Annual meeting with the financial market

Speech by the Chairman Professor Paolo Savona

Rome, 16 June 2020

2020

CONSOB

COMMISSIONE NAZIONALE PER LE SOCIETÀ E LA BORSA

Speech by the Chairman to the financial market

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Introduction

The *Report* that Consob is presenting today was forwarded to the Minister of Economy and Finance on 31 March pursuant to Law 216/1974. It illustrates the work carried out in 2019, ranging from approving share and bond issue prospectuses to examining takeover bids, monitoring stock exchange transactions and the activities of financial operators, imposing sanctions and examining domestic, European and supranational regulatory measures. The extent of the commitment can be summarised by the 101 meetings of the Commission held to examine the 1246 files handled by the offices. The most important news was the closure of 117 websites (223 as at 11 June 2020) that were collecting savings illegally, which was ordered consequently to the power granted to Consob by Law 58 of 28 June 2019.

In the first part of 2020, 21 measures were taken to tackle the problems arising from the outbreak of the Covid-19 pandemic; such measures were announced during the hearing at the Parliamentary Committee of Inquiry into the Banking and Financial System on 28 May. With the International supervisory bodies (ESMA and IOSCO), firms were given instructions, among other things, on the information to be disclosed to the market in the financial reporting and information on the measures taken to grant the continuity of companies' business and to mitigate the dominant uncertainties about looming risks. In order to conciliate the shareholders' right to participate in and vote at shareholders' meetings with the protection of public health, measures were taken that temporarily waive the rules on the subject.

In addition, the thresholds for the disclosure of shareholdings in Italian companies were lowered with a view to making changes in ownership structures in the financial market more transparent. Particularly important was the resolution of 9 April, which, until 11 July, imposes the obligation to declare the purposes pursued with purchases made starting from the 5% threshold, a percentage halved compared to the one in force. It was also decided to ban short selling stock exchange transactions in order to halt this form of speculation, carried out in three stages, starting from 12 March, when the conditions provided for by the law for Consob intervention were met. This ban could have been put forward if ESMA's Board members had taken a majority resolution, which could not be reached. However, ESMA decided to reduce the threshold for notification of short net positions to national supervisors to 0.1% for three months, as recently confirmed. Nevertheless, a minority of member authorities took the same decision as we did, though just for one month. Since such authorities announced that the measure, after a renewal, would no longer be repeated, Consob decided to lift the ban earlier, due to the lowered volatility of prices and the consideration that the short selling speculation on our securities would have otherwise move to foreign stock exchanges. The negative trend in share prices on 19 May induced the belief that the fall had been caused by the revocation order, but short selling was negligible on that day and continued over the following days. Furthermore, this was the reflux of trading of this type on the stock exchange of countries that had not decided on the ban.

For its activities, Consob benefits from the indispensable and precious cooperation of the Courts and the financial crime police, to which we renew our heartfelt thanks on this occasion.

1 Rethinking the institutional architecture while taking into account changes in the monetary policy framework, financial conditions and technological innovations available

The anomaly of the current crisis was authoritatively described as an event that did not have to face an inflationary bubble, an aggregate demand boom or systemic changes in the financial market, but rather a disruption of productive supply due to exogenous factors, largely metaeconomic, related to the reaction to the Covid-19 pandemic. The current crisis, compared to other past crises, is not a case of market failure, nor of economic policy failure. On the contrary policy makers reacted promptly, to a fairly satisfactory degree, even going beyond traditional forms of intervention in order to prevent instability from getting out of control, especially on the financial side.

The immediate consequences were a severe fall in production and employment and the start of difficulties for households and businesses. In order to cope with the socio-economic emergency, public expenditure has increased, largely funded by raising government debts. All of these effects created problems in the banking and financial markets that have been addressed so far, but which do not rule out the possibility of other turbulences if the impact of the pandemic on aggregate supply and demand and on employment continue for a long time.

