

# Italy Must Leave the Euro and Enact Glass-Steagall

*Paul Gallagher interviewed Member of the European Parliament Marco Zanni on Jan. 26. The [interview](#) has been edited.*

**Paul Gallagher:** Hello, this is Paul Gallagher of *Executive Intelligence Review*, and this is LaRouche PAC Television. We have with us this morning from Brussels, an Italian Member of the European Parliament (MEP), Marco Zanni, who for the past number of years has represented a political movement, a political party in the Italy which has generally thought that Italy should exit from the Eurozone, the European common currency, in order to develop its own economy, and also has proposed that Italy adopt a [Glass-Steagall](#) regulation and regulate its banking system in that way. He has recently taken principled opposition to some of the things which that movement has done, but these are his principles. And we are going to talk this morning about the state of the fight for those principles in Italy, and in Europe as a whole.

Marco Zanni, thank you for speaking with us this morning.

**MEP Marco Zanni:** Good morning everybody, and thank you very much for the opportunity to address U.S. citizens and the U.S. people about what is happening in Italy right now, and also what is happening in the European Union (EU), in the Eurozone. Because I think that 2017 for Europe will be a very important and challenging year.

We will have general elections in a lot of important country-members of the European Union. We will start in March with general elections in the Netherlands, then we will have France, then maybe at the end of



EIRNS/Julienne Lemaitre  
*Italian Member of the European Parliament Marco Zanni.*

June, early general elections in Italy, after the ruling presented yesterday by the Italian Constitutional Court. Now we have a constitutional electoral law ready to be used, so probably President Mattarella will call for early elections in June, and then we will have elections in Germany in September. And there is a huge possibility that some of the so-called “euro-skeptical” parties will gain power in one of these countries. So it will be very important.

In the mean time, I think that the economic and the macroeconomic situation in the European Union, and especially in the periphery of the European Union, will deteriorate, again. So the situation will be very, very dangerous. And the support for the so-called euro-skeptical parties in this situation could be even stronger in the picture. So it will be a very important year, a very challenging year, and let’s hope that people will vote during this stream of general elections, in order to change what we would like to see changed in the policies addressed by these new parties that are rising in the political scenario of the European Union.

The first thing is getting rid of the Eurozone, getting rid of the euro. The euro is collapsing; the euro makes no economic sense. There are a lot of papers, important papers starting with James Meade’s research in 1957, more than 60 years ago, that show us that the European Economic and Monetary Union is not sustainable, because we are not a United States. We are not a sort of federal state, we do not have instruments in place that could make this common currency work, and this common currency only gives advantages to Germany and to core Europe, while depressing and constraining

people in countries of peripheral Europe. So the euro is not sustainable. We want to get rid of the euro.

And the other important point is the banking system. As you may know—in the United States *Monte dei Paschi* is also a well-known name—we have a very dangerous problem in the European Union and in Italy: Our banking system is collapsing and is clearly in a sort of state of default. We have a huge quantity of so-called non-performing loans, and we have a banking system that is not focussed on the real economy, as it should be, but is instead focussed on derivatives, on speculation, and on a sort of financialization of the economy.

And that is really wrong. And the effects of such a financial and banking system are damaging the European people, the Italian people, and the European project. So, we need to act.

**Gallagher:** Marco, can I ask you, in Italy itself, the party that in recent years you've been an activist in, the Five Star Movement in Italy, has generally called for Glass-Steagall reorganization, called for leaving the euro, and in a short time it has gotten to be arguably the largest vote-getting party in Italy. Do the Italian people at this point want out of the euro? What is the state of the organizing there?

**Zanni:** Looking at the last polls by Euromonitor—that is a private company monitoring support for the European Union and the Eurozone in the European countries—so the last poll that was published at the end of October 2016, showed that the support for Italy exiting the Eurozone is rising. We are close to 50% of the Italian citizens who want to exit from the euro, and 50% that want to stay, or that think that the euro is something good or that it is helping Italy and Italian people to stay alive.

Let me say that just one year ago, these polls showed that the support for the Eurozone was close to 70%. So there has been a strong drop in the support for the Eurozone in Italy. I think that looking at what is happening



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*Clashes erupted between police and protesters who rallied against Italian Prime Minister Matteo Renzi's visit to the northern Italian city of Bergamo near Milan, May 2016, as he launched his party's campaign for the Constitutional Referendum. Several protesters were injured, according to local media.*

in Italy, and looking at the political support that Italian euro-skeptical parties are gaining—now the majority of Italian citizens want to exit the euro, to end this really disastrous experience that we have had for more than 70 years.

