

Working Paper Document

September 2023 No 441

Review essay: Central banking in Italy
by Ivo Maes



Publisher

Pierre Wunsch, Governor of the National Bank of Belgium

Statement of purpose

The purpose of these Working Papers is to promote the circulation of research results (Research Series) and analytical studies (Documents Series) made within the National Bank of Belgium or presented by external economists in seminars, conferences and conventions organised by the Bank. The aim is therefore to provide a platform for discussion. The opinions expressed are strictly those of the authors and do not necessarily reflect the views of the National Bank of Belgium.

The Working Papers are available on the website of the Bank: <http://www.nbb.be>

© National Bank of Belgium, Brussels

All rights reserved.

Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.

ISSN: 1375-680X (print)

ISSN: 1784-2476 (online)

Abstract

Gianni Toniolo was one of Italy's, and Europe's, foremost economic historians. Unfortunately, he suddenly passed away in November 2022, a few weeks after he had presented in Rome his newest book, the first volume of his history of the Bank of Italy, *Storia della Banca d'Italia. Tomo I. Formazione ed evoluzione di una banca centrale, 1893-1943* (History of the Bank of Italy. Part I. Formation and evolution of a central bank, 1893-1943). Toniolo's history of the Bank of Italy illustrates very well many issues which are at the heart of the literature on central banking. What emerges very well is the gradual transformation of the Bank of Italy, from an emission bank to a central bank, with a growing public character of the Bank. The early relationship between the Bank of Italy and the commercial banks was often one of business rivalry and competition. Through time, the Bank of Italy gained the monopoly of the emission of banknotes but had to stop its commercial activities, while being entrusted with responsibilities in the supervision of the commercial banks. Toniolo's book covers a turbulent period in Italian monetary history, with several banking crises. Monetary policy was dominated by the issue of the reconciliation of two contrasting objectives: the exchange rate of the lira and the stability of the banking system. A distinguishing feature of the Italian experience of central banking is how the development of the Bank of Italy was embedded in the process of nation-building. In other countries, where the nation-state was established before the central bank, this was very much a process of extending the network of branches. In Italy, where the process of unification was later, it implied the merger of emission banks, a much more delicate political issue.

Keywords: central banking, Bank of Italy, banking crises, financial stability, Italian lira.

JEL Classifications: E42, E58, G28, N10.

Author:

Ivo Maes, Robert Triffin Chair, University of Louvain and Visiting Fellow, Bruegel -
e-mail: Ivo.Maes@nbb.be

The author would like to thank Federico Barbiellini Amidei and Lucio Pench for comments and suggestions. The usual restrictions apply.

The views expressed in this paper are those of the author and do not necessarily reflect the views of the National Bank of Belgium or any other institution with which one of the author is affiliated. All errors and omissions are our own.

TABLE OF CONTENTS

Review essay: Central banking in Italy..... 1

References 5

National Bank of Belgium - Working papers series..... 6

Gianni Toniolo was one of Italy's, and Europe's, foremost economic historians. He published extensively, especially on the 19th and 20th century history of Italy and monetary and financial issues. One of his major works was the magnificent official history of the Bank for International Settlements, *Central Bank Cooperation at the Bank for International Settlements, 1930–1973* (Toniolo 2005). Unfortunately, he suddenly passed away in November 2022, a few weeks after he had presented in Rome his newest book, the first volume of his history of the Bank of Italy, *Storia della Banca d'Italia. Tomo I. Formazione ed evoluzione di una banca centrale, 1893 -1943* (History of the Bank of Italy. Part I. Formation and evolution of a central bank, 1893-1943).

