BANCA D'ITALIA
EUROSISTEMA

Banca d'Italia's independence in the political and economic spheres

Speech by Luigi Federico Signorini*
Senior Deputy Governor of Banca d'Italia

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Given the topic chosen for this event celebrating the centenary of Giovanni Spadolini, it is natural for our minds to go back to 1981 – the year when the first Spadolini government took office, and when Banca d'Italia and the Treasury went through a consensual 'divorce', initiating the process that culminated in the independence of monetary policy in Italy. This 'divorce' will be at the core of my remarks today, but before we get there, I believe it is essential to discuss the concept of central bank independence and how it has evolved over the past half-century.

Central bank independence

Although the question of independence for the money-issuing institution had arisen before,[1] the idea as we understand it today emerged in the 1970s, both in monetary theory and in central banking practice. The concept is linked to the purely fiduciary nature of money and to the need for institutional safeguards that are credible enough to preserve trust in its stability and value.

The temptation for a sovereign to exploit the privilege of issuing money to finance public spending by increasing the monetary circulation – thus generating inflation – is perhaps as old as currency circulation itself. Nor is the history of well- or ill-argued objections to this temptation, raised by philosophers, moralists, jurists and eventually economists, any shorter. Yet in ancient regimes, as long as gold and silver coin circulation prevailed, the problem arose in entirely different terms: i.e. in terms of physical debasement[2] and similar practices; nor were there any modern central banks whose independence needed protection. Even under the gold standard, when central banks began to play an increasing role in managing currency circulation, the peg to the precious metal

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1 For an overview, see S. Nicoletti Altimari, 'Central Bank Independence and the Rule of Law', Rome, Banca d'Italia. David Ricardo provided a well-known early theoretical and policy-oriented contribution to the understanding of independence in monetary governance in an essay of 1824.

2 A reduction in the proportion of precious metal contained in a coin of a given nominal value.

– however conventional, indirect, often problematic, and with frequent intervals of fiat money – remained a benchmark in monetary theory and practice,[3] acting as a brake on monetizing deficits. Protecting the independence of issuing institutions served to maintain and ensure the proper functioning of a monetary regime conceptually founded on an external anchor.[4]

The gold standard collapsed in the first half of the twentieth century under the blows of two world wars and the Great Depression, not to mention its growing inadequacy in an increasingly complex and dynamic economy. For about a quarter-century after World War II, it was replaced by a standard centred on the dollar, as the US remained the only country still committed to gold parity. In 1971, with the declaration of dollar inconvertibility, the Bretton Woods system fell, and with it the last link – however indirect – between circulating money and an underlying intrinsic value.

The breakdown occurred amid prolonged macroeconomic imbalances in the country issuing the peg currency – the United States: trade deficits, public deficit and creeping inflation. To some extent, it was due to a technical weakness inherent in the system itself (known as the Triffin dilemma), which was likely to surface sooner or later anyway. Yet to a greater extent it reflected the fact that events had undermined one of the pillars of the prevailing macroeconomic policy paradigm, in America or elsewhere, namely the misplaced confidence that it was possible to leverage expansionary monetary policy systematically to foster output and employment growth, by stimulating aggregate demand, without jeopardizing monetary stability.[5] Only two years later, the first oil shock triggered the most violent inflationary surge across advanced countries since the war. A second shock followed a few years later.

The need to understand how to preserve monetary stability once any link to a real underlying asset had been severed – with money being based solely on the sovereign's 'fiat' – was no longer just a fascinating theoretical question: it became a pressing practical issue. It was in this context that the concept of central bank independence was developed as we understand it today.[6]

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3 Italy, for example, ran a de facto fiat money regime for over thirty of the fifty-three years between Unification and the outbreak of World War I. Yet when convertibility was restored in 1902 (after one aborted attempt), gold parity was still the same as in 1866.