As well known, Consob pursues the intermediate objective of ensuring the proper functioning of companies and of the stock exchange in accordance with the ultimate objective of protecting savings, as a value in itself, but also in compliance with constitutional provisions. In carrying out this task, Consob is supported by Ivass, the insurance supervisory authority, and by Covip, the Supervisory Commission for pension funds, major players in the savings market, and the Bank of Italy, the authority that ensures systemic monetary and financial stability, as well as the supervision of banks and certain other intermediaries. The activity of the four institutions is an indispensable prerequisite for the solidity of real activity and social stability, as functions exercised to varying degrees in the context of European and, in less binding forms, international institutions.

The orderly functioning of money and financial markets and their systemic stability are two sides of the same coin, creating areas of complementary action, particularly within banks. Due to their 'universal' feature introduced with the 1993 reform, they collect deposits and issue financial liabilities to grant loans and purchase other assets, as well as being active in the insurance sector. The brokerage activity carried out by them in instruments and maturities transfers risks from the asset to the liability component of the bank's financial statements, with repercussions on the balances of the money and financial markets and, consequently, on those of the production activity.

In performing their duties, there is a significant disproportion among the authorities in terms of financial resources and staff due to the different origin and limited revenue in relation to the tasks assigned. This diversity could grow as a result of the crisis, placing constraints on their necessary spending requirements, including those for embracing technological innovations.

The primary objective assigned to monetary policy is the stability of the monetary yardstick, i.e. controlling inflation, to be pursued independently for the democratic principle of *no taxation without representation*, no tax can be imposed if the decision is not made by those who have to pay it. Inflation works as a hidden tax, i.e. set without the participation of those who incur it. In order to pursue this objective, monetary authorities, in their various organisational structures, have powerful tools at their disposal, perfected over time (money creation, interest rate variation, open market operations, imposition of official reserves, supervision inspections, use of deposit guarantee and crisis resolution funds, and other forms of intervention), compared to the much less effective ones of the authorities responsible for financial markets (direct regulation of certain transactions, authorisations to operate in the savings market, imposition of information to be made available to investors, supervision inspections and sanctions for violating rules). This instrumental discrepancy arising when money was in a dominant position compared to finance, so that monetary stability could be considered a precondition for financial stability. The succession of recent global crises shows that this relationship has been reversed, but the institutional structure has remained largely unchanged. The monetary authorities maintained and refined the instruments available to deal with systemic crises in general, but also those of individual units in difficulty, though treating monetary liabilities differently from financial liabilities.

In theory, the task of remedying crises that entail new costs for the community should weigh on fiscal policy, but in practice, the difficulty and slowness of its decisions and their implementation involve monetary policy, which also has the advantage of being able to intervene in a dynamic and theoretically unlimited way. As a result, the financial system and the real system tend to depend on the guidelines and the practical implementation of monetary policy, affecting fiscal policy, which has broader and more deeply rooted democratic foundations than inflation control. Ideally all monetary and fiscal policies should be allowed to *cum-petere*, that is to contribute to the same goal, i.e. supplement or correct real market forces by ensuring stable prices to guarantee, under conditions of freedom, growth in income, employment and social welfare.

Although there are profound theoretical differences about the role played by policies, the legitimacy of monetary intervention for financial and real stability is rooted in rather solid practical needs because, in its absence, market instability would prevent supervisory and regulatory institutions and policy makers from implementing their respective tasks. The solution provided to the 2008 global crisis and, above all, to the current one, bears witness to the indispensability of the decisions taken by the monetary authorities, even if they themselves defined them as 'unconventional'. The term used denotes that they hoped to return to the institutional 'normality' that distinguishes their mandate, an action that they undertook in moderation in 2019 and that was interrupted after the outbreak of the pandemic crisis. Having acknowledged that non-conventional operations can no longer be considered as such, as the Chairman of the FED explicitly stated, and having also strengthened them, is to the credit of those responsible. However, since the proper functioning of the capital market and the support of real activity and social welfare are now dependent on monetary policy, adapting the existing institutional architecture to the reality to be faced is a necessary task.

