

The Case for a « New » Lira

1. Monetary affairs are apt to raise both great and small problems. There is much talk about the great problems, such as inflation, even when they are not solved because they are too great. Hence little time is left for the small problems, such as the monetary unit, a problem which may be defined by the following paradox: the Italian monetary unit is the lira, but the one lira coin does not exist.

2. Generally speaking, a unit of measure is of practical use when its multiples and submultiples are suited to the range of size of the objects to be measured. The metre, with its multiples and submultiples, is of practical use because usage has established the appropriate unit for every category of objects to be measured: e.g., molecular dimensions are expressed in Angströms, those of the red globules in microns, the thickness of metal sheets in millimetres, cloths in metres, roads in kilometres and astronomical distances in light-years. So it is for time: the minute, the day, the year and the century are adapted to the different categories to which each refers.

In the case of physics again, the watt-hour, the unit of measurement of electric energy, is on the contrary not very practical, being an exceedingly small unit, unknown in common usage, where only its multiple, the kilowatt hour, is adopted. Even this is too small to be practical: a household consumes thousands of them in a year, an industry millions, while on the national scale totals of tens and hundreds of milliards are registered. The technicians have even been forced to devise super-multiples corresponding to the dreadful neologisms of giga- and terawatt-hours, and to adopt in written calculi the powers of 10. Similar problems arise in the case of the calorie: energy requirements on a national level run into figures of 12 to 15 digits.

3. To return to our subject, everyone realises that today the Italian monetary unit, the lira, is too small to be practical (1). It was practical at the time of the Latin Monetary Union and up to 1914. One lira equalled in value a large chicken; the submultiples were of practical use: 50 centesimi for a meal in a restaurant, 5 centesimi for a newspaper, one centesimo for a small tip. Each of its multiples corresponded to clearly defined classes of value: 10 lire for a pair of shoes, 100 a monthly starting wage, 10,000 a house, a few millions the value of a business, 1,800 million lire the Bank of Italy currency.

4. The depreciation of the lira in terms of retail prices from 1914 to 1966 was, roughly, in the ratio of 1,000 to 1 (1914-1938 about 6 to 1; 1939-1947 about 80 to 1; 1948-1966 about 2 to 1); today (November 1966) an average chicken costs 1,000 lire; the annual total of government expenditure reaches 10,000 milliards. The submultiples have disappeared, as have the one lira coins; those of 5 lire are still tolerated — two at a time — as a tip to the barman.

In this depreciation process the lira certainly finds itself in good company: the Swiss franc, the dollar, gold itself have all heavily depreciated in terms of prices during the past 50 years, but the lira more than other currencies. In Germany in 1923 and in Greece in 1948 the total depreciation of the currency was followed by a new monetary unit, which afterwards remained relatively stable. Today the Yugoslav dinar alone has a lower value than the lira.

The very language used is becoming distorted. The greengrocer now says "three and fifty" for 350 lire when he tells you the price of salad; for a suit the tailor asks you "eightyfive" for 85,000 lire; the price of an apartment is "sixteen and five" for 16,500,000 lire; the financial ministers speak of "milliards" *tout court*. Just as a superfluous organ becomes atrophied, so the word "lira" is disappearing from the language without being replaced: this "pop" style of speech leaves the listener to gather, as the case may be, whether it is a question of hundreds, thousands or millions.

(1) This has nothing to do with its soundness as a currency: the countries with a currency the technical soundness of which equals or surpasses that of the lira can be counted on one's fingers: the United States, Switzerland, France, west Germany, the Soviet Union (besides some minor country in a special position, for example, Kuwait, Venezuela among others).

5. In Italy and many other countries, prices have risen from 1948 to today at an average compound rate of about 3.7% per year: threefold in a generation. Until there are reasons for thinking that the tendency may change in future, one must expect that the tip at a bar will become six coins for our children, 18 for our grandchildren, and the rest in proportion. A sad prospect: may the gods save us from the "giga-lira" and the powers of 10.

Quite apart from the great problems, a monetary change is therefore timely, by replacing through regrouping the too small unit of today by a larger one. If the change is made, it must be drastic: not only must past depreciation be provided for, but also a part at least of that foreseeable for the future.