4 Moreover, many issuing institutions at the time were private banks, albeit with special obligations and privileges. For central bankers, the battle for independence was therefore sometimes fought on two fronts – against the government and against shareholders. On this point, and regarding Banca d'Italia, see the remarks on the position of Bonaldo Stringher, who led the institution starting from the early 1900s, in my presentation of Gianni Toniolo's *History of the Bank of Italy* (Genoa, 23 October 2023).

5 From this point of view, among other things, the gold peg no longer had a clear function to perform, and for this reason too could hardly have survived.

6 What follows is necessarily a brief review, and not every economist will agree on every single detail, but I trust that, overall, it conveys the reasoning underlying the centrality now given to the independence of money-issuing institutions.

Theoretically, a series of contributions, including the seminal works of Finn Kydland and Edward Prescott (1977) and of Robert J. Barro and David B. Gordon (1983),[7] formalised the problem of 'time inconsistency'. In a nutshell: monetary expansion can create a temporary stimulus for the economy, provided that economic agents (producers, consumers) do not expect it to lead to higher inflation. However, the stimulus will be short-lived because, if economic fundamentals do not change, the real long-run equilibrium will not change; ultimately, the only effect of monetary expansion will be to accelerate inflation. As economic agents grasp this mechanism, the effect of monetary expansion on economic momentum will be weaker and weaker, while its effect on inflation, through economic agents' perceptions and expectations, will be ever faster. These dynamics, combined with the exogenous shocks of those years, lie at the root of 'stagflation' in the 1970s, a term coined then to describe a situation that the Keynesian paradigm was unable to explain.

What, then, was to be done? Since the weapon of monetary stimulus was (almost) blunted, the conclusion was: better adopt a prudent monetary policy aimed specifically at anchoring inflation. This is where the problem of time inconsistency comes in. Once inflation expectations are anchored, monetary policy regains the ability to stimulate economic activity temporarily by 'surprising' its agents. Anchoring expectations is optimal ex ante, but creates an incentive for policy reversal ex post. The temptation is stronger if monetary policy is under the control of a government facing imminent elections. This game cannot go on indefinitely without generating an inflationary bias. The only way to break the vicious circle is to remove monetary policy from direct government control and entrust it to an independent and 'conservative' authority,[8] vested with a clear mandate centred on price stability, limiting its discretion[9] and strengthening reputational incentives.

The idea, of course, is not that central bankers are 'better' than politicians, nor even, strictly speaking, more forward-looking in a general sense, but that they should have a mandate, a set of rules, a system of incentives, and a framework of safeguards designed to strengthen their credibility and mitigate the risk of time inconsistency with respect to a specific, technically defined target. Hence the architecture that took shape in the following decades: price stability as the primary goal of monetary policy;[10] independence, especially in terms of monetary policy tools; long terms of office; and protection against arbitrary removal. All of this, along with public transparency in central bank action, which

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7 F.E. Kydland and E.C. Prescott, 'Rules Rather than Discretion: The Inconsistency of Optimal Plans', *Journal of Political Economy*, Vol. 85, No. 3, 1977; R.J. Barro and D.B. Gordon, 'Rules, Discretion and Reputation in a Model of Monetary Policy', *Journal of Monetary Economics*, Vol. 12, No. 1, 1983.

8 Kenneth Rogoff (1985), 'The Optimal Degree of Commitment to an Intermediate Monetary Target', *Quarterly Journal of Economics*, Vol. 100, No. 4, pp. 1169-1189.

9 A key element in the theoretical debate then, starting with Kydland and Prescott's paper, was the emphasis on limiting central bank discretion, notably through predetermined rules for monetary aggregate growth. This view influenced Paul Volcker's Fed action. While it helped root inflation out of the economy at the time, the insistence on pre-determined monetary aggregate rules seems too rigid today. The author has previously expressed the view (at the presentation of M. Friedman and A. Schwartz's *A Monetary History of the United States, 1867-1960*, Rome, 17 October 2022) that monetary aggregates, if used judiciously, retain informative value, and that moving from exclusive or even obsessive attention to near-total neglect may be equally extreme.