This situation was already evident from the emergence of the 'financialisation of the economy', which gave rise to a 'financial industry', disconnected from the real industry which inflated the volumes of finance, making it lose the servile nature of income development and wealth accumulation. A distinguished economic commentator called it the 'original sin' of the current unsatisfactory functioning of the markets, which will get worse if we accept the spread of financial innovations outside regulated markets, such as OTC derivatives, and the proliferation of complex instruments and superficial credit agreements that led to the 2008 crisis. A current example is the circulation of coins and financial products in electronic form (crypto-currencies or, in general, coins and crypto-assets or tokens), which are based on decentralised accounting registers (DLT) and perform interchangeable functions of means of payment and debt instruments, which are confusingly expanding at the initiative of private intermediaries and sovereign States.

Among the effects of monetary intervention to guarantee financial stability, there is the reversal of the direction of the causality between political and market action, in favour of the latter, thus preventing the two institutions that are fundamental for the good functioning of societies, even before economies, from exercising mutual control: that of redistributing income, a typical function of democracies, and that of producing and switching it, which is typical of the productive economy. Mutual conditioning is indispensable for the proven fallibility of both activities in pursuing economic stability and full employment in order to create a less unequal society. At least for those who do not allow themselves to be dragged into evaluations by ideological considerations.

Against this backdrop, fluctuations in confidence in the prices of financial variables, instead of reflecting the outlook for the real economy, as would be correct, depend on uncertain expectations about the development of the monetary policy. This is particularly true for stock exchange prices, which tend to reflect the expectations of growing or decreasing money creation; the prices of securities become indicators that measure the temperature of institutional bodies, other than strictly productive ones. Reading the daily stock market reports, and not only, will make this clear. The very conduct of monetary policy remains exposed to and even conditioned by factors of extra-economic origin, such as geopolitical and climatic imbalances, or phenomena such as the spread of Covid-19, which impose unconventional interventions.

Therefore, it is necessary to define and implement a new institutional framework that takes into account and breaks the dependence between different policies and market behaviours, targeting them at income and employment growth, which remains the most effective form of savings protection.

To this end, one of the contributions left to us by Professor Giuseppe Guarino, to whom we intend to pay homage on this important occasion, is helpful. In a paper in 2014, in the years when he was considering the architecture of the European Union, he explained the concept of 'man-institution', which has as its counterpart in the concept of 'institution-man'. In his opinion, once the natural state of human beings ceased to exist, if it ever existed at all as they had already lived within elementary social institutions (the mother, the family, the tribe), their institutional placement became increasingly complex, to the point of embracing them beyond the area of life, from before birth to after death. Guarino maintains that the solidity of institutions is based on 'social strength', i.e. the sharing of and respect for the rules that govern (the human beings) and is strengthened by 'organisational strength', one characteristic being more tangible than the other in terms of exercising the power of command over human beings. The implication of such an analysis is that institutions are like human beings: if they are born with defects in one or more organs of the body, their behaviour will be conditioned and, consequently, their performance unsatisfactory. If they are born with a motor defect, they will walk badly, if they have circulatory defects, they will move with caution. This is what one of the creators of the European Union, Carlo Azeglio Ciampi, defined as the 'lameness' of the institution, because of its failure to politically unify the Old Continent.

If institutions lack the support of the social force, attempts to impose the organisational strength of the State will increase, until this force rebels thus generating revolutions. Incomplete or inadequate institutions, including supranational institutions, which not infrequently are the result of compromise, have a number of negative consequences that are not solved by continuous stopgaps, thus mounting social and economic tensions. This conclusion should be seen as a strong call to strive for the full completion of the European Union, not against its existence.

The global marketplace is based on the confidence that the holders of financial assets have in the possibility of being able to convert them into liquidity to be exchanged, where necessary or at the agreed maturity. The abundant money creation reinforces this confidence, as long as it doesn't turn to goods and services that make up GDP because in such instance it would cause inflation, by creating various problems due to the interruption of the symbiotic links between money creation and the state of confidence.

In the European Union, more effort has been devoted to monetary institutions and less to financial institutions, with decisions and practical effects that have penalised savings. The incompleteness of the tasks assigned to ESMA compared to those assigned to supranational money and banking organisations is clear evidence of this. Concrete expressions of this different attention are the asymmetric effects on households' portfolios resulting from the guarantee granted to bank deposits of up to 100 thousand euro, denied to those of higher size and savings invested in shares and bonds of banks by introducing the bail in, i.e. their non-repayment in the event of bankruptcy. Instead of creating valid forms of investor responsibility in the face of the different riskiness of securities, the practical result is, not infrequently, to decide on hasty and confused interventions whose cost is borne by national public budgets to avoid the social and legal consequences of possible failed controls.