So I think that, looking at the possibility in the next general election, there could be a majority in the Italian Parliament that will support Italy's exiting the Eurozone. So there is a strong possibility that before the end of 2017, Italy will leave the euro.

**Gallagher:** We've heard a couple of statements recently, both from new President Trump in the United States and also from the person he nominated, or is expected to nominate to be Ambassador to the EU—both of them talking about that breakup and countries leaving—that that is what they expect. But you and a colleague just received a letter from the President of the European Central Bank, Mario Draghi, which seemed apparently to be a kind of a threat to prevent Italy from getting out of the Eurozone. Could you tell us what the situation with that is?

### **The ECB Threatens Italy**

**Zanni:** It was to a written question that I sent to Mr. Mario Draghi, the president of the European Central Bank (ECB), at the end of November 2016, and the first

important thing in the reply of Mr. Draghi, is that he stated clearly, publicly, that the euro is *not* irreversible. Usually the President of the ECB, the President of the European Commission Mr. Juncker, and all the EU used to say that the euro is irreversible, so no one can withdraw from the single currency. In this letter, in his reply, Mario Draghi is basically saying that the euro is reversible, so that a sovereign country that democratically decides to leave the euro can do it—so it's feasible. That's the first important thing that emerged from the reply of Mr. Draghi.

The second point regards the TARGET2 balances. TARGET2 balances, in my view, are not debts or credits, that Italian people or Italian small and medium-size enterprises (SMEs) have with regard to German creditors or German citizens or German SMEs; but they're just an accounting flow, an accounting record of debts and credits already settled.

So Mario Draghi knows very well that what he stated about TARGET2 balances is not true, but he cannot say anything different, because if he is going to say that TARGET2 balances are not debts or credits, or are not payable, then the system will collapse immediately.

There is a statement by a very important German economist, Mr. Hans-Werner Sinn, who is one of the five economic advisors of Mrs. Merkel, and basically, a couple of months ago during a conference, he was asked about the huge amount of TARGET2 credits that Germany has with regard to the other Eurozone central banks. He basically said that if Italy, or Greece, or Portugal, or Spain left the Eurozone, then the TARGET2 credits of Germany will not be payable, so it's just paper; they will not be paid if a country were to leave the Eurozone. And the fact is that Germany now has more than 700 billion euros of credit in the TARGET2 system of payments. And it would make sense for Germany to leave the euro in order to have these more than 700 billion euros paid. But they are not doing this, because TARGET2 balances are not credits and are not debts—but Mario Draghi cannot say something different in official statements.

So it's my view, and it's the view also of important economists in the European Union, that there is no sort of bill to be paid by a country leaving the Eurozone.

**Gallagher:** So in other words, his threat that Italy would have to pay something like 350 or 360 billion euros to Germany if it left the euro—this is an empty



European Commission

*European Central Bank President Mario Draghi.*

threat, and the German economists themselves know it?

**Zanni:** It's just European bureaucrats' bullshit—let's describe it that way. [laughter] They usually use this threat in order to get rid of people, or to impose something on the health of millions of citizens that don't want this European Union, that don't want this monetary union, don't want the euro.

**Gallagher:** But, as you say, at the same time, he was acknowledging for the first time in the letter that the possibility is there for a country or countries to exit from the Union, or exit from the common currency.

Let me ask you, in Italy recently, there have been debates in the parliament on a number of different bills to restore the Glass-Steagall Act? What's the situation with that in Italy?

**Zanni:** As you said, there are a lot of bills under discussion in the Italian Parliament about restoring Glass-Steagall in Italy. But as you may know, banking regulation in the European Union is decided at the European institutional level. So basically there is the Basel Committee and the Financial Stability Board, where G-20 countries put forward guidelines about banking regulation, and then the European Union legislates concerning new banking regulation.

And I can talk about the situation inside the Euro-

pean institutions. So, we started working on the so-called BSR, Banking Structural Reform—a sort of huge legislative package in the European Union that is supposed to be valid for all the European countries concerning banking separation. So we started, and my group, and myself as shadow rapporteur, supported a sort of new and modern Glass-Steagall legislation, with a strong separation between investment banks and commercial banks, and with a very restricted list of what sort of activities commercial banks can do and what they can purchase.

But the rapporteur, the majority of the European Parliament, and a couple of European countries in the Council decided to block this legislation, so we are stuck with the BSR. After two and a half years, the BSR is on hold at the Council level, so there is no way to have this legislation, this Banking Structural Reform, done, with this majority at the European Union level. So, we hope, as I say, after this wave of general elections that we will have in the European Union in 2017, we will have a majority in the European Council, amongst the European member-states, and in the European Parliament, to start working again on the Banking Structural Reform and to propose this new model for a European Glass-Steagall legislation. That should be done very, very quickly.