The book follows a largely chronological order and is divided in eleven chapters. The first chapter traces the origins and evolution of the concept of central banking, paying particular attention to forerunners of “central banks” in the old financial centers of Genova, Venice and Naples. In the second chapter, Toniolo focuses on the precursors of the Bank of Italy, the emission banks (banks which had the privilege to issue banknotes) in different Italian states (and, before unification, there were several states in Italy). The history of the Bank of Italy was then interwoven with the process of Italian political unification¹ and its implications for the economic and financial system. Toniolo pays particular attention to Cavour, the powerful Prime Minister of the Kingdom of Italy, who, already in 1860, was in favor of a single emission bank. Cavour did not completely get his way, as some minor emission banks continued to exist, but a central place was taken by a dominant emission bank: the “Banca Nazionale nel Regno” (resulting from a merger of the Genovese and Torinese emission banks in 1849 and later absorbing some smaller banks of issue). The emission banks were privately owned and listed on the stock exchange. In the third chapter, Toniolo discusses the origins of the Banca d'Italia. As often, in periods of financial crises (Toniolo talks about “una tempesta perfetta”, a perfect storm, p. 102), the government was obliged to act and decided to limit the number of emission banks to three (instead of six). In 1893, the Banca d'Italia was created by the merger of the Banca Nazionale nel Regno, the Banca Nazionale Toscana and the Banca Toscana di Credito (and was charged with the liquidation of the Banca Romana). The two southern banks of issue, the Banco di Napoli and the Banco di Sicilia, were allowed to continue as independent institutions. In the fourth chapter, Toniolo discusses the first two decades of the Bank of Italy. One of the first objectives of the Bank was to clean up its balance sheet (as it had inherited a sizeable portfolio of “non-performing loans”). In 1900, Bonaldo Stringher came at the helm of the Bank of Italy, where he remained until his death in 1930, playing a crucial role in monetary

¹ The Kingdom of Italy was proclaimed in 1861 under the Savoy monarchy. The Venetia region was added in 1866 and the papal state (with Rome) in 1871.

and financial policy in Italy. During the financial crisis of 1907, the Bank of Italy had a key role in the management of the crisis, setting it above the rest of the banking system and acquiring so some key features of a modern central bank. The fifth chapter discusses the role of the Bank during the First World War, focused, as might be expected, on the role of the Bank in the financing of the war. Toniolo argues that the war reinforced the central role of the Bank in the Italian financial system (p. 331). The period immediately following the First World War is discussed in chapter six. It is commonly known as “The Age of the Central Banks”, the title of a manifesto, published in 1921, by Montagu Norman, the long-serving Governor of the Bank of England. In a classical statement he outlined the main features of a “central bank”: independence from governments, separation from commercial banks, supervision of the banking system and international cooperation (p. 346). During those years, the international economic and monetary debates were dominated by the re-establishment of the gold standard, especially after Britain’s return to gold in 1925 (at the prewar parity). In Italy, Benito Mussolini came to power in 1922, but 1925 marked what Toniolo calls “una cesura epocale” (an epochal break, p. 415), when Mussolini’s speech of 3 January marked the beginning of the dictatorship. Mussolini was in favor of a “strong lira” and directed Italy towards a restoration of convertibility. In a speech in August 1926, he argued for the so-called “Quota 90” (i.e. 90 lire per pound, also the title of chapter seven) and from then onwards various measures were adopted to prepare for a return of the lira to gold. This happened in December 1927. However, the “Quota 90” constituted an overvalued exchange rate. This created deflationary pressures in the Italian economy which weakened the banking system. As part of the stabilization process, a law was passed in 1926 which changed the statute of the Bank of Italy. It gave the Bank the monopoly of the note issue and entrusted it with supervisory powers, reinforcing its public character. The Bank’s first experiences in supervision are the topic of the eight chapter. Not all banks fell under the inspections of the Bank of Italy. A notable exception were the largest banks of the Kingdom of Italy (p. 483). Toniolo further describes a financial system that, in certain areas, resembled “Ponzi finance” (p. 516). Toniolo is also quite critical of some of the Bank’s supervisory practices, especially the supervision and crisis management regarding the Banca Agricola Italiana. The September 1931 devaluation of the pound sterling marked the start of the “Great Crisis”, the topic of chapter nine. Mussolini insisted on keeping the gold parity of the lira and gave precise instructions to the Bank (p. 543). To defend the exchange rate, the Bank of Italy had to draw on its reserves and invented administrative measures to limit the outflow capital. In 1936, following the French devaluation, the parity of the lira was officially devalued. During these years, in 1930 and 1931, the Italian government also organized two huge bail-out operations of the largest commercial banks (Banca Commerciale Italiana and Credito Italiano, which had turned into industrial holding companies), which Toniolo describes as important successes. However, the master mind of

