



BANCA D'ITALIA
EUROSISTEMA

Quaderni di Storia Economica

(Economic History Working Papers)

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Postwar, reconstruction and stabilization

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The purpose of this series is to circulate preliminary versions of historical studies on growth, finance, money, and institutions prepared within Banca d'Italia or presented at Bank seminars by external speakers, with the aim of stimulating comments and suggestions. This series replaces the Quaderni dell'Ufficio Ricerche Storiche (Historical Research Papers), published from 2001 to 2007. The opinions expressed in the papers are those of the authors and do not necessarily reflect the views of Banca d'Italia.

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Luigi Einaudi as Governor (1945-1948). Postwar, reconstruction and stabilization

Pier Francesco Asso* and Marcello Messori**

Abstract

This paper analyzes the evolution of Banca d'Italia during Luigi Einaudi's governorship. Einaudi was appointed in January 1945, and pursued a very broad mandate: to restore the Bank's autonomy across monetary policy, exchange-rate policy and supervision policy; to contribute to the reintegration of the Italian economy into the new international economic order; to reaffirm the Bank's role as the "bank of banks" while reducing its role as the "bank of the Treasury"; and to strengthen its technical reputation in order to help shape the key economic policy decisions in Italy. Before long, bringing excessive inflationary pressures under control became the primary objective. Einaudi chose to postpone the launch of the stabilization intervention until 1947, considering support for economic recovery through an expansion of bank credit to be a national priority. Once implemented, monetary policy proved to be effective in achieving stabilization. Our reconstruction shows how Einaudi's governorship prepared the Bank to play a crucial role in the evolution of the Italian economy in the subsequent decades.

JEL Classification: B31, E58, N14, N24.

Keywords: Luigi Einaudi; History of Banca d'Italia; Post-war Reconstruction of the Italian Economy; History of Monetary Policy.

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1. Introduction: mandate and objectives¹

Luigi Einaudi was the third Governor of Banca d'Italia, but the first to come from outside the institution – that is, without having previously held any permanent position at the Bank. Having returned to Italy (Rome) in December 1944 after a difficult exile in Switzerland,² he was appointed on 5 January 1945 and was granted extraordinary powers, broader than those conferred on both his predecessors and his successors. The new Governor exercised his role in the absence of Banca d'Italia's Board of Directors ("Consiglio Superiore"), which was only reconstituted at the end of July 1948, when Einaudi was already serving as the first elected President of the Italian Republic, and also in the absence of a Deputy Director General, who was only appointed in June 1947, when Einaudi himself joined the fourth De Gasperi government (see below). Consequently, the new Governor took into his hands the duties traditionally assigned to the Board of Directors, as well as part of those usually delegated to the Deputy Director General. Moreover, on bringing the previous commissarial period (headed by Niccolò Introna) to a close, Einaudi was required to handle the many complex problems generated by the interruption caused by the war.

Einaudi was assisted by a new Director General (Introna himself), who had garnered more than half a century of experience within Banca d'Italia before serving as Commissioner and who ensured continuity for the institution, especially after the traumatic departure of the previous Governor, Vincenzo Azzolini (imprisoned since June 1944). However, the new Governor had to undertake a complex reorganization of the central bank, which had to overcome staff shortages, owing to employees still engaged in the war or caught up in purge proceedings. Moreover, Banca d'Italia needed to restore its traditional functions and to address new ones. Einaudi thus became