6. A regrouping in the ratio of 100 to 1, as that adopted in France a few years ago, would be too moderate and has various other drawbacks. In the first place, it is not *cartésien*, it does not respect the basic criterion of decimal numeration, the division of digits by groups of three digits, i.e. by powers of 1,000: thousands, millions, milliards (millimetre, metre, kilometre; gramme, kilogram, ton). The price of the suit aforementioned would shift from 85,000 to 850, that of the apartment from 16,500,000 to 165,000. The French experience shows that these modifications of deeply-rooted mental habits enter into common usage only with difficulty: still today the French commonly speak of millions of old francs. In the second place, it necessitates modifications being made to the accounting machines of the banks and other concerns, at a high cost, amounting to milliards of present lire on a national scale, while habits of mnemonic calculation must be readjusted. In the third place, it is liable to lead to some confusion about orders of magnitude, and so to errors and frauds at the expense of simpler people and of foreign tourists (2). Finally, the usefulness of regrouping lies also in the employment of submultiples, that is, of centesimi: in that case, however, the centesimo, 1 lira today, would be too small to be practical, and the monetary unit would offer only the first submultiple, the tenth (10 lire today, the barman's tip).

7. Regrouping in the ratio of 1,000 to 1 is more practical. It enters into common usage more easily because it does not split

(2) For example, the giving as tips of 50 new-franc notes instead of the old ones, as some American tourists have done in Paris.

numbering by groups of three figures: it is not difficult to go down from milliards to millions, from millions to thousands, from thousands to units; as we have seen above, this is partially done already in common practice, and only the greengrocer would have to learn to say "thirtyfive centesimi" instead of "three and fifty". It would not entail modifications to accounting machines or readjustments in calculation habits. It would just about take us back to the situation in 1914. Given the wider separation of the orders of magnitude, the risk of errors and fraud would be negligible (3). Finally, it would be possible to use to the full the submultiples, centesimi (1 centesimo = 10 today's lire, the tip at the bar).

8. The objection sometimes raised against proposals to regroup the monetary unit, like that against the proposal to issue banknotes of high denomination, that they would constitute a psychological factor of inflation, seems to be groundless: inflation is due to very different real reasons. The Italians have been experiencing inflation for 50 years, except for short intervals; experience has by now rendered them immune to these feared psychological distortions. A beefsteak does not change if it is weighed in kilograms instead of grammes: this is a truth that is recognized even by the most uneducated classes. Nor has the neighbouring French nation, following the monetary regrouping already mentioned, shown any appreciable changes in the liquidity-preference of the public, or other undesirable reactions.

9. It would be wise to announce the change of monetary unit without any fuss: it should be presented as a regrouping and rearrangement of the currency and not as monetary reform; a simple technico-administrative operation, similar to the issue of a new type of notes and not a political problem liable to unforeseen developments. No new label is necessary which might encounter opposition: let sequin, florin and ducat rest in peace. The notes can even retain the same effigy; the adjective "new" would be enough, shortened

(3) A ratio of 1,000 to 1 rules out the possibility of such mistakes as that referred to in the previous footnote: if an agreement specifies, for example, the figure of 60,000 without stating explicitly whether new or old lire are meant, in case of dispute the judge, having examined the whole text of the document, will not find it difficult to decide that, if a suit is concerned, they are thousands of old lire, and if an apartment, millions.

to the simple initial N, which would fall into disuse on its own after ten years or so. It would even be desirable that the legislative measures sanctioning the transition from the old to the new unit should follow instead of preceding the actual replacement. The only thing is that this seems hardly possible. Even though only formally, such a regrouping is equivalent to a "change of monetary parity", from Lit. 625 to Lit. 0.625 to the dollar, and as such must be previously submitted to the approval of the International Monetary Fund (4). Hence, approval by the IMF and promulgation of the Italian law should take place simultaneously. An understanding between the Italian authorities and the IMF could assist the procedure.