Therefore, our politics needs to urgently start to officially review the existing situation regarding the protection of savings in all of their forms, in implementation of Article 47 of the Constitution, which favours the access of people savings to home ownership, direct ownership of the land and direct and indirect equity investment in the country's large production sectors. The situation is such to require the definition within a tight time frame of a new institutional architecture for the smooth operation of the money and financial markets and the exercise of the public controls that are indispensable in the new global operating environment. On this occasion, as proposed further on, access of people's savings should be extended to the 'large production segment' represented by the total of the SMEs. This initiative is also prompted by the abnormal expansion of the financial pyramid, which is set to expand and become even more complex to manage, due to the pressing spread of technological innovations at a global level.

The delay in placing money and finance in what has been called the *Infosphere* (the 'cloud' in the media jargon) is part of the institutional gap highlighted before. One important aspect affects the payments system: sovereign States and private organisations have announced the creation of new encrypted currencies managed on decentralised accounting bases. Money managers (banks) and finance managers (savings intermediaries) show hesitation and even resistance in placing their ordinary business within the sphere of information technology, raising ethical issues that, though understandable, often conceal the defence of the interests permitted by the current regulatory architecture. Most institutions believe that moving towards the digitisation of the payment system and savings management will suffice. However, the frontier of technology is far more advanced than mere digitisation; this definition does not fully describe the task that public and private institutions are called upon to perform. A small number of more enterprising countries and operators have moved in these electronic spaces, opening a geopolitical competition that puts international cooperation at serious risk while undermining the peace process, painstakingly defended, and economic globalisation, which has brought freedom and well-being. In the absence of a new architecture, in the global savings market the distribution of flows and stocks will inevitably be altered, even more so than it currently already occurs in tax havens, with different tax treatments and with other obstacles to the integration of national financial markets, such as regulatory dumping in the corporate sector.

One manifestation of this trend reversal in international cooperation is the resumption of protectionism of all kinds, which interrupts the benefits of globalisation due to the inability to govern its defects. If, however, the problem is examined only from the point of view of the freedom of real and financial exchanges, one would lose the sense of the reality to be faced, concerning the control of information, that has always been at the basis of every human action. The evolution of relations between states shifts the economic geopolitical equilibrium. We have moved from the *Hylesphere*, the material sphere, where conflicts had material contents (wars for territorial conquests, protection of trade routes and seizure of goods by force), to the *Ideosphere*, the sphere of ideologies, centred on cultural competition and propaganda between alternative political systems. We then proceeded to climb the first level of the *Infosphere*, that of the great digital firms, which saw the United States in a leading position, using the, for us well known, *https protocol (hypertext transfer protocol secure*) that the creators' foresight made available to all the peoples of the Earth.

Now geopolitical competition takes place at a second level of the *Infosphere*, the one between new computer protocols and the use of rapidly evolving technologies, defined 'without borders'. These innovations are capable of managing increasing amounts of data that allow not only for work to be done 'remotely', the connection of a large number of people without moving from their physical location, but also a wide range of monetary and financial exchanges to be performed on an entirely digital basis, requiring the government and supervisory authorities to make a leap in knowledge and in the provision of tools for their choices and controls. The use of algorithms based on artificial intelligence, the use of increasingly powerful languages, such as those of quantum physics, and adequate computers, impose a momentous change to the necessary levels of professionalism. Instead, we are still debating whether or not to use artificial intelligence, while a growing number of public and private political and economic operators in the world are already adopting the new techniques. It is only the lack of knowledge about the tool that leads one to believe that, with algorithms, decisions can get out of hand mechanically and, with them, one can speculate on the stock exchange and not stabilise prices with objective decisions that do not depend on personal evaluations.