10 As is well known, the US Federal Reserve retains a dual mandate: price stability and employment.

is essential in an open, democratic society to prevent a central bank from becoming self-referential.[11]

Later on came the practice of inflation targeting: a quantitative target, a central role for forecasts and high transparency – a triad that proved effective for macroeconomic stabilisation. Later still, in Europe, the Maastricht Treaty enshrined the principle of monetary policy independence, with the separation between spending power and money creation, the prohibition on monetary financing, price stability as the ECB's primary goal, and the institutional independence of the Eurosystem.

The empirical literature supports the new framework, showing that, in advanced countries, central bank independence is associated with lower inflation and with growth being no less in the long run.

However, let us go back to the period that concerns us: the end of the 1970s. Alongside the evolution of the theory, there was a marked shift in monetary practice, particularly in the United States. Under Paul Volcker, appointed in 1979, the Federal Reserve took a strongly tightening stance, despite being much criticised. At the cost of a temporary but severe recession, the inflation rate was brought down from nearly 15 to 3 per cent over a few years. The Bundesbank followed a similar path.

And what about Italy? In 1979, price growth in our country was in line with the US rate – the following year, it exceeded 20 per cent. Italian inflation was indeed quite sticky. Its persistence was fuelled by a high public deficit, an industrial relations system dominated by wage indexation and based on centralised bargaining without an 'incomes policy', and finally – what interests us most here – the fact that monetary policy was constrained by Banca d'Italia's commitment to acting as the residual purchaser of government securities that failed to find buyers on the market.[12] Even with the 'sterilisation' measures that Banca d'Italia implemented, as far as possible, to neutralise the creation of a monetary base through the Treasury, this situation effectively amounted to fiscal dominance,[13] a condition that limits central bank independence and the use of monetary policy for anti-inflationary purposes.

In October 1979, Carlo Azeglio Ciampi became governor of Banca d'Italia, after Paolo Baffi was unjustly indicted and chose to resign. A year later, Beniamino Andreatta became Treasury Minister, first in the Forlani government and then in the first Spadolini government.

11 S. Nicoletti Altimari, op. cit.

12 This practice was introduced in 1975 with the reform of the Treasury bill market. See M. Draghi (2011), 'L'autonomia della politica monetaria. Una riflessione a trent'anni dalla lettera del Ministro Andreatta al Governatore Ciampi che avviò il "divorzio" tra il Ministero del Tesoro e la Banca d'Italia', speech at the conference 'L'autonomia della politica monetaria', held by AREL at the Italian Banking Association, Rome, Palazzo Altieri, 15 February 2011.

13 Or so it seems to the author; opinions differ. See footnote 20 in our presentation of M. Friedman and A. Schwartz's *A Monetary History of the United States, 1867-1960*.

The divorce

'Dear Governor, I have long thought that many problems in the managing of monetary policy are made more serious because Banca d'Italia's conduct vis-à-vis the Treasury's financing needs is not sufficiently independent'.[14] This is how a letter of 12 February 1981 starts, in which Beniamino Andreatta, in agreement with Carlo Azeglio Ciampi, set in motion what has gone down in history as the 'divorce' between the Treasury and Banca d'Italia, a set of changes giving full recognition to the Bank's independence.[15]

The letter ended with Andreatta's request to '*be informed about what Banca d'Italia thought about these proposals, in a context of a close and fruitful collaborative relationship*'. Ciampi sent his reply on 6 March, expressing his agreement with the Minister:[16] '*For monetary policy to remain unfettered by the size and the performance of the state deficit over time, it must be possible for Banca d'Italia to regulate its funding of the Treasury in order to achieve its monetary control objectives*'.

Ciampi also expressed the same conviction in public, a few days after Andreatta's letter (18 February):[17] '*In Italy, the Treasury's broad access to Banca d'Italia's financing further increases the risk that the control of monetary aggregates will be less effective in the short term. Imbalances between public expenditure and revenue affect the creation of a monetary base because Banca d'Italia either underwrites government securities initially or makes residual purchases of the part not placed publicly. It would be advisable to take steps in Italy as well to remove the elements of automatism in how the central bank finances the Treasury by purchasing securities*'.