¹ This paper is the first outcome of a broader research project devoted to the history of Banca d'Italia from 1943 to 1998. A first draft of this paper benefited from valuable comments by Paolo Baratta, Federico Barbiellini Amidei, Andrea Brandolini, Eugenio Gaiotti, Sebastiano Nerozzi, Sergio Nicoletti Altinari, Massimo Omiccioli, Fabio Panetta and Ignazio Visco, to whom we are sincerely grateful. The research was conducted in the Economic History Division of Banca d'Italia. We greatly appreciated the stimulus and hospitality provided by the Division's members and, specifically, by Paolo Croce, Matteo Gomellini and Paolo Piselli, with whom we discussed specific aspects of the work. Eleonora Costantino, Renata Martano and Alessandra Pasquini were actively involved in various topics and provided valuable input. We also wish to thank: Giuseppe Antonino Borrello (Archivio storico della Presidenza della Repubblica), Maria Letizia Cairo (Archivio storico di Banca Intesa), Taddeo Molino Lova (Archivio storico di Mediobanca) and Guido Mones (Archivio storico della Fondazione Luigi Einaudi) for their support in our archival research; Elizabeth Mary Bevan, Mattia Bilardello and Alberto Mariani, for their language revision. With special gratitude we also acknowledge our debt to Giuseppina Baffi for showing us a collection of private papers of her Father held in their house at Fregene (Roma). The usual disclaimers apply. The authors also benefited from the discussions held at a seminar at Banca d'Italia (January 2025) and at two conferences hosted by the Einaudi Foundation in Turin (November 2024) and by the Italian Association for the History of Economic Thought (University of Macerata, October 2025).

² Pellegrini, 1964; D'Aroma, 1975.

a kind of “super-commissioner” operating without the support of key statutory bodies and amid the severe problems of a country still dramatically divided by the war’s front line.³

Regarding the reorganization of Banca d’Italia, four aspects should be highlighted.

First, mainly due to the September 1944 dissolution of the Inspectorate for the Protection of Savings and the Exercise of Credit (Ispettorato per la difesa del risparmio e l’esercizio del credito) in September 1944, Einaudi had to reaffirm and restore Banca d’Italia’s supervisory powers over the banking sector from the very first months of his governorship. These powers were only firmly established in July 1947, thanks to the creation of the new Interministerial Committee for Credit and Savings (Comitato interministeriale per il credito e il risparmio, CICR).

Second, Banca d’Italia was called upon to play a crucial role – both formal and informal – in restoring Italy’s international economic relations. Its expertise was considered essential to facilitate the country’s integration into the new international order emerging from the Bretton Woods agreements. The Bank was also tasked with reopening external sources of aid and loans and with providing technical support in government negotiations concerning the terms of the Peace Treaty.

Third, Banca d’Italia had to assume full responsibility for the management of exchange-rate policy, constrained by the presence of rigidly regulated trade systems and by the coexistence of multiple exchange rates and informal black markets. This responsibility, which inevitably stood at the crossroads of economic policy and foreign policy, took concrete form in the presidency and management of the new Italian Foreign Exchange Office (Ufficio Italiano dei Cambi, UIC), and was reinforced by the active participation of its most top officials in the Italian delegations responsible for defining post-war international arrangements.

Fourth, in view of the needs arising from the reconstruction of productive fixed capital, Banca d’Italia had to redefine its role in the provision of industrial credit, which it had exercised since the outbreak of the First World War. This involved at least three difficult duties. Above all, Banca d’Italia regained the presidency of the Consortium for Advances on Industrial Securities (Consorzio Sovvenzioni su Valori Industriali, CSVI). Then, it settled the substantial credit claims on the Institute for Industrial Reconstruction (Istituto per la Ricostruzione Industriale, IRI). Finally, it established a new regulatory framework governing the activities of institutions authorized to engage in special and medium- to long-term credit operations (Istituti di credito mobiliare, ICMs).⁴ Accordingly, the Bank committed itself to achieving better regulation of

³ Barucci, 2008, p. 12.

⁴ In what follows, the expression “medium- and long-term credit institutions” (ICMs) refers to that set of financial intermediaries which raised liquid resources with medium-to long-term maturities and specialized in providing medium-to long-term financing to firms, especially through the subscription of shares and bonds. This group also includes special credit institutions, so defined because their medium- to long-term lending was concentrated on

public intervention in support of production activities and of its own role in the governance of industrial credit.

The new or extraordinary responsibilities of Banca d'Italia that we have just outlined were combined with the more traditional – yet fundamental – task proper to any central bank: deciding how to inject liquidity into the economic system through the monetary and banking channels. This was a difficult task, because the years of Einaudi's governorship were characterized by severe inflationary pressures, multiple constraints on the recovery of production, and widespread poverty affecting large segments of the population. Moreover, the legacy of the Fascist dictatorship and the wartime emergency had placed limits on the independence of Banca d'Italia, prompting monetary support for politically driven public expenditure decisions.

