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Review essay: Central banking in Italy
by Ivo Maes



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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.

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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.

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