The search for new protocols and new mobile connection technologies, such as 5G, has already caused closures and tensions between the United States and China, which risk turning into dangerous conflicts if they are not governed by international cooperation agreements. The natural place for their implementation would be the ITU, the International Telecommunications Union of the UN, based in Geneva, which, as far as we know, has already been appointed to refer on the issue. The knot to unravel is to ensure the socialisation of the new protocols, as happened with *https*. One of the core issues emerging from this competition is who will control the currency for international uses determining global savings destinations and the redefinition of the geopolitical power.

The search for a globally valid institutional architecture, inevitably slower, must not delay the identification of a national solution to promote and participate constructively in the cooperation between States. There is an abundance of analyses, proposals and initiatives to reform these markets at a domestic and international level, but the prevailing orientation is towards preserving the old architectures, strengthening monetary policies, making financial policies dependent and using fiscal policies to increase the role of the State and reduce that of the market. For currency and finance, attempts are still being made to incorporate *Infotech* into existing regulations and not to transpose these into the new technological and geopolitical context. Those countries that will not know how to choose a solution in the future will lag behind both economically and socially.

The review of the monetary and financial institutional architecture in the aftermath of epic changes is nothing new. The continuous crises of the international monetary regime at the turn of the 19th and 20th centuries, after a series of international conferences, led to the definition of central banks as public authorities independent of executive and legislative bodies. The Great Crisis of 1929-33, which had an epicentre in finance, was tackled by US President Roosevelt also by reorganising the institutional architecture of the credit and capital markets, giving rise, among other things, to the SEC, the forerunner of Consob. Since then there have been other crises, the two most serious ones being related to the War, that have imposed far-sighted solutions, such as the Bretton Woods Agreement of 1944, which allowed the world to move forward on the path of prosperity, reducing the social burden of poverty and defeating the attraction exerted by centralised economies and societies closed to democracy. The global financial crisis of 2008 imposed a broader creation of currency and stricter financial regulation, which, however, were not guided by a vision of a new institutional architecture adapted to the reality that was emerging. The cost is the recorded lowering of the real growth rate in the most advanced countries in systems that pursue the implementation of positive freedom.

The choices to be made to address the technological, monetary and financial realities can give rise to two different regimes.

- The *first* should lead to a clear distinction between money and finance, realizing Hyman Minsky's dream of putting an end to money as the servant of two masters, price stability and banking (or real development) stability, made possible today by decentralised ledger technologies (DLT). The implementation requires the payment system to be equipped with a public crypto-currency or - in the impossibility of overcoming the national selfishness that sunk Keynes *bancor* - with a few encrypted national currencies linked by the same exchange rules for all. These are missing in the By-laws of the WTO, which allows a free choice of fixed, floating or *dirty* exchange rates (with interventions by the national authorities). Therefore, it is not just a problem of distinguishing between money and financial products, on which the regulators' attention seems to be focused, but of identifying the tasks of the institutions, as well as the ways in which the payment system and the management of savings should operate. The announcements released by the authorities calling for the digitisation of money and financial activities do not grasp the scale and importance of the problem to be solved. If a public crypto-currency were to be created, the payment system would move independently of the management of savings, which would flow entirely to the free market, ending the symbiosis between money and financial products, by entrusting its management independently to the methods developed by decentralised accounting registers and *Data Science*.

- The *second* would maintain the prevailing characteristics of the existing regime, but its regulation would be more complicated because the old and new monetary and financial instruments would coexist with the old and new methods of their management. Most governments would seem not to want to proceed towards the creation of their own crypto-currency, nor do they intend to do so jointly. However, some of them, China and Russia for example, based on their autonomous protocols, intend to achieve it with the aim both of taking advantage of it for the purposes of geopolitical economic rebalancing, and protecting themselves from unfavourable effects, such as the loss of control of national information, and from favourable ones, such as the seizure of that of competing countries. Therefore, international relations, instead of converging towards a common solution, tend to become even more complicated. This regime already operates because of the existence of some crypto-assets, identified in Bitcoins, Coins, Stable coins or Tokens, making us lose track of what we should do: unify and modernise the payment system, bringing it back into the legal sphere of guaranteeing the stability of purchasing power and being the only legal means to release debts. Despite this, there is still hesitation in establishing that private and public crypto-currencies cannot coexist since they would cause confusion, if not disaster. Significant problems related to lack of regulation can be outlined for financial crypto-assets that, anything but brilliant experience of the ICOs (Initial Coin Offering), seem to be directed towards their tokenisation, a monetary-financial hybrid with no public regulation. Under this alternative regime, the protection of savings would be much more difficult, if not impossible, because the competition between public currencies, which seek stability, and private currencies, which seek profits, would alter the functioning of the current institutional architecture, which is already experiencing the close dependence described between monetary, financial and fiscal policies. Therefore, it must be urgently established which currency gives legal value to credit rights, this power not being granted to other currencies provided for by negotiated agreements.