Maria Teresa Salvemini has written that 'the decision to proceed with the "divorce" was made during a kind of *governmental interregnum*, between the Forlani government,

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14 ASBI, Banca d'Italia, Ciampi's Governing Board, dossier 69, file 1.

15 The possibility of modifying the existing regime via a simple exchange of letters between minister and governor, '*without submitting the matter to the Interministerial Committee for Credit and Savings for formal approval, is permitted according to the ministry's legal team, because revising the provisions for Banca d'Italia falls within the exclusive remit of the Minister*' (M. Draghi, op. cit., p. 4).

16 ASBI, Banca d'Italia, Ciampi's Governing Board, dossier 69, file 1. In an interview given by Ciampi in 2007, as part of an oral history project launched at that time by Banca d'Italia, the former Governor revealed that the idea of the exchange of letters was actually his. Andreatta (who, in an exchange of opinions with Banca d'Italia's leaders in 1976, had already voiced the idea that '*a firm declaration of central bank independence from the Treasury*' was needed: Draghi (2011), op. cit., p. 3) intended to proceed by means of legislation. Ciampi dissuaded him, however, by saying that, in Parliament, '*you know how you go in but you don't know how you'll go out [...] we go in with a draft law and we don't know when we'll come out and how it'll be changed*'. Ciampi went on to say in the interview: '*We're trying to do something much simpler [...] it's good if you take the initiative (my approach had always been to respect political authority): you write me a nice letter in which you pose the problem, and I'll agree with you in my answer*'. ASBI (Multimedia), Banca d'Italia, Progetto Storia Orale (Oral History Project), document 6.4.

17 Conference held in Rome on 18 February 1981, as part of the cycle promoted by the Associazione Nazionale Aziende Ordinarie di Credito and the Istituto Centrale di Banche e Banchieri. Governor Ciampi's speech is published with the title 'Tra mercato e controllo: aspetti operativi della politica monetaria', in *Banche e Banchieri*, 2, year VII, February 1981, pp. 89-100.

which fell in May, and the Spadolini one, installed at the end of June. It came into full effect in July.[18]

Spadolini claimed ownership of this in terms of operations and governance, referring to the divorce as the '*measures set out in July 1981 by the government led by me, with the contribution of the then Treasury Minister, Andreatta*'. In his speech for Banca d'Italia's centenary in 1993,[19] he recalled the various stages of this consensual separation, which also included limiting the overdraft that the Treasury could automatically access on its current account at the Bank to up to 14 per cent of its budgeted expenditure, and the formal power to change the discount rate.[20]

The Spadolini government was thus the first to have to deal with an act (not 'seditious',[21] but consensual) that shook the foundations of a system in which '*accommodating the Treasury's financial needs thwarted any aspiration to an independent monetary policy*'.[22] This was a significant cultural shift and a technical revolution. There was no 'easy learning for the Treasury':[23] it had to modify the auction mechanisms;[24] learn the principles of public debt management and how to assess the funding requirements; and decide on the amount of securities to be offered together with their maturity composition.

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18 An official note of 19 July, issued jointly by the Treasury and Banca d'Italia, said that: '*Banca d'Italia's greater autonomy in regulating liquidity should prevent the inflationary pressures caused by the size and composition of government deficits from adding to the tensions stemming from excessive monetary financing of the Treasury. [...] The gradual removal of elements of automatism with the full reappropriation of the monetary base as a credit control instrument will favour a phased dismantling of the system of administrative constraints*'. M.T. Salvemini, 'L'indipendenza della Banca centrale e il divorzio', in *Andreatta economista*, edited by A. Gigliobianco and S. Rossi, Il Mulino, Bologna, 2009.

19 G. Spadolini, 'La Banca d'Italia: autobiografia della Nazione' ('Banca d'Italia: the autobiography of a nation'), in *Il centenario della Banca d'Italia*, Libri Scheiwiller, Milan, 1994.