these operations was Alberto Beneduce, who had the confidence of Mussolini and who became the head of the Istituto per la Ricostruzione Industriale (IRI), which would manage the industrial and banking portfolio of the State. The Bank of Italy was sidelined in these operations, even if it was required to provide the necessary liquidity. A new Banking Act, drawn up without much involvement of the Bank of Italy, was introduced in 1936. The Bank of Italy became an Institute under Public Law and had to end its commercial banking operations. It also extended the supervisory powers of the Bank. From 1935 to 1943 (the end of this first volume of this Bank of Italy's history), Italy was almost continuously at war: first in Abyssinia, then in Spain and finally in the Second World War. In the tenth chapter, "Autarchia e Guerra" (Autarchy and War) Toniolo discusses this period. During these years, there was also an important reform of the "Servizio Studi", the Bank's economic analysis and research service, an important characteristic of a modern central bank (Maes 2022). During the 1930s, many brilliant economists were recruited, among them Paolo Baffi, who would become Governor in the 1970s. A strong economic research department, with thorough and authoritative analyses, would become an important characteristic of the Italian experience of central banking in the postwar period. Toniolo further discusses the relationship of the Bank with the fascist movement and the Bank's position with respect to "the defense of the race". In a last chapter, Toniolo focuses on the period 1939-1943, the time of the "total war", when the Bank was very much involved in the financing of the war, paying further particular attention to the activities of the Bank in the occupied countries. The book ends on the 8th of September 1943, when, after Mussolini was discarded from power in the summer, Marshal Pietro Badoglio announced Italy's surrender to the Allies.

Toniolo's history of the Bank of Italy illustrates very well many issues which are at the heart of the literature on central banking². What emerges very well is the gradual transformation of the Bank of Italy, from an emission bank to a central bank, with a growing public character of the Bank. This was a quite typical evolution, also for many other central banks in other countries. The early relationship between the Bank of Italy and the commercial banks was often one of business rivalry and competition. Through time, the Bank of Italy gained the monopoly of the emission of banknotes but had to stop its commercial activities, while being entrusted with responsibilities in the supervision of the commercial banks. Its relations with commercial banks were then not always easy, like with the bank of the piazza della Scala in Milan (the Banca Commerciale Italiana, the largest bank of the time). Toniolo's book covers a turbulent period in Italian monetary history, with several banking crises. The banknotes of the Bank of Italy

² Interesting histories of central banking can be found in Buyst, Maes and Pluym 2005, Capie e.a. (eds.) 1994 and Edvinsson, Jacobson and Waldenström (eds.) 2018.

became only convertible in 1927 (until 1937). Monetary policy was dominated by the issue of the reconciliation of two contrasting objectives: the exchange rate of the lira and the stability of the banking system (p. 537). Drawing on the historical archives of the Bank, Toniolo illustrates very well the importance of the relationship between the Governor and the finance minister (and sometimes the prime minister), especially for the influence of the Bank on policymaking. The issue of the independence of the Bank of Italy is a more difficult one, and it regularly aroused the suspicions of Montagu Norman. With the rise of fascism, the Bank of Italy very much lost her autonomy. A distinguishing feature of the Italian experience of central banking, which comes very well to the fore in the book, is how the development of the Bank of Italy was embedded in the process of nation-building, as very well perceived by Cavour. In other countries, where the nation-state was established before the central bank, this was very much a process of extending the network of branches. In Italy, where the process of unification was later, it implied the merger of emission banks, a much more delicate political issue.

Gianni Toniolo has provided us with a very rich and well written history of the Bank of Italy, based on extensive archival research. The volume shows his scholarship as he puts the history of the Bank of Italy in a broader economic and political context. This book is not only a history of the Bank of Italy, but it sheds new light on the history of Italy as well as on the history of central banking. It is a pity we will never see Toniolo's second part, which he was already actively preparing. One can only hope that the project will be continued.

References

- Buyst E., I. Maes, W. Pluym and M. Danneel, 2005, *The Bank, the Franc and the Euro, A History of the National Bank of Belgium*, Preface by G. Quaden, Tielt: Lannoo, November.
- Capie F. e.a. (eds.), 1994, *The Future of Central Banking: The Tercentenary Symposium of the Bank of England*, Cambridge: CUP.
- Maes I, 2022., Should central banks be involved in historical research? *SUERF Policy Brief*, No. 481, December.
- Edvinsson R., T. Jacobson and D. Waldenström (eds.), 2018, *Sveriges Riksbank and the History of Central Banking*, Cambridge: C.U.P.
- Toniolo G, 2005, (with the cooperation of P. Clement), *Central Bank Cooperation at the Bank for International Settlements, 1930–1973*, Cambridge: Cambridge University Press.
- Toniolo G., 2022, *Storia della Banca d'Italia. Tomo I. Formazione ed evoluzione di una banca centrale, 1893-1943*. Roma: Il Mulino, Collana Storica della Banca d'Italia, Contributi e Saggi, IX + 812 pp.