Because I would like to underline a statement by the Single Supervisory Mechanism (SSM) chair, the supervisory arm of the ECB, the institution that is supposed to supervise the most important and the biggest banks in the European Union in the banking union; basically, they were asked during that conference about Level three assets, i.e. derivatives holdings of the major European banks—and basically, as I asked of Daniele Nouy, the chair of the SSM in October 2014, they were asked about Level three assets, and basically the reply of the ECB was “we cannot assess the Level Three asset risk because we are not able to evaluate or to decide the value of those instruments, because they are highly speculative instruments, and the regulator is not able to assess the risk of those instruments.”

**Gallagher:** So just to get clear, the ECB announced that it’s unable to say what the risk of the derivatives in the European banking system is?

**Zanni:** What it is, and what is the asset value of these derivatives! So that’s really crazy, because the most important banks in Europe, such as Deutsche Bank or HSBC, BNP Paribas and so on, they use inter-

nal models in order to establish the value of these illiquid derivatives. So, basically, it is the bank itself that is deciding what is the balance value, the asset value of the derivatives—and the ECB, the institution that should supervise and should control those banks, is clearly stating that they are not able to assess the risk and the value of those instruments.

And let me say that that’s really, really crazy. So we should stop banks creating and investing people’s money in such an instrument.

**Gallagher:** And let me ask you about—you mentioned earlier, Italian banks, specifically *Monte dei Paschi* bank, which is a bank that as I understand it, was basically ruined by derivatives, which it bought; what is the condition of the Italian banking system you started to talk about, and the relationship to the other banks in Europe to that?

**Zanni:** Basically the Italian banking system has failed. I estimated that we need more than 60 billion euros of fresh capital in order to recapitalize the Italian banking system. The government and the European Union are ignoring these needs; they are talking about a disastrous bail-in; they are talking about using private money to bail-in the banks; they are talking about “market solutions,” but all the market solutions proposed by the ECB and by the Italian government, failed. So a sort of private recapitalization, with a sort of public offering of new shares for Monte dei Paschi failed at the end of 2016, because there were no investors that were able to put money in the banks. Now they are talking about a public intervention in Monte dei Paschi, but the problem is not only Monte dei Paschi, but is the entire Italian banking system.

And as I said before, I estimated that we need more than 60 billion euros—at least! more than 60 billion euros—in order to be recapitalized.

But if we recapitalize the Italian banking system and we continue to have this system without banking separation, without regulation of derivatives and of risky assets, then in five years we will be at the same level and at the same point, asking our citizens for money in order to bail out banks.

So, we need, in the short term, to recapitalize our banks, and only the government could have the huge amount of money required to do it. But in the medium and long term, we need new banking legislation, starting from a sort of new Glass-Steagall legislation, in order to strictly regulate our banks. That’s the only way



to save our country. That's the only way to save our banking system, and thus the savings of Italian families and Italian SMEs.

**Gallagher:** Basically what you're proposing then that has to be done in Italy, is both a recapitalization of these banks and also a Glass-Steagall separation—and what then for the Italian economy? Do you have an idea how it can recover?

**Zanni:** I think that the only way that the Italian economy can recover is to leave the euro, leave the European Union and the absurdity of their rules. Leave the so-called Maastricht conditions, the 3% public deficit/GDP ratio, the 60% public debt/GDP ratio, the public bonds balance sheet, and all these anti-economic rules. If we want to regain, or to have a strong economic recovery in Italy, an improvement in the condition of salaries and income for Italian citizens, we need get rid of those rules of the single currency, to regain our power to control our central banks. And my view is that we have to finance recovery through a monetization of our debts—a sort of liquidity provided by the central bank to the central government. We have to set up a huge infrastructural investment plan in order to restart the Italian economy.

I'm looking with huge interest at what the so-called BRICS, the emerging economies of Asia are doing in this field, with the Asian Infrastructure Investment Bank, with the project of One Belt, One Road supported by the Chinese and Russian governments, with other emerging countries supporting it. So I think we need this kind of investment approach in Italy. A huge investment plan in infrastructure, in the green economy, in a lot of sectors, financed by the central bank. That's the only way ahead. And we can do it only outside the European Union and outside the Eurozone.