20 '*I refer to the "divorce" from the Treasury, to the power assigned to Banca d'Italia in 1992 to change the official interest rates and to the law on the reform of the Treasury's current account, passed in 1993*'. G. Spadolini (1994), op. cit. C. D'Adda wrote that the divorce, '*a rare constructive dialogue* [...] *the result of sharing plans, working well together and a willingness to make it happen* [...] *was actually achieved at a productive pace*', in the chapter: 'Divorzio tra Banca d'Italia e Tesoro: frutto di una preziosa intesa', in *Carlo Azeglio Ciampi Governatore della Banca d'Italia*, documents from the conference held in Rome at the Carlo Azeglio Ciampi Conference Centre, 9 July 2019.

21 The famous expression used by Guido Carli in 1974 to define Banca d'Italia's potential refusal to finance the '*public sector deficit by refraining from exercising the faculty attributed by law to purchase government securities*'. Banca d'Italia, *Ordinary Meeting of Shareholders – Concluding Remarks*, Rome, 31 May 1974, p. 32.

22 M. Draghi, Foreword. 'Ritratto di un economista eclettico', in Gigliobianco and Rossi 2009, op. cit., p. 12. See also, in the same volume, M. Monti, 'Ciampi e il "divorzio": tra Italia ed Europa'.

23 Salvemini 2009, op. cit.

24 A joint Treasury-Banca d'Italia working group was set up to study the technical aspects, with the task of preparing the modification of the system created by the 1975 reform. The group was coordinated by Professor Maria Teresa Salvemini for the Treasury and Antonio Fazio for Banca d'Italia. A system of fortnightly instead of monthly auctions was introduced (see also Ciampi 1981, op. cit.: '*Intramonthly issuances would help to make the connections between the issuance of securities and the Treasury's cash flows closer, as the latter may differ significantly from early-month projections*') and competitive auctions were adopted instead of marginal ones, in which the base or exclusion rate was set by the Treasury, to promote an improvement in banks' ability to forecast their liquidity position and to refine market analysis in order to set their own bid prices. See Salvemini 2009, op. cit.

The twin revolution was needed, i.e. changing budgetary procedures and practices to achieve greater fiscal discipline, but it did not come about.[25] Ten years on from the divorce, the state sector's annual needs were still between 10 and 11 per cent of GDP. The primary deficit remained high throughout the 1980s (3.2 per cent of GDP on average), contributing significantly to the increase in the debt-to-GDP ratio, which exceeded 60 per cent in 1982 and 120 per cent 1994.[26]

Some problems emerged immediately, at the time of the Spadolini government, which found itself leading the way in an entirely new context. Although he took an active part in setting up the 1982 Budget Law, as the fiscal package was being finalised, '*the content was affected first by the conflicts that emerged within the government and among the heads of the economic ministries, and then by the changes, mainly geared towards less stringency, made during the parliamentary debate*'.[27] Ciampi himself, in his Concluding Remarks in May 1982, said that awareness of the problems was not matched by effective action.[28] His warning was addressed to all political parties, but Spadolini took it personally and recalled it for years afterwards, though with no hard feelings.[29]

The new setup of the Treasury-Banca d'Italia relationship was put to the test in autumn 1982. In October, macroeconomic conditions, including a hint of an uptick in inflation, suggested raising the interest rate at which government securities were offered on the market. Yet the Treasury did not want to change the base rate, with the result that the monthly auction 'was a failure'.[30] At the political level, this event exacerbated the debate on debt management, resulting in the struggle between the Treasury and Finance ministers that led to the crisis of the second Spadolini government.[31]

The failure to place government securities led to the depletion of the credit margin available on the Treasury's current account. On 10 November, Ciampi wrote to Andreatta, the Treasury Minister, to point out to him '*for the purposes of the consequent and necessary*

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25 In the Concluding Remarks to Banca d'Italia's Annual Report for 1981 (p. 25), Ciampi wrote that: '*The third corner of the triangle of conditions for a return to monetary stability consists in restoring the central bank's full autonomy in the creation of money. There are those who believe that the exercise of this autonomy in an uncompromisingly restrictive way is a sufficient condition to ensure stability and contain the budget deficits [...] There is no invisible hand rapidly and lastingly stabilizing wage growth and the budget deficit in response to monetary control*'. This is the translation from the CRs on 1981 OK.