NATIONAL BANK OF BELGIUM - WORKING PAPERS SERIES

The Working Papers are available on the website of the Bank: <http://www.nbb.be>.

396. "Daily news sentiment and monthly surveys: A mixed-frequency dynamic factor model for nowcasting consumer confidence", by A. Algaba, S. Borms, K. Boudt and B. Verbeken, *Research series*, February 2021.
397. "A bigger house at the cost of an empty fridge? The effect of households' indebtedness on their consumption: Micro-evidence using Belgian HFCS data", by Ph. Du Caju, G. Périleux, F. Rycx and I. Tojerow, *Research series*, March 2021.
398. "Low interest rates and the distribution of household debt", by M. Emiris and F. Koulischer, *Research series*, March 2021.
399. "The interplay between green policy, electricity prices, financial constraints and jobs. Firm-level evidence", by G. Bijmens, J. Hutchinson, J. Konings and A. Saint Guilhem, *Research series*, April 2021.
400. Economic importance of the Belgian maritime and inland ports – Report 2019", by I. Rubbrecht, E. Dhyne and C. Duprez, *Research series*, May 2021.
- 401 "The return on human (STEM) capital in Belgium", by G. Bijmens and E. Dhyne, *Research series*, July 2021.
402. "Unraveling industry, firm and host-region effects on export behaviors of international new ventures and established exporters", by I. Paeleman, S. A. Zahra and J. W. B. Lang, *Research series*, July 2021.
- 403 "When trust is not enough: Bank resolution, SPE, Ring-fencing and group support" by M. Dewatripont, M. Montigny and G. Nguyen, *Research series*, August 2021.
- 404 "Bank specialization and zombie lending", by O. De Jonghe, K. Mulier and I. Samarin, *Research series*, November 2021.
405. "Robert Triffin, Japan and the quest for Asian Monetary Union", I. Maes and I. Pasotti, *Research series*, February 2022.
406. "The impact of changes in dwelling characteristics and housing preferences on house price indices", by P. Reusens, F. Vastmans and S. Damen, *Research series*, May 2022.
407. "Economic importance of the Belgian maritime and inland ports – Report 2020", by I. Rubbrecht, *Research series*, May 2022.
408. "New facts on consumer price rigidity in the euro area", by E. Gautier, C. Conflitti, R. P. Faber, B. Fabo, L. Fadejeva, V. Jouvanceau, J. O. Menz, T. Messner, P. Petroulas, P. Roldan-Blanco, F. Rumler, S. Santoro, E. Wieland and H. Zimmer, *Research series*, June 2022.
409. "Optimal deficit-spending in a liquidity trap with long-term government debt", by Charles de Beaufort, *Research series*, July 2022.
410. "Losing prospective entitlement to unemployment benefits. Impact on educational attainment", by B. Cockx, K. Declercq and M. Dejemeppe, *Research series*, July 2022.
411. "Integration policies and their effects on labour market outcomes and immigrant inflows", by C. Piton and I. Ruysen, *Research series*, September 2022.
412. "Foreign demand shocks to production networks: Firm responses and worker impacts", by E. Dhyne, A. K. Kikkawa, T. Komatsu, M. Mogstad and F. Tintelnot, *Research series*, September 2022.
413. "Economic research at central banks: Are central banks interested in the history of economic thought?", by I. Maes, *Research series*, September 2022.
414. "Softening the blow: Job retention schemes in the pandemic", by J. Mohimont, M. de Sola Perea and M.-D. Zachary, *Research series*, September 2022.
415. "The consumption response to labour income changes, by K. Boudt, K. Schoors, M. van den Heuvel and J. Weytjens, *Research series*, October 2022.
416. "Heterogeneous household responses to energy price shocks, by G. Peersman and J. Wauters, *Research series*, October 2022.
417. "Income inequality in general equilibrium", by B. Bernon, J. Konings and G. Magerman, *Research series*, October 2022.
418. "The long and short of financing government spending", by J. Mankart, R. Priftis and R. Oikonomou, *Research series*, October 2022.
419. "Labour supply of households facing a risk of job loss", by W. Gelade, M. Nautet and C. Piton, *Research series*, October 2022.
420. "Over-indebtedness and poverty: Patterns across household types and policy effects", by S. Kuypers and G. Verbist, *Research series*, October 2022.
421. "Evaluating heterogeneous effects of housing-sector-specific macroprudential policy tools on Belgian house price growth", by L. Coulier and S. De Schryder, *Research series*, October 2022.
422. "Bank competition and bargaining over refinancing", by M. Emiris, F. Koulischer and Ch. Spaenjers, *Research series*, October 2022.

