

# Central Banks and Major Shocks: What Do We Know from Central Banking History?

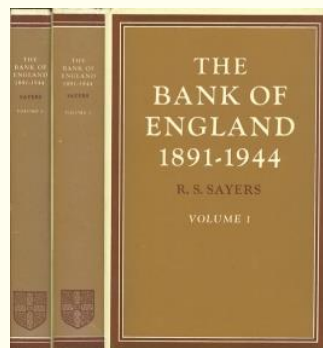
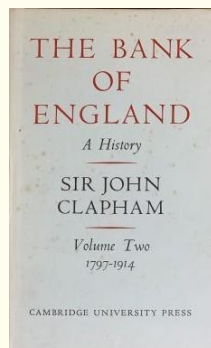
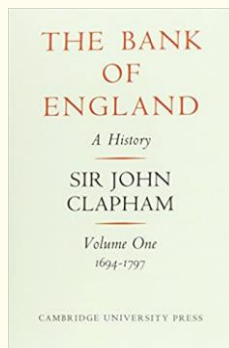
**Stefano Ugolini**  
(University of Toulouse)

*Bank of Italy Workshop “Research on Central Banking History”*

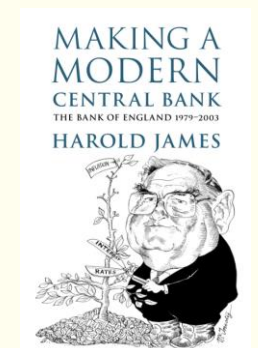
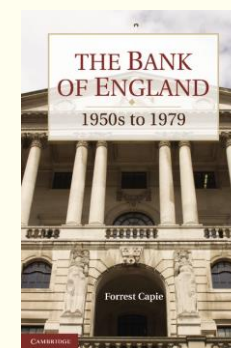
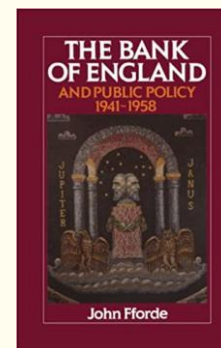
Rome, 18 October 2022

# Introduction

- ❖ The historical literature on central banking (CB) has largely been the output of **commissioned research**, directly (or indirectly) funded by central banks themselves
- ❖ This explains why much of the output is epistemologically closer to **business history** than to economic history strictly speaking
- ❖ As a result, the question of the *role of CB in dealing with major shock* has for long been a rather marginal one

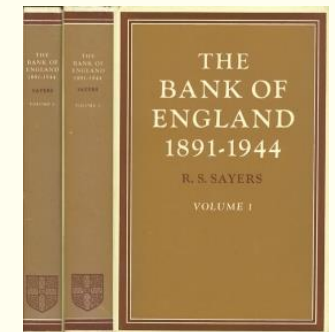
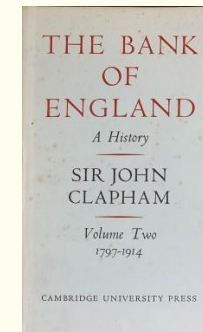
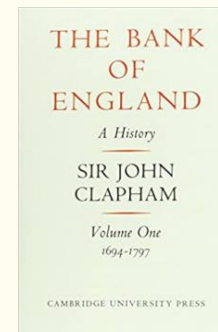
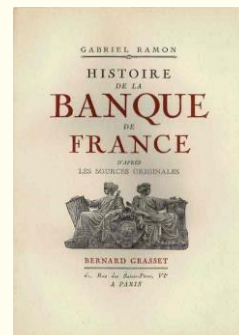
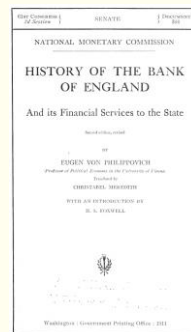
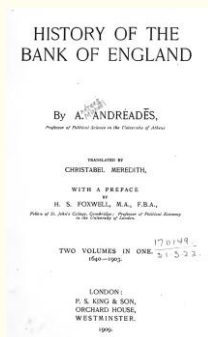