Consob is ahead in examining this issue and in searching for practical solutions proving useful to exercise its functions.

The statements made by the authorities are pending the *de facto* emergence of the second regime. However, there is some justified hesitation about the emergence of private pseudo-crypto-currencies such as Facebook's Libra or Telegram's Grams, whose characteristics overlap with those of currency and financial products. US authorities have already stated to be against the Telegram initiative with procedural objections, not entirely logical as put forward here.

Whatever the outcome of choosing the monetary and financial regime, there are two preparatory steps in the new institutional architecture that need to be taken urgently.

The *first* is to create as broad a common information base as possible, accessible by the supervisory authorities, laying down appropriate rules for access, in order to combat organised crime or individual criminal acts and financing of terrorism. Since data security (*cybersecurity*) must be guaranteed by the State, this service must be considered a real 'public good', i.e. an asset whose production must be guaranteed and safeguarded in order to protect the general interest and, therefore, be made available to all.

The *second* is to entrust the use of this database to the methods developed by *Data Science* that, we repeat, are the only ones that guarantee objective investment choices on a rational, transparent and verifiable basis. Financial exchanges would take place exclusively with algorithms that provide an objective forecast of how the market will behave when information changes, eliminating speculation, subjective errors of assessment or illegal behaviour. Protecting savings must be entrusted to scientific methods used by the managers, controlled by the same methods as those used by the bodies responsible. Since the commitment of human and financial resources to achieving knowledge and the application of technological innovations is considerable and the results should be socialised by educating people to use them, this too should be considered as a 'public asset'.

The private sector is moving faster than Governments, which have to catch up. Already last year, Consob announced that it wants to create SAFE, a School for Electronic Fintech Applications, but hesitations in progressing and legislative obstacles have slowed down its implementation. In order to overcome the regulatory constraints, last June Consob asked Parliament, and obtained on the 28th of the same month, to use the cooperation of Universities, as the natural centre where such research should be carried out. An agreement with two universities, one in Rome and one in Milan, is being finalised. However, following the crisis, budgetary constraints have taken over, slowing down the initiative and requiring the institutions, whose public nature was previously stressed, to deal with each other jointly. In the *Final Considerations* read on 29 May, we were pleased to learn that the Governor of the Bank of Italy has announced the creation of a 'wide-ranging European digital innovation centre' that everyone will certainly benefit from. Consob is in contact with its main foreign counterparts to monitor their progress in applying *Data Science* methods to controls. Instructive meetings have already been held.

2 The ultimate goal: to strengthen the risk capital of exporting companies, especially medium and small, and to protect all forms of savings by directing them to support real business

At the meeting with the market on 14 June 2019, exports and household savings were indicated as the main assets of the Italian economy and society. As a consequence, the new institutional architecture must be designed to enhance our two strengths, within the new technological and geopolitical context illustrated.

The development model of the Italian economy that gradually formed in the post-war period when the Italian economy changed from an agricultural to an industrial economy, is export-led. The successive crises have brought out the success of ‘niche’ exporting companies, mostly medium and small, whose products are unique not only for the typical *Made in Italy* creativity, but also because they have a high technological content.

Overall, sales abroad have proven to be an area of greatest success and resistance to international crises in the Italian production system. They represented the way out of the 2008 crisis but, at almost one third of GDP, they are not large enough to boost income and employment unless combined with a strong recovery in public and private investment, often advocated, but equally often not implemented.

It is not reckless to say that the competitive capacity of the exporting area will remain strong even after the pandemic shock. Domestic, European and international decisions have rightly set themselves the objective of avoiding serious monetary and financial consequences, as well as alleviating social costs, but the exit from the crisis will depend on the possibility that the abundance of cheap money will be transmitted to real activity through appropriate financial channels.