423. "Housing inequality and how fiscal policy shapes it: Evidence from Belgian real estate", by G. Domènech-Arudi, P. E. Gobbi and G. Magerman, *Research series*, October 2022.
424. "Income inequality and the German export surplus", by A. Rannenberg and Th. Theobald, *Research series*, October 2022.
425. "Does offshoring shape labor market imperfections? A comparative analysis of Belgian and Dutch firms", by S. Dobbelaere, C. Fuss and M. Vancauteren, *Research series*, November 2022.
426. "Sourcing of services and total factor productivity", E. Dhyne and C. Duprez, *Research series*, December 2022.
427. "Employment effect of citizenship acquisition: Evidence from the Belgian labour market", S. Bignandi and C. Piton, *Research series*, December 2022.
428. "Identifying Latent Heterogeneity in Productivity", R. Dewitte, C. Fuss and A. Theodorakopoulos, *Research series*, December 2022.
429. "Export Entry and Network Interactions - Evidence from the Belgian Production Network", E. Dhyne, Ph. Ludwig and H. Vandenbussche, *Research series*, January 2023.
430. "Measuring the share of imports in final consumption", E. Dhyne, A.K. Kikkawa, M. Mogstad and F. Tintelnot, *Research series*, January 2023.
431. "From the 1931 sterling devaluation to the breakdown of Bretton Woods: Robert Triffin's analysis of international monetary crises", I. Maes and I. Pasotti, *Research series*, January 2023.
432. "Poor and wealthy hand-to-mouth households in Belgium", L. Cherchye, T. Demuynck, B. De Rock, M. Kovaleva, G. Minne, M. De Sola Perea and F. Vermeulen, *Research series*, February 2023.
433. "Empirical DSGE model evaluation with interest rate expectations measures and preferences over safe assets", G. de Walque, Th. Lejeune and A. Rannenberg, *Research series*, February 2023.
434. "Endogenous Production Networks with Fixed Costs", E. Dhyne, A. K. Kikkawa, X. Kong, M. Mogstad and F. Tintelnot, *Research series*, March 2023.
435. "BEMGIE: Belgian Economy in a Macro General and International Equilibrium model", G. de Walque, Th. Lejeune, A. Rannenberg and R. Wouters, *Research series*, March 2023.
436. "Alexandre Lamfalussy and the origins of instability in capitalist economies", I. Maes, *Research series*, March 2023.
437. "FDI and superstar spillovers: Evidence from firm-to-firm transactions", M. Amiti, C. Duprez, J. Konings and J. Van Reenen, *Research series*, June 2023.
438. "Does pricing carbon mitigate climate change? Firm-level evidence from the European Union emissions trading scheme", J. Colmer, R. Martin, M. Muûls and U.J. Wagner, *Research series*, June 2023.
439. "Managerial and financial barriers to the green transition", R. De Haas, R. Martin, M. Muûls and H. Schweiger, *Research series*, June 2023.
440. "Review essay: The young Hayek", I. Maes, *Document series*, September 2023.
441. "Review essay: Central banking in Italy", I. Maes, *Document series*, September 2023.

National Bank of Belgium
Limited liability company
Brussels RLP – Company's number: 0203.201.340
Registered office: 14 Boulevard de Berlaimont – BE-1000 Brussels
www.nbb.be

Editor

Pierre Wunsch

Governor of the National Bank of Belgium

© Illustrations: National Bank of Belgium

Layout: Analysis and Research Group
Cover: NBB CM – Prepress & Image

Published in September 2023