is elected by Parliament (confidence vote) and can be toppled by Parliament any moment. This created great instability in government, with 50 governments over only 46 years (1948-1994). Things have slightly improved with the introductions of different electoral systems, but not decisively. Several attempts at constitutional reform have been made in the last decades, but they have all failed.

In 2014, Renzi decided to push through a reform which would turn a system which was unbalanced in favor of the legislative, into a system that is extremely unbalanced in favor of the executive. As James Madison wrote in the Federalist Papers (No. 47), “The accumulation of all powers, legislative, executive, and judiciary, in the same hands, whether of one, a few, or many, and whether hereditary, self-appointed, or elective,

may justly be pronounced the very definition of tyranny.”

Renzi decided to push through his tyrannical scheme even though he knew that he would split the country into two opposing sides. He trusted his demagogical capacity to sell his reform as something that would make the legislative process “quicker, cheaper and more modern,” thus enabling him to make reforms that would ultimately bring more stability, more jobs, more health-care, etc.

The question Italians were asked to answer with a “Yes” or a “No” is an unprecedented example of Goebbels-like manipulation. It said: “Do you approve the text of the Constitutional Law concerning ‘Provisions to overcome parity Bicameralism, to reduce the number of members of Parliament, to contain the functioning costs of institutions, the suppression of CNEL and the revision of Chapter V of the Constitution?’” In other words, voters were asked whether they wanted to reduce the size and the costs of government institutions, suppress a consultative board (CNEL) made up of political, trade union and industrial representatives, and change a Constitutional provision (Chapter V) which transfers powers from regional administration to the central government,—without explaining in detail what this is about, and, especially, how this would be implemented. Nothing about the real aim of the reform, as laid out in the introduction to the text of the Parliamentary Act, is explained in the question which was printed on the ballot, and which Italians were supposed to answer with “Yes” or “No.” However, Italians smelled foul and voted “No.”

## What Happens Now

Contrary to what the EU bureaucrats and government leaders have said, they are in fact terribly frightened that as a consequence of the referendum vote, Renzi will ultimately be toppled and early elections called, which the M5S (Five Star Movement) will win and lead Italy out of the Euro. Although the M5S leadership has been ambiguous on the Euro, nevertheless the Euro and EU austerity policies have been up-front in the referendum campaign. Lega Nord leader Matteo Salvini has openly campaigned for leaving the Euro, and even Forza Italia leader and former Prime Minister Silvio Berlusconi has proposed a “parallel currency.”

Although the opposition is calling for early elec-



*Initial market reaction to voter rejection of the EU and banker's Constitutional reform referendum in Italy.*

tions and even Renzi is favorable, it is not clear what will happen in the next weeks. On Sunday night, Renzi announced that he would resign the next day, but when he went to President Sergio Mattarella, Mattarella told him to go back to work. Mattarella told him to stay at least until the budget is approved. In order to do this quickly, Renzi is going to call a no-confidence vote on the budget. Thus, we will have the grotesque situation of a Prime Minister who wins a Parliamentary vote of confidence and then resigns!

However, Renzi, or whoever replaces him, must now face a turbulent situation in his own party, where he may not have the same consensus he has had so far,— along with a dramatic economic and social crisis. The most urgent issue he must deal with is the banking crisis. The Italian banking system has accumulated over EU200 billion of non-performing loans (NPL) as a result of ten years of economic depression induced by the 2008 crisis and by EU austerity policies. The system urgently needs a solution, and there is no way that the “market solution” suggested by the EU and the European Central Bank could work. The EU permits a government bailout only after a bail-in, i.e. a confiscation of shareholders’, depositors’ and bondholders’ money.

After a partial implementation of the bail-in regulations in the case of four local banks at the end of

2015, which provoked a large political backlash, the Renzi government decided that this was not practicable, and has opposed the bail-in solution for other banks.

However, the bail-in ghost has come back to haunt Renzi and whoever might succeed him, urgently in the case of Monte dei Paschi di Siena (MPS), the oldest active bank in the world and considered to be a systemic bank. MPS is facing bankruptcy unless it succeeds in recapitalizing itself and getting rid of its NPL burden. The “market solution” pushed for MPS includes an EU5 billion recapitalization and the sale of EU27 billion of NPLs. Last July, an international consortium of

banks, led by—guess whom—JP Morgan, stepped forward to finance the recapitalization. But two months later, the same consortium demanded a bail-in of the bondholders as a condition. Thus, two days after the Referendum, on Dec. 6, MPS announced that a successful “voluntary conversion” of EU1 billion in subordinate bonds had taken place *de facto*, a bail-in: bondholders exchange their bonds for shares, which become capital, but whose value could evaporate if anything goes wrong. And something will go wrong for sure.

Even after the bail-in, nobody believes that the capital increase and the NPL sale will be successful, so that in the end, the government will be forced to intervene with a bailout. The MPS case is only the most urgent one, but a series of large banks is next in line for recapitalization, as demanded by the European Banking Union standards.

There is no way “market solutions” could work. Only a national program, which includes banking separation, government recapitalization and a real investment plan, can turn the situation around. This involves leaving the Euro. If Italy, the third largest economy of the Eurozone, leaves the Euro, the Euro is finished.

The Euro is also finished if Italy stays in the Euro, but its banking crisis goes out of control. A full-fledged





*Professor Luciano Barra Caracciolo*



*Lega Nord leader Matteo Salvini*



*M5S founder Beppe Grillo*



*Economist Nino Galloni*

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Italian banking crisis will affect the global financial system, including megabanks such as JP Morgan and Deutsche Bank, which are filled with toxic derivative papers.

Renzi may be tempted into a flight forward into early elections, in order to escape decisions on the crisis. However, this would be very bad for the country, because he could be replaced by a technocratic government with no inhibitions against murderous austerity.

Economist Nino Galloni, a friend of Lyndon LaRouche, gives Renzi some chance, “but he must change contents and alliances,” Galloni said. Renzi had ear-

lier made some good moves, Galloni said, such as fighting against the EU on the Italian budget to be able finance immigration and reconstruction costs, and his resistance against bail-ins. However, his push for the “counter-reformation” has swept him away.

The front that defeated Renzi, however, was united only on the “No” vote, but has conflicting political aims. The Lega Nord, for instance, is strongly anti-Euro but also anti-immigrant; Berlusconi’s Forza Italia party is mildly anti-EU and neoliberal; and the Five Star Movement (M5S), which would probably win the elections if they were held today, is officially in favor of Glass-Steagall, but ambiguous on the EU and the Euro. Moreover, it is split between a jacobin/Malthusian party and a pro-growth national force.

On Dec. 5, Galloni, who is close to some M5S circles, launched an appeal to M5S founder Beppe Grillo and the M5S representatives to “elaborate a program of national defense and responsible development that can indicate an alternative path for everyone, and a way out of a situation which is socially, economically, financially and ethically more and more unsustainable.”

The problem with the M5S came out clearly when Galloni was proposed to become the Finance Minister under the newly elected M5S Mayor of Rome, Virginia Raggi. After an internal fight, the Malthusians inside the M5S prevailed and rejected Galloni and his investment plan. Expect turbulent times for Italy and Europe.