10. The replacement of the money supply, involving hundreds of millions of notes and a like number of metal coins, certainly cannot take place overnight nor within the short period of a few months, without creating confusion and entailing heavy expense. Both new and old notes and coins must therefore be allowed to circulate together for the whole time — some years — needed for the replacement; the Italian public is already accustomed to this procedure, and the replacement can take place gradually, according to technical needs, without creating appreciable disturbance.

A start can be made with the 100,000 and 50,000 lire notes, the early issue of which has in the last few years been alternately announced and denied; they would appear already bearing the wording 100 N-lire and 50 N-lire, avoiding the waste of issuing notes due for early destruction.

11. The 10,000 lire notes, the largest denomination today, account for more than half the number of notes in circulation — about 370 million notes out of a total of 700 millions (5). It is clearly inconsistent that the highest denomination should represent more than half the total number of notes; and it explains not only the practical inconveniences when large cash payments are made

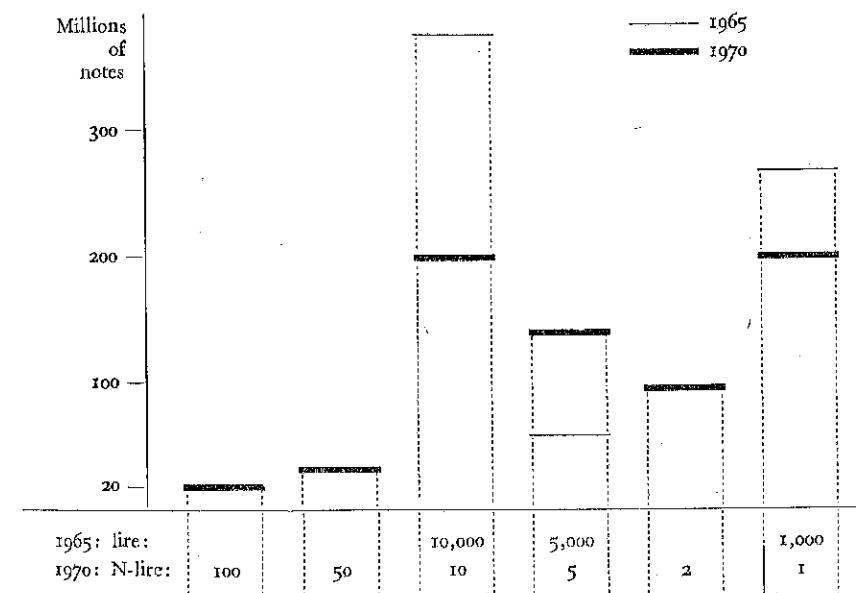
(4) *Articles of Agreement*, Art. IV, Sec. 5, Changes in par values, (b): "A change in the par value of a member's currency may be made only on the proposal of the member and only after consultation with the Fund".

(5) Data at the end of 1965, according to a Chart on notes in circulation, at the end of the *Report of the Bank of Italy* of May 31, 1966.

but also the heavy wear and tear the notes undergo as a result of their high velocity of circulation (6).

Replacement has been proceeding since the end of 1963 of the largest format notes (with the central effigy of Dante) — which then totalled about 300 million notes — by others of smaller format (Michelangelo); after two years about 200 million notes of the "Dante" format were still in circulation; at this pace, total replacement would require six years in all and be completed by the end of 1969. Many notes in circulation are now already much too worn: it can be reckoned that by the end of 1968 all the "Dante" and perhaps half the "Michelangelo" notes may be ready for withdrawal and destruction.

NUMBER OF NOTES IN CIRCULATION



By issuing — in 1967 and 1968 — a few tens of millions of 100 N-lire and 50 N-lire notes (see histogram), for the purpose of replacing the present 10,000 lire notes for large payments, it would at the same time be possible to accelerate the withdrawal and des-

(6) The 10,000 lire of today are equivalent to 10 lire of 1914; but then 50, 100, 500 and 1,000 lire notes were in circulation.

truction of the "Dante" notes and to reduce the circulation velocity and consequent wear and tear of the "Michelangelo" notes. Arrangements for replacing the latter by a less number of 10 N-lire notes could therefore be begun now for the years 1969 and 1970 (7).