26 For the evolution of the debt-to-GDP ratio in Italian history, see: F. Balassone, M. Francese and A. Pace, 'Public Debt and Economic Growth in Italy, Banca d'Italia', Quaderni di Storia Economica (Economic History Working Papers), 11, October 2011. See also D. Franco, S. Momigliano and N. Sartor, 'Lo scenario, i piani e le realizzazioni', in *Il risanamento mancato*, edited by N. Sartor, Carocci, Rome, 1998.

27 C.A. Ciampi, '1981: Emergenza economica e nuove vie per il risanamento' in *Nuova Antologia, Rivista di lettere, scienze e arti,* founded by Giovanni Spadolini, year 130, vol. 575 – issue 2196, Felice Le Monnier, Florence, October-December 1995.

28 Banca d'Italia, *Ordinary Meeting of Shareholders – Concluding Remarks*, Rome, 31 May 1982.

29 Ciampi 1995, op. cit.

30 Salvemini 2009, op. cit.

31 The dispute, headed by Beniamino Andreatta (Treasury) and Rino Formica (Finance), is remembered as 'la lite delle comari' ('the old wives' quarrel').

interventions, the growing, prolonged overshooting of the maximum debt limit permitted by law'.[32] The imbalance was allowed to last for up to twenty days, after which by law, Banca d'Italia was obliged to suspend payments to the Treasury account.

The Spadolini government fell in the same month. No countermeasures were taken and the Treasury account deteriorated further. A request for an extraordinary advance from Banca d'Italia was necessary.

On 23 December 1982, in a letter to the new Treasury minister, Giovanni Goria, Ciampi set out a detailed historical reconstruction of the rules that governed the Bank's regime of ordinary and extraordinary advances to the Treasury. It implied that the extraordinary advance could not be arranged by decree law and that a decision by Parliament was necessary.[33]

This resulted in the law that authorized Banca d'Italia to grant the Treasury an extraordinary advance of 8,000 billion lire for a one-year period, at a rate of 1 per cent.[34] The law was passed by the Senate on 24 January 1983, the last day possible (the 20th consecutive treasury account imbalance) to prevent the suspension of state payments. This was on a Monday. In an oral history document, Ciampi says that the Senate was supposed to meet to vote on Tuesday, 25 January.[35] He himself convinced Tommaso Morlino, the then President of the Senate, to bring the session forward to 24 January because the next day would be too late: '*Sorry, I will suspend payments on Tuesday morning: the law is clear*'.

These initial events did not stop the move towards central bank autonomy, spearheaded by Giovanni Spadolini's government. Despite the difficulties, Spadolini held a steady course, convinced that only an independent central bank could contribute effectively to the pursuit of stability and development by fighting inflation. In making his policy statements to Parliament in July 1981,[36] Spadolini had called inflation '*the most serious threat to the future of our society as an industrialised and advanced society*'.

The inflation rate, which had reached 21 per cent in 1980, fell below 10 per cent in 1986, then stood at around 5-6 per cent between the 1980s and 1990s, and continued to decline in the 1990s. On the eve of the adoption of the euro in 1999, Italian inflation had fallen to below 2 per cent.

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32 ASBI, Banca d'Italia, Ciampi's Governing Board, dossier 173, file 1, pp. 18-39.

33 Ibidem, p. 26: '[...] *The prohibition on the central bank granting extraordinary advances to the Treasury* [provided for in Legislative Decree 7/1948] *is undoubtedly of constitutional importance since it represents a form of Parliament's control over the Executive with regard to the expansion of public debt (broadly speaking)*'.