**Gallagher:** You were in the United States in the summer of 2015, working on these objectives, particularly the Glass-Steagall Act in both the United States and Europe. You met with Congressional staffs and some members of Congress in both Houses. So you have an insight into that. What do you look for in the United States, now?

**Zanni:** It's very difficult to see what the new administration will do about Glass-Steagall. Looking at what Mr. Trump said, he probably supports the sort of new banking regulation that could comprehend also, banking separation and restoring the Glass-Steagall Act. But



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*“The only way that the Italian economy can recover is to leave the euro, leave the European Union and the absurdity of their rules.”*

at the same time, I'm looking at the fact that in a lot of top, senior positions, he's hiring former investment bankers coming from Goldman Sachs and other investment banks.

Also, the majority of the Republican Congressmen, probably, do not support restoring Glass-Steagall. But if Mr. Trump is convinced that the United States needs a new banking reform—basically sort of a new U.S. Glass-Steagall—I think he can very, very quickly and very, very easily push the Congress, the Republican Party, and all of his staff in order to work on this kind of reform.

When I was in D.C. last year, it was very important to me to show how the effect of bad banking regulation could be dangerous for an economy. I showed the example of Italy and of the European Union. So, I asked the U.S. Congressmen and Congresswomen that I met in 2016, to review the Dodd-Frank Act, your banking regulation, because it is very dangerous. There is a provisional bail-in rule also in your Dodd-Frank banking legislation. The effects of the bail-in on the European banking system have been very, very dangerous.

If you look at the share price of Deutsche Bank, for example, or of Italian banks, the share price for those banks dropped by, on average, more than 70% from the moment—from January 2016—when the bail-in rule took effect in the European Union. This rule is very dangerous. You have this rule in Dodd-Frank. It has never been applied, but it could be at any moment, so I think that you need to review the Dodd-Frank legislation.

And I think if Mr. Trump pushes for this, he can have the support also of a huge part of the Democratic Party, of Bernie Sanders, and a lot of Congressmen and Congresswomen that I met during my visit to DC.

**Gallagher:** Well, I should just tell you that LaRouche PAC currently is in a national petition-drive; apparently the first address that Trump makes to the Joint Session of Congress is going to be Feb. 28th: We're in a national petition-drive calling on him to promise and propose Glass-Steagall to that session of Congress on the 28th of February, just one month away. And Lyndon LaRouche has also called for the rejection of the nomination of Steven Mnuchin, one of those whom you referred to, who's been nominated for Treasury Secretary, and in his confirmation came out bluntly against Glass-Steagall, despite the fact that the questioner was reminding him that the President who nominated him had promised Glass-Steagall restoration in the campaign. So we are also, and LaRouche has called for him to be rejected and kept out of the Treasury.

So if there's anything further that you want to get across to people watching this station here in particular, go ahead.

**Zanni:** Just one last thing, is it very good news to know about this petition that you are bringing forward in the United States, because the support of civil society is very important in pushing politicians to pass the right legislation about the banks and banking regulation.

What about Europe and what the new U.S. administration—a sort of next step? I hope that the approach that the new U.S. administration is bringing forward towards Europe and the European Union, would be very positive for Italy. In order to exit the euro, we need the support of the United States, and we need the support also of Russia. So it's very important that the new cooperative approach that Mr. Trump has with Mr. Putin, with Russia, and with other emerging economies, would have a positive impact in destroying this European Union, and rebuilding Europe—a Europe based on sovereignty, and a Europe based on free nations, and

a cooperative Europe that could work well and could cooperate with the United States from one side, and Russia and the Asian region from the other side. So we need both sides of the world, and thus the United States and Russia, in order to get rid of this imperialist project that is the European Union.

So I hope that Mr. Trump will maintain this approach which is very critical, this very critical approach that he has with the European Union, with Germany, and with the euro, and could help Italy exit the euro, and could help Europe rebuild a new history—a sort of new framework that is based on more cooperation, on more economic growth and on more jobs and investment. And that's my hope and that's my appeal to the new U.S. administration.

**Gallagher:** Great. Okay, we've been talking just for the last half-hour with Marco Zanni, a Member of the European Parliament from Italy. I want to thank you, Marco, very much for having really imparted a great deal in the short time that we've been on, and I hope to talk to you again very soon.

This is Paul Gallagher signing off for LaRouche PAC TV.

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“The point is, we need Glass-Steagall immediately. We need it because that's our only insurance to save the nation.... Get Glass-Steagall in, and we can work our way to solve the other things that need to be cleaned up. If we don't get Glass-Steagall in first, we're in a mess!”  
—Lyndon LaRouche, Feb. 11, 2013