It may therefore appear surprising that, in the face of such a complex situation and such burdensome – and at least partly unprecedented – responsibilities, the Governor should have associated many other activities with his new office. During his tenure at Banca d'Italia, which formally ended on 11 May 1948 with his election as President of the Republic, Einaudi devoted considerable effort to political and institutional activity. These are only some of his most demanding roles: from September 1945 he was a member of the Consulta Nazionale (National Council); from June 1946 he served as a deputy in the Constituent Assembly representing the Unione Democratica Nazionale (National Democratic Union). From 31 May 1947, Einaudi also held the offices of Vice President of the Council of Ministers and Minister of the Budget in the fourth De Gasperi government, delegating the duties of Governor to the new Director General of Banca d'Italia, Donato Menichella, while retaining the formal responsibility for the office.⁵ Finally, Einaudi did not abandon his journalistic activity, which he pursued continuously and with particular commitment, especially as a columnist for Italy's leading daily newspaper, *Corriere della Sera*.

It would be historically inappropriate to apply the principles currently in force regarding potential conflicts of interest to the immediate post-war years. It should nevertheless be noted that some of the offices held by Einaudi during his governorship were sufficiently significant to require *ad hoc* legal waivers or specific institutional assessments, and to arouse doubts and objections among

supporting specific sectors or types of investment. It should be recalled that the peculiarity of ICMs persisted until the transposition into Italian law of the Second European Banking Directive (1992) and the enactment of the Italian Consolidated Banking Law (Testo Unico Bancario, TUB, 1993).

⁵ It should be recalled that Einaudi agreed with the President of the Council of Ministers on the separation of the Treasury Ministry from the Budget Ministry. This separation took place a few days after the formation of the government and assigned a coordinating role over the economic ministries to the Budget Minister. Thus, during the brief interval between the establishment of the new government and its reorganization, Einaudi held the office of Treasury Minister, which he then left, as planned, to assume the position of Budget Minister.

authoritative figures within Banca d'Italia as well.⁶ We do not wish here to express a substantive judgment, which would have to be grounded in a complex analysis of governance.⁷ We list the many positions held by Einaudi during his governorship simply to underscore the atypical character of his activism. As already documented,⁸ between 1945 and the first months of 1948 the Governor intervened publicly on at least 350 occasions. In addition to fulfilling the institutional engagements of Banca d'Italia, he delivered 40 speeches in the National Consulta (first meeting on 25 September 1945 and last meeting on 2 June 1946), made more than 90 addresses in the Constituent Assembly (first meeting on 25 June 1946 and last meeting on 31 January 1948), gave 33 campaign speeches during the elections for the Constituent Assembly, and wrote nearly 150 articles in newspapers and periodicals. Finally, he also gave radio interviews, maintaining regular collaborations with the newly established Italian Broadcasting Company (Radio Audizioni Italiane, RAI).

In terms of communication, Einaudi thus opted for broad media exposure. Combining this activism with the high reputation he had long enjoyed as an academic and as a well-known liberal economist, one may advance the thesis that an ambitious – and more or less intentional – design emerged: not only to relaunch Banca d'Italia after the difficulties of the war and the substantial isolation it had experienced during the 1930s,⁹ but also to lay the foundations for the broader role