SMEs, especially exporters, could be the subject of an experiment aimed to stimulate risk capital in alternative to debt, which will be taken up later, when addressing the general problem of leverage. This initiative would be better targeted if it were accompanied by a project to support their research and development activities, to incorporate technological innovations into processes and products. As pointed out for the *Fintech* of banks and financial intermediaries, it is necessary to study and apply the *Hytech* methods for these companies, also considering them a ‘public asset’. This issue is already present in the social utility function of politics in almost all countries and there are many institutions working in this direction. However, there is a lack of joint consideration to bring the myriad of small interventions of this nature already decided on or in the process of being launched, into a single institutional framework.

Italian savings have historically shown a strong resilience to shocks, connecting to exports and creating a significant centre of its formation in the current account surplus of the foreign balance of payments. In the past, development was considered to be driven by domestic demand and public spending, but it has emerged that the drive comes from their internal components - foreign demand and the availability of savings - to which specific attention must be devoted when implementing the reform plan of the institutional architecture required here.

At the end of 2019, Italian households had real estate, monetary and financial wealth, net of debt, equal to 8.1 times their disposable income, of which 3.7 times in the form of financial assets, amounting to 4,445 billion euros. Italians are anything but cicadas, as a distorted view tends to support. Instead they are ants working to support many foreign cicadas, even those of countries with a very different economic importance, such as Canada, the United States, the United Kingdom, Belgium, France and most South American countries. This applies when looking at both the stocks and the annual savings flows of the countries mentioned.

This data does not take into account the enormous artistic and environmental wealth of our country, which are a large part of the heritage of humanity, whose production of added value, through tourism and cultural exchanges, is taking on the role of a driving force for the growth of the most economically backward areas of the country.

In the first part of 2020, despite the severity of the Covid-19 pandemic and fears of its effects on the economy, savings reacted positively, reallocating investments in favour of money, in line with investors' well-known reactions to uncertainties. The most serious events took place on stock exchanges, which were dealt with through effective monetary and fiscal support policies. However, these interventions have further increased financial markets dependence on monetary policy, loosening the relationship between prices on the stock exchanges and real developments. The loss in value of shares listed on the Italian stock exchange was in line with that recorded by foreign stock exchanges, indeed it was slightly lower than that recorded by European stock exchanges. The trend shows that stock prices are recovering the pre-pandemic crisis levels. Italian mutual funds have also reacted much better than those in the rest of the world, where there have been cases of unit redemptions not being repaid.

The confirmation that Italy's foreign financial position remains substantially balanced, reiterates what was said last June: our country does not represent a financial problem for the rest of Europe and for the world, but a resource of savings from which foreign countries draw in various forms for their growth. On that occasion, it was requested that this contribution be recognised, avoiding to focus the evaluations on public debt, neglecting parameters that ignore the solidity and stability of domestic savings and feed prejudices rather than inducing well-founded evaluations. This consideration shifts the focus and commitment to the role of domestic and European policy in building trust. Italy is not lacking in solid real foundations, but their proper consideration is low. One year on, there is no evidence to change the judgment then expressed.

The importance of confidence in the financial market equilibrium was confirmed in 2019 by a significant drop in the spread on government bond yields, despite an initially more cautious European monetary policy and a slight deterioration in the real growth rate. Analysts attribute this improvement to the absence of worries of a change in the denomination of public debt to return to a national currency. The spread's recent wide fluctuation as a consequence, first, of the uncertainties arising from the pandemic crisis, and then, of the strict monetary intervention, confirms the variability of confidence, with the task of keeping it under control becoming a priority objective for the powers of the State. This will be possible if European authorities and supranational institutions tackle distorted market assessments, as they are already doing for the stability of sovereign debt, stressing the importance of broader and more valid indicators.

In short, we propose 'seeking the truth in facts'.