Action could be taken concurrently with the present 5,000 lire notes, which number far less (55 millions): withdrawal and destruction of the large format notes to be completed within 1967 and replacement of the small format ones (effigy of Christopher Columbus) by notes of 5 N-lire by the end of 1970 (8).

12. As to the 1,000 lire notes, about 270 millions of them were in circulation at the end of 1965, 65 millions being still of the large format. The first practical problem to be tackled is the rapid withdrawal and destruction of the very time-worn latter. But the small format notes (effigy of Giuseppe Verdi) also rapidly become worn, given their low real value and, consequently, the high velocity of their circulation. The only solution in the long run is their replacement by coins; but, as is well known, coin-minting is technically far slower than note production, in Italy as elsewhere, even in the United States. Consequently, two phases should be envisaged, the first of which would be replacement of the "Giuseppe Verdi" notes, in the years 1969-70, with notes of 1 N-lira, and, if necessary, of 2 N-lire, so as to reduce the number of notes (9). Then the 1 N-lira notes would be replaced, in the years 1971-72, with silver-alloy coins, lighter and smaller if possible than the present somewhat awkward

(7) The normal technical capacity to produce notes in the workshops of the Bank of Italy is of the order of 250 million notes a year; in case of need, it exceeds 400 millions (*Report quoted*). The bottleneck is not here but in the time needed for the Government and Parliament to approve the necessary decisions. The additional work that the note replacement would entail for the banks must also not be over-estimated: the Italian banking system has at its disposal 10,085 counters (*ibid.*) and the staff would collaborate in an operation that aimed at making the monetary circulation more rational, in the joint interest of the banks themselves and their customers.

(8) As already mentioned, it is unnecessary for the N-lire notes to be of new design: they would, for instance, retain the same effigy (respectively Michelangelo, Christopher Columbus and Giuseppe Verdi) of those they replace.

(9) In the histogram the thin lines indicate the composition by denominations of the number of notes in circulation at the end of 1965, while the thicker lines indicate the composition as it would be at the end of 1970 according to the proposals made in this article. This latter composition, thanks to the issue of new denominations, would be less unbalanced than that of 1965. With the same total number of notes, 700 millions, the overall value of the currency, 6.4 milliard N-lire, would meet an increase of 8 per cent a year relative to the 4,300 milliards of 1965 lire.

comparable coins of 5 Swiss francs or 5 German marks, taking as a model, for instance, the Dutch 5 florin coin or the English sovereign (8 grammes of gold).

13. Ignoring the present 500 lire notes, the issue of which seems to be a temporary measure, it would then be necessary to replace the 500, 100, 50, 20, 10 and 5 lire coins (the 1 lira coin has actually disappeared) by those in N-lire of 50, 10, 5, 2, 1 and $\frac{1}{2}$ centesimi respectively; in addition, a new value of 20 centesimi (200 present-day lire) might be introduced as asked in various quarters. Altogether it is a question of minting more than half-a-milliard metal coins, for a weight of the order of 5,000 tons, on the assumption that the unit weight of the new coins averages from 6 to 8 grammes, quite a bit lighter than the present 100 and 50 lire coins (which could continue to be utilized as discs in appropriate machines, thus reducing requirements for new coins). It is a big technical problem, but it could certainly be solved in five or six years, which would bring us to the years 1973-74.

14. Thus in some eight years from today, Italy would possess a rational monetary circulation. Throughout this period the banks would have progressively withdrawn old notes and coins from circulation, simply abstaining from handing them out again (in contrast with what happens today) and then delivering them to the central bank for cancellation. Once the effective replacement was entirely or almost completed, a law would authorize the putting out of circulation of the old notes and coins, that is, make them no longer legal tender for payments between private individuals; later on, but without waiting another eight years, a second law would officially cancel the adjective "new", which in the meantime would perhaps have already fallen into disuse. Nevertheless, notes and coins that were no longer legal tender should *never* fall into prescription: the interested parties must retain for an indefinite period the right to obtain repayment for them through the banks: the Italian state must never repudiate the obligations it has assumed.

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