⁶ As Introna recalled in a handwritten note drafted after he had already left his position at Banca d'Italia, both the Banking Law of 1893 and the Bank's Statute would not have allowed the newly appointed minister to retain the office of Governor from the end of May 1947 onwards (Archivio Storico della Banca d'Italia – hereafter ASBI, Carte Introna, file no. 11, "Appunto", 15 May 1948). The Bank's legal office, however, maintained that those rules did not apply to Einaudi's case, given the extraordinary nature of his appointment as Governor (ASBI, Banca d'Italia, Direttorio Einaudi, file no. 56, folder no. 1, subfolder no. 1, "Appunto per il Governatore", 24 July 1945). On that earlier occasion, the Lieutenant Legislative Decree of 4 January 1945 had circumvented Article 132 of the Royal Decree of 1910, which established the incompatibility between holding office at Banca d'Italia and the position of Senator of the Italian Kingdom, also held by Einaudi (Soddu, 1993, p. 9). Moreover, Einaudi had been granted powers broadly comparable to those of a commissioner, in addition to those exercised by the commissioners Giovanni Orgera (from June 1944 to April 1945, for the Italian Social Republic) and Francesco Sforza (from April to June 1945, for the Bank's branches in Northern Italy). Therefore, if even one of these substantial derogations from the Bank's Statute had been reproduced in the appointment of a new Governor, the extraordinary procedure applied to Einaudi and justified by the exceptional nature of the times would have become ordinary. The conclusion of the Bank's legal office was therefore that it would have been inappropriate to proceed with the replacement of the Governor in 1947. At that time, the Bank did not yet have a fundamental statutory body: the Board of Directors ("Consiglio Superiore"). Moreover, in the absence of that body, any incapacity of the Governor would have entailed the transfer of his powers and functions to the Director General. Introna reiterated the concern that the legal arguments adopted to allow Einaudi to retain the role of Governor would have weakened the future autonomy of Banca d'Italia vis-à-vis political power (see ASBI, Carte Introna, file no. 11, "Appunto", undated but attributable to June 1947).

⁷ It may be recalled that, in order to formally certify the compatibility between the two offices held by Einaudi, a Legislative Decree of the Provisional Head of State was required (4 June 1947, no. 408). See also Gigliobianco, 2006, pp. 27 and 203.

⁸ Barucci, 2008, pp. 11-13; Nerozzi, 2021.

⁹ Toniolo, 2022, Chapters 9 and 10.

the Bank itself would come to play in the Italian economic system in the second half of the 20th century.

The new Governor held theoretical positions clearly favorable to a free-trade, market economy, in which the principles of competition acted as the driving force for the development of production activities and social welfare.¹⁰ However, his rich cultural background and the continuous evolution of his reflections on contemporary economic systems had endowed him with a sense of pragmatism that revealed the limitations of policies centered solely on removing obstacles to the functioning of markets.¹¹ Hence, Einaudi was able to grasp the many constraints and trade-offs weighing on the Italian economy in 1945. The backwardness of the country's economy and society, aggravated by Fascist autarky and by the internal fractures produced by a devastating war, made it necessary to combine openness towards markets with an effective and dense network of rules and protections. Despite the relatively limited extent of wartime damage suffered by Italy, a large proportion of industrial firms would have been thrown into a serious crisis by the adoption of rigorous economic adjustment and competitive selection within their traditional sectors of activity.¹² Moreover, the banking and financial system, though strengthened by the Banking Law

¹⁰ See, for example, Einaudi, 1931.

¹¹ See Einaudi, 1944, 1947c, and 1949. See also Baffigi, 2010; Visco, 2025, pp. 6-9.

¹² The issue of war damage also generated differing analyses within Banca d'Italia itself. In May 1945, Einaudi instructed some leading officials from the Research Department and Banking Supervision (Paolo Ambrogio, Paolo Baffi, Antonino Occhiuto and Giannino Parravicini) to travel to the north of the country in order to restore contact with the Bank's branches. The mission also included Luigi Capodanno, formerly Banca d'Italia's representative in London and Lisbon and later seconded to the Economic Section of the Allied Commission. That adventurous yet operationally productive journey enabled Baffi to formulate an initial estimate of the damage suffered by the Bank's organizational structure in terms of gold reserves and material assets. With the exception of the substantial loss of reserves (see below), the remaining damage appeared limited enough to permit a rapid restoration of the payments system throughout the country. See Fondazione Luigi Einaudi (hereafter FLE), Archivio Luigi Einaudi (hereafter ALE), Correspondence 'Paolo Baffi,' Baffi to Einaudi, 16 and 23 May 1945; ASBI, Banca d'Italia, Direttorio Introna, file no. 20, folder no. 5, sub-folder no. 5, Capodanno to Einaudi, 20 April, 4 and 11 May 1945; FLE, ALE, section III, 1947, 'Banca d'Italia, Servizio Studi, Attività industriali.' In July 1945, Baffi and Federico Caffè (also an economist in the Research Department) were tasked with extending the examination of war damage to the Italian economy as a whole; one year later, Baffi was asked by Menichella to revise his estimates in support of the analyses produced by the Italian