3 Actions to be taken immediately

However, the solidity and resilience of Italian savings are necessary but not sufficient conditions for resources to flow towards productive capital, which remains the best condition for effective protection. One necessary step is economic policy to take into account among its objectives the leverage, in its dual configuration: for companies, the ratio of risk capital to debt; for the public sector, the forms of debt to cover the imbalance between current revenue and expenditure. If the measures decided to tackle the production crisis focus mainly on the granting of guarantees and incentives for the indebtedness of companies, there will be a worsening of their financial leverage, which will make the recovery of productive activity even more difficult and slower. If these costs and those needed to support households in difficulty are met by public bonds and credits available from the EU, all to be repaid, the already high public debt/GDP ratio will rise further. If, as is presumable, the market does not take into account the capacity of our savings to accommodate it and the soundness of our exports to generate it; and if the repayment of public debt is questioned by supranational institutions, the productive recovery and the network of social welfare will be further affected.

Therefore, it is desirable that action be taken in two directions: a) issuing irredeemable public bonds (consols), a typical instrument of war time, to which the health situation has often been compared: they could grant a tax-exempt interest rate equal to the maximum 2% inflation rate that the ECB has undertaken not to exceed in the medium term; b) facilitating the formation of risk capital to replace debt.

The conditions of the Italian savings market and the displays of social solidarity that have followed in the two months of lockdown call for a practical verification of the expressions of commendable social values, asking retail investors to participate in their own interest to prevent costs and constraints from being imposed on the country if public debt/GDP ratios deviate from the values agreed on at European level. The subscription of irredeemable bonds would of course be voluntary and the offer quantitatively open. In other countries consol issues have been seriously discussed and similar forms implemented, but no such practical experiments have been attempted. If Italian citizens did not subscribe to these securities, they would contribute to decisions which, ignoring the long-term effects of increased public debt, would create the conditions for higher taxation. Issuing irredeemable securities would thus be a choice with the most significant democratic content because, if subscribed to, they would limit the risks for the country's future and, consequently, the burdens on future generations, both already developing and to come.

The solution of making the venture capital benefit from the Government guarantee, within predetermined limits and conditions, but implemented quickly and in clear and simple forms, would avoid an unintentional return of the State into companies and would allow retail investors to enjoy guarantees that reduce to zero the risk of their choices for a predetermined period. They would also benefit from a productive recovery of the companies to which they entrust their savings if the investments were successful. The State would certainly spend less than it does by providing non-repayable subsidies, including those intended for companies that have no chance of survival. It would also make entrepreneurs responsible for making good use of the savings at their disposal, limiting moral hazard. This solution would also make it possible to anchor once again finance to the real activity, in line with the objective to be pursued with the new institutional architecture.

An experiment could be immediately launched starting from the 22,058 medium-sized companies, initially preferring the 10,838 already exporting and those that intend to do so by presenting credible plans. The State could facilitate the formation of their equity capital by investors, also non-institutional, to favour the popular shareholding structure as required by the Constitution, by guaranteeing an average unit amount of 1 million euro. Once the objective is reached, the burden would vary from a minimum of 11 billion euro to a maximum of 22 billion euro, which would immediately enter the productive circuit, with positive effects on financial leverage.

Conclusions

The analysis of the general conditions in which Italy operates and its specific strengths lead to the conclusion that it would be worthwhile, indeed necessary, to set up a public Consultation, consisting of scholars and operators with high theoretical and professional knowledge, to which entrust the task of defining by the end of the year an operational document to establish a new institutional architecture better able to protect savings and channel them towards productive activity, starting with exports. Such a plan should incorporate the objective of reaching the most advanced frontier of technology, taking into account the emerging geopolitical balances.

In 1998, even before the events described came true and the technological discontinuity emerged dramatically, Carlo Azeglio Ciampi stated: *it is questionable whether the ever closer integration between the three sectors of finance (credit, investment and insurance activities), from the point of view of both subjects and products, as well as business strategies, does not make it necessary to summarise in a Consolidated Law the entire discipline of credit, financial and insurance intermediation*. In short, a Law that fulfils the need for a unitary regulation of banking, financial and insurance legislation, in terms of subjects and products, which now need a coordinated and integrated discipline. I am repeating this authoritative consideration for the attention of politics and the market, inviting them to support it, taking into account the European institutional framework, to which we must address the questions asked here, and the difficult times we are experiencing at global and technological level.