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It is so easy to finance public debt

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If the Italian State is at the moment struggling with a debt of around 2 trillion euros, Italians are pretty wealthy, to the tune of an aggregate of 9 trillion euros (Bank of Italy figures). Moreover, the gross savings of Italians are yearly about 15% of their GNP, more than the amount of bonds the Italian State has to issue every year. This might offer some alternative ideas to solve its liquidity problem. The idea has been floated to beg the Chinese government; but, with barely 3 trillion euros of financial reserves, it appears as a pauper compared to the aggregate of Italian citizens. Of course a sizeable part of their wealth is in Real Estate and other fairly illiquid assets, but a few trillions is in financial assets; so why not turn to Italian citizens to help solve Italy's liquidity problem? And so could the French, Spanish, Belgian States turn to their citizens, if need be.

Most of the funding of the Italian debt was done domestically until the advent of the Euro. Since then, the Italian Treasury issues its bonds in the international bond market, and Italian citizens put their savings in a wide variety of instruments and places. Interest rates in Euro have often been kept too low, resulting in overborrowing by many Sates (and a few real estate bubbles here and there). Few real savers and long term investors were buying long term bonds at such low rates. Rates on Italian debt have risen lately, creating some opportunities to attract real savers once again, including of course Italian savers. Good retail bond-distribution channels are not difficult to put in place, and solid domestic demand may stabilize the interest rate the Treasury has to pay; moreover, the "high" interest rate would have no negative impact for Italy and the Italian economy, since it would remain in Italy and flow to Italian citizens. To facilitate the placement of those bonds with retail investors, it would also be good to have a reasonable tax regime on the interest they pay, at least not more punitive than for any other investment instrument.

Eurozone governments enjoyed the sovereign bond bubble while it lasted, and relied too fast and too much on banks and volatile international markets (and thus fickle and incompetent rating agencies) to fund their public debt after joining the Eurozone. Of course Eurozone banks were eager to take advantage of the lax solvency rules of Basel 1 and 2 and the funding largesse of the euro system, in order to inflate their balance sheet and make easy money, and did so by indiscriminately buying euro-government paper. They are often too big, too full of sovereign paper, and undercapitalised. Their deleveraging could be achieved by a substantial downsizing —which would in many cases be preferable to recapitalisation, since Finance is sucking enough capital already— combined with a progressive return of the funding operations of governments towards real savers, like their citizens. This would not work for Greece for a number of reasons, but would for most other countries; it might go a long way towards solving the euro government debt problem.

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