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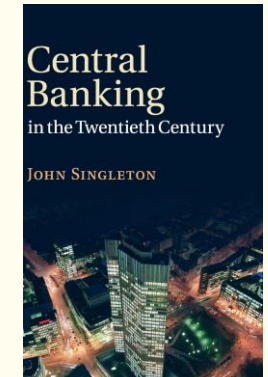
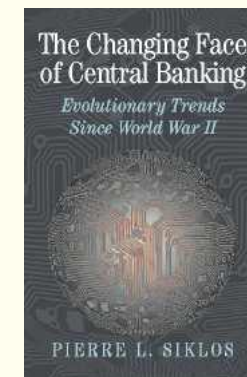
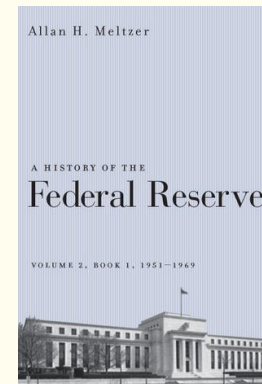
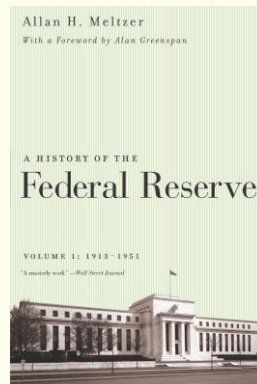
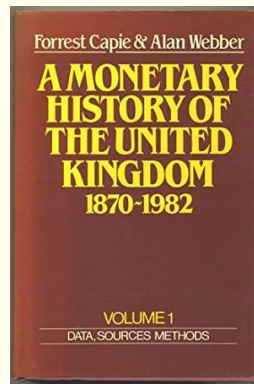
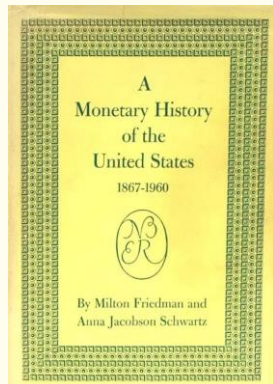
# “First Generation” Histories of CB

- ❖ “First generation” histories of CB were closest to *business history*
- ❖ In these works, politics, biographies and mentalities were often paid much greater attention than economics: major shocks were merely seen as episodes of stress in the “lives” of CB organizations



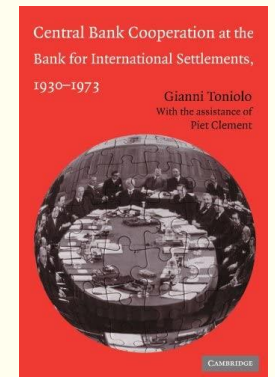
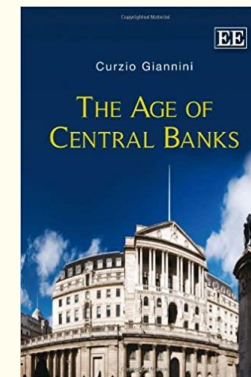
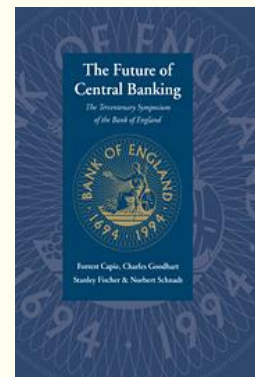
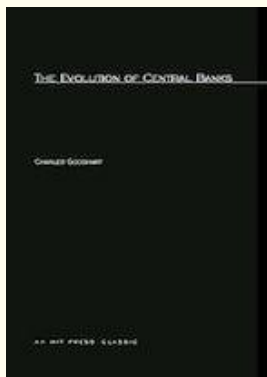
# “Second Generation” Histories of CB

- ❖ Following new developments in *monetary theory*, “second generation” histories of **CB** substantially refocused the research agenda by integrating *macroeconomic factors* into the analysis
- ❖ However, their attention was often narrowly circumscribed to one only type of major shocks – i.e., those having to do with the CB’s control of the *money supply*



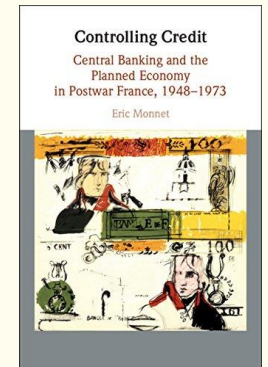
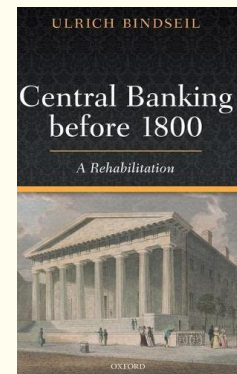
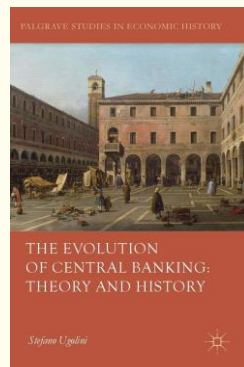
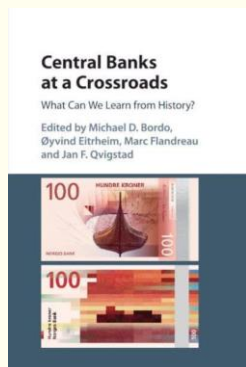
# “Third Generation” Histories of CB

