

ECB Governing Council meeting in Naples
Dinner in Palazzo Reale, 1 October 2014
Speech by Ignazio Visco, Governor of the Bank of Italy

Dear Minister, dear colleagues, dear guests,

It is with great pleasure that I welcome you here today, to the city of Naples and to this beautiful palace. I have to announce that President Napolitano, who was so kind as to receive the members of the Governing Council this afternoon in the beautiful Villa Rosebery, will not be able to join us here this evening. I wish to send him our warmest thanks for his welcome.

This is the third time that Italy has hosted a meeting of the ECB Governing Council, after Rome in 2003 and Venice in 2009. Our presence today in Naples closes an ideal circle, with meetings of the Governing Council taking place in three of the most celebrated cities in the history of Europe, respectively in the centre, the north and the south of Italy. They are symbolic of the fact that Italy, like Europe, is the single fruit of different histories and cultures. For my part, I have a great fondness for this city where I was born and where I spent the early years of my childhood.

Historically, artistically, and politically Naples is one of the most important centres of European culture. Its location has made it a major centre of trade and crossroads of different peoples, opening up the city to innovation. Unsurprisingly, it is here that several new developments in civil engineering and technology were first introduced: in 1818 the first steamship was launched in the Mediterranean; in 1839 the first section of railway in Italy, from Naples to Portici, was opened; as capital of the Kingdom of the Two Sicilies it was the first city in Italy and the third in Europe, after London and Paris, to introduce gas street lighting.

The city's multicultural character has also produced a lively intellectual climate. Naples boasts the oldest non-religious public university in the world, founded in 1224 by Frederick II, Holy Roman Emperor and King of Sicily. The National Library, the National Archaeological Museum and the Vesuvius Observatory, the world's first volcano observatory, were instituted between the end of the 18th and the middle of the 19th century.

The wealth and variety of Naples' artistic and architectural heritage offer tangible proof of the central role the city has played in the course of history. The Royal Palace where we are gathered this evening reminds us that for many years Naples was the capital of the Spanish and Austrian viceroyalties, of the Kingdom of Naples, and later of the Kingdom of the Two Sicilies.

This palace was built in the early 1600s by Domenico Fontana, one of the leading engineers and

architects at the time, as a residence for the King of Spain on his visit. After the Unification of Italy it became the Neapolitan residence of the Kings of Italy. The Royal Palace has been extended and embellished many times: in 1700 the ‘new wing’ was built, the section overlooking the Maschio Angioino fortress, later converted into the Victor Emmanuel III National Library; during the 1800s a ‘Party Wing’ was added and a new façade overlooking the sea.

We reached this room via the monumental Grand Staircase, designed in 1651 by Francesco Antonio Picchiatti and later altered and embellished by Gaetano Genovese. The staircase leads up to the main floor, or *piano nobile*, where the royal apartment is located. The thirty magnificent rooms once used for audiences and receptions are now open to the public as the Historic Apartment museum. The room we are now in, the Hall of Hercules, was once a ballroom and was decorated with portraits of the viceroys.

Tomorrow morning the Governing Council will meet in another of the Bourbon royal residences in Naples, the palace of Capodimonte. It was built a century after the Royal Palace by Charles VII – King of Naples and Sicily from 1735 to 1759, when he abdicated to become Charles III King of Spain – to house the huge art collection inherited from his mother, Elisabetta Farnese, the last descendent of one of the leading families of the Italian Renaissance. Thanks to the Farnese Collection, as well as to the collections of the Bourbon and Savoy kings, the museum of Capodimonte boasts a remarkable variety of extremely fine works, from paintings and sculptures to drawings, weapons and decorative arts.

As I said, Naples has been a lively centre of philosophical and historical learning. Among the city’s leading lights, I wish to recall the contribution of Giambattista Vico, who between the late seventeenth century and the first half of the eighteenth century developed a theory opposing the Cartesian one, based not just on reason but also on creativity, sentiment and ingenuity. I would also like to recall the work of Benedetto Croce, who in the first half of the twentieth century was central to the development not only of Italian but also of European historical and philosophical theory. The city’s contribution is not confined, however, to the historical and philosophical fields but also extends to economics. It was here that Antonio Genovesi founded his prestigious school in the eighteenth century, whose distinguished pupils included Ferdinando Galiani.

The fame of this ingenious man (born in Chieti but adopted by the city as one of its own) is based on two books: *Della Moneta (On Money)*, which he wrote when he was twenty-two and published anonymously in Naples in 1751, and the *Dialogues sur le commerce des blés (Dialogues on the Grain Trade)*, published in Paris in 1770. Joseph Schumpeter considered Galiani to be among the most lucid economists of his time, the forerunner of ideas only developed fully one or two centuries later. In his first work Galiani produced the masterpiece of the monetary debate of his day.

Galiani’s profound insights on the subjective nature of value would be taken up and refined in the

1870s by the marginalist school. The mechanics of the balance of payments adjustment under fixed and flexible exchange rates received a clear illustration. The role that money plays in society was analysed in depth, identifying money as a form of book-keeping of social credits and debits, a concept introduced in contemporary economic analysis about a quarter of a century ago.

But Galiani's greatness is the one most closely linked to the profession of the central banker. He was the first to give an exact description of the effects of the augmentation of the face value of the currency in relation to its gold content, that is its devaluation: after a period of prices adjusting upwards, the situation of real economic relationships (to which the general level of prices makes no difference) would return precisely to the starting point. The exception being that a real effect of the augmentation occurred between the time of the operation and the moment in which the new equilibrium was reached, as the people did not all react with the same speed to the prince's order in the adjustment to the new situation. So, "Augmentation of money is a profit that the prince and the state make from the slowness with which the multitude changes the connection of ideas about the prices of goods and money." In his analysis, then, Galiani was the first to address economic dynamics, in other words the process of passing from one situation of equilibrium to another. It was indeed the speed – or rather the slowness – of the adjustment that Galiani indicated as a way for the prince to gain from inflation, for example by paying his workers and suppliers less: a policy that he certainly did not applaud, but accepted as the lesser evil when the public finances were in grave danger. When we – today's central bankers – meet, be it in Frankfurt or in Naples, we still talk about how quickly the economy will react to our interest rate changes – although we are no longer aiming to please the prince but rather, with the means at our disposal or with those that we must invent each time, to find a way out of this dreadful crisis, and the spirit of this unprejudiced investigator should accompany us.

Last but not least, a question of method. When Galiani wrote his *Dialogues* in Paris, where he was the secretary to the Neapolitan Embassy, the ideas of the Physiocrats were very popular. They were the first to theorize the policy of free trade, and the infallible benefit, which should result from letting each individual pursue his own profit. Although Galiani was convinced by this theory, he was not equally convinced that the practical conditions existed to produce the fruits that the theoretical model expected. He warned that "Nothing is more true than that grain prices, left free, will find their equilibrium. Nothing is more true than that trade, made free, will direct grain to wherever there are money and consumers: nothing is so true in theory, because all men tend towards profit..." Like Galiani, we European central bankers respect theorems, but we are very well aware of the hiatus which still exists between the conditions that theory imposes for a theorem to be valid and what actually occurs in practice. We have shown that we are ready, when necessary, to tread new paths, uncharted on the theoretical maps. Our thinking and our efforts, in Frankfurt and in Rome, should be always directed to the wellbeing of the people, not to parameters or abstract formulas.