34 See G. Mulone, 'La Banca d'Italia e la tesoreria dello Stato', Banca d'Italia, Collana Tematiche istituzionali (Institutional Issues series), October 2006, p. 47.

35 ASBI (Multimedia), Banca d'Italia, Oral History Project, document 6.3.

36 https://legislature.camera.it/_dati/leg08/lavori/stenografici/sed0344/sed0344.pdf.

Spadolini and Banca d'Italia

Given the occasion, this conversation cannot end without a nod to the special relationship that Giovanni Spadolini had with Banca d'Italia, particularly with Paolo Baffi and Carlo Azeglio Ciampi.

Spadolini asked the former, who was now an ex-governor, to be an external consultant for his government on economic and monetary matters. Almost two years later, he proposed that Baffi run for election to the European Parliament.[37]

Spadolini mainly interacted with Ciampi in the form of a dialogue between head of government and central bank governor.[38] In June 1981, ahead of the government's inauguration, Ciampi had a meeting with Spadolini in which he set out his recipe for regaining monetary stability, which had been presented two weeks earlier in his Concluding Remarks.[39]

Ciampi wrote that '*returning to a stable currency requires a real change in the monetary constitution, involving the function of the central bank, the procedures for public spending decisions and those for the distribution of income*'. The governor's approach was based on three pillars: central bank autonomy, new rules and constraints on public spending and a collective bargaining code that relied less and less on indexation.

Spadolini made these ideas his own. When he presented the government's policy statements to the Senate,[40] he underlined the '*vital need for the fight against inflation, or even for a real anti-inflation pact*', he called for '*frequent dialogue between the social partners*',[41] and said that curbing public spending and labour costs was a pivotal part of

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37 Spadolini sent him a handwritten letter proposing a candidacy: '*The first name that came to mind for both my Liberal friends and me, was yours*' ASBI, Baffi Papers – Governor Emeritus, dossier 41, file 6. As we know, neither collaboration came about; the first, in particular, partly because of the resurfacing (more than two years after his incrimination and despite his 'perfect innocence') of the judicial issue that still robbed the ex-Governor, as he wrote, '*of that tranquillity I had imagined I could find again*'.

38 Ciampi remembered this in an essay published in *Nuova Antologia* in 1995. I mentioned these events a few years ago in my speech entitled: 'Carlo Azeglio Ciampi. Scritti nella Nuova Antologia', Banca d'Italia, Florence branch, 12 March 2018.

39 Banca d'Italia, Ordinary Meeting of Shareholders – Rome, 30 May 1981.

40 The statements focused on four issues: moral, civil, economic and international. On the moral question, Ciampi wrote (1995 op. cit.): '*It was a distinctive feature of Spadolini's political action that he had put the moral issue at the heart of the political battle. He felt that it was closely connected with institutional renewal, and with the reform of public administration".*

41 '*While respecting the different roles of government and trade unions*'. In the discussion on the government's policy statements that was held at the Chamber of Deputies in the session of 11 July 1981, no. 349, Spadolini added that the government's objective was to '*set, or try to set an inflation rate contracted with the social partners, within which to maintain the dynamics of all the relevant variables [...] including that imposed on labour costs by the sliding scale*'. In 1995, Ciampi wrote that: '*It was a formulation of an incomes policy designed to transform the wage policy approach and put it into a broader context; and that proposed, while keeping the escalator mechanism, to limit its adverse effects by adjusting it to the planned inflation rate rather than to the actual rate*'. There are other speakers on this panel who are much better qualified than I am to speak about the subsequent developments with the escalator clause, up to its abolition ten years later.

the fight against inflation. He did not talk about Banca d'Italia's autonomy, but Ciampi wrote that '*[he didn't] think it was an omission. Spadolini was a staunch supporter of central bank autonomy, but the best way to safeguard and increase it was to act rather than talk about it*'.[42]

In 1993, Spadolini took part in Banca d'Italia's centenary celebrations, with a masterful speech tracing the history of the Bank. The title was 'Banca d'Italia: autobiografia della Nazione',[43] which encapsulated the key theme of the speech, i.e. that '*the parabola of Banca d'Italia reflects the life of the unitary state*'.[44]

Spadolini traced this parabola, starting with the issuing banks operating in the aftermath of Italy's unification. He dwelt on the 'tragedy' of Banca Romana,[45] a disconcerting tangle of politics and the economic world in the late 19th-century Italy that was '*desolate and childish*'. Yet he wrote that there was a reaction, and it was proof that '*the strength of a parliamentary democratic regime does not consist in the fact that it has no dishonest people in it: this is impossible [...]. Put more simply, in a democracy, dishonest people are found out and punished*'.

He spoke about '*national destiny*' when recalling that '*the great institutions*' of modern Italy have only established themselves '*under the strain caused by dramatic and tormented sequences of events*'. The establishment of Banca d'Italia was no exception: '*It came very late*' compared with how things should have gone.

He emphasised how the Bank was able to return to its previous position in Italy in the post-war period, partly thanks to its professional skills, which had remained intact '*[...] and to the dedicated spirit of service that had managed to survive in the Bank's Via Nazionale headquarters even under the rules of the Fascist dictatorship*'. He defined Banca d'Italia as '*the cement and the symbol of our unity*'.

Spadolini wrote that the Republic's Constitution does not expressly mention the central bank, but its role and responsibility are tacit in the '*economic constitution underlying the formal constitution*' that attributes special powers to Banca d'Italia and makes it '*a pillar without which the government of the economy would be mutilated, incomplete, and in many ways ineffective*'.

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42 Ciampi, 1995, op cit.

43 G. Spadolini, 1994, op. cit.

44 Gianni Toniolo's most recent reflection is in the same vein: '*Banca d'Italia has played a greater role in the development of the Italian economy than that of other central banks in their respective countries. Banca d'Italia's history is therefore partly the history of the entire Italian economy*'. G. Toniolo, *History of the Bank of Italy. Volume I. Formation and evolution of a central bank, 1893-1943*, Historical Series of Banca d'Italia, *Serie Contributi e Saggi*, 14, Bologna, Il Mulino, 2022.

45 In order to resolve this issue, Banca Romana, which was insolvent and beset by scandals, had to be liquidated by the new Banca d'Italia, founded in 1893 by merging three existing issuing banks: Banca Nazionale nel Regno, Banca Toscana di Credito and Banca Nazionale Toscana. See Toniolo (2022), op. cit.

Conclusions

As Spadolini knew perfectly well, and demonstrated in practice in how his government acted, the protection by which many jurisdictions safeguard central bank autonomy is not, or at the very least, is not only a question of leaving the necessary room to manoeuvre to people with specific technical expertise. This requirement applies in many fields; there is nothing special about money here. What *is* special about money, especially since the value of a currency has been based solely on the trust of those who use it in transactions, is that autonomy is a necessary means for achieving a precise purpose: ensuring that trust in the currency is maintained, thus enabling it to play its central role in a trade-based economy.

Autonomy has to be established with robust rules and confirmed by consistent practices. The temptation to disregard it, by making the monetary function serve various needs, is always there, but it involves both short-term and long-term risks, of which we need to be aware.

On the other hand, it puts a great responsibility on central bankers, who are called upon to exercise it prudently and judiciously, and to be aware of their fallibility, ready to react to changing situations and to the evolution of delicate monetary and financial mechanisms, and to be transparent when reporting on their actions.

Spadolini would have called it civic virtue. He wrote that 'there is no republic without virtue'.[46] We would perhaps call it, though less emphatically, competence and spirit of service; maybe a touch of pride; but definitely/above all?, full accountability.

46 'Carducci. Dai Giambi garibaldini al discorso di San Marino', in *Scritti garibaldini*, edited by Luigi Lotti, San Marino Library, 1982, pp. 205-206.

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