- ❖ Inspired by new developments in *microeconomics* and “*new institutional*” theories, “**third generation**” histories of CB refocused on the question of financial stability and attempted to define how *optimal monetary institutions* should be designed
- ❖ These works esp. drew attention to the role of CB in preventing major shocks *ex ante* rather than in dealing with them *ex post*



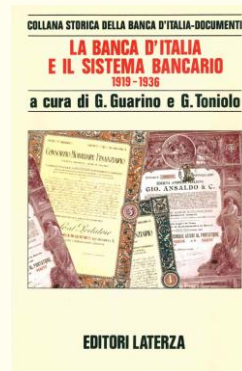
# “Fourth Generation” Histories of CB

- ❖ Following the end of the “Great Moderation” era, “fourth generation” histories of **CB** have proposed to further enlarge the conceptual framework and to conceive of CB as *an integrated set of public policies aimed at dealing with market failures*
- ❖ This recent approach can potentially allow for a more comprehensive understanding of the role of central banks in dealing with major crises, including those types of crises (e.g. payment infrastructure shocks, huge real economic shocks, or fiscal shocks) which were paid only limited attention by the earlier literature



# History of CB in Italy: State of the Art

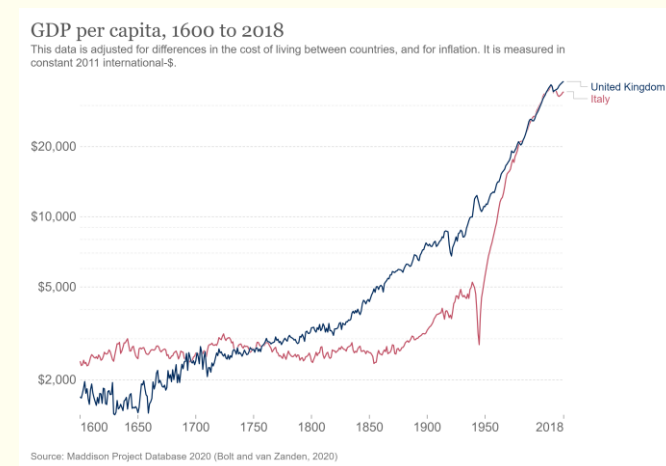
- ❖ A certain neglect of pre-19<sup>th</sup>-century legacy, even when directly connected with post-Unitary experiences (esp. in Naples): an early focus on bankers rather than banks (a “*Florentine bias*” in early-modern historiography?)
- ❖ Contrary to most other countries (esp. the UK), modern historiography has been largely focused on the **Italian economy** rather than on CB strictly speaking



# History of CB in Italy: State of the Art

- ❖ An “imported” vision of Italy as a **developing country** rather than a “mature” economy facing reconversion problems – hence a vision of Italy as a *second-* (or even *third-*) *comer country* also in terms of its monetary institutions
- ❖ Major shocks best studied in by the literature: the (First) Great Depression, the (Second) Great Depression, the Post-Bretton-Woods Crises (...while considering huge “real” shocks as the World Wars as “states of exception”)

➤ ...*Shouldn't we take a longer-term approach?*





# History of CB in Italy: New Avenues?

- ❖ **Napoleon** and the destabilization of Italy's early-modern equilibria:
  - Demise of city-states and mercantile institutions
  - A new dogma: balanced budgets and monetary dominance
- ❖ A huge **reconversion** mistake?
  - High debt and austerity
  - Demise of the economic role of the state
  - Re-ruralization (hence relative de-financialization)
  - Adverse terms-of-trade shock
  - Balance-of-payments deficits and financial fragility
  - Mass emigration
- ❖ ...Lessons from this long story for our *post-growth* “*new normal*”?

# Concluding Remarks

- ❖ A long-term approach to the history of Italy (going beyond the traditional early-19<sup>th</sup>-century fracture assumed away by historiography) might be a promising avenue
- ❖ This also applies to countries with similar fate: Spain, Portugal, the Netherlands...
- ❖ Many insights still potentially to be uncovered concerning the **role of CB in major shocks** relatively ignored by the traditional CB literature, such as:
  - ❖ Dealing with *wars*
  - ❖ Dealing with *social unrest*
  - ❖ Dealing with *pandemics*
  - ❖ Dealing with *demographic stagnation*
  - ❖ Dealing with *high public indebtedness*
  - ❖ Dealing with *rationing*
  - ❖ Dealing with *adverse terms-of-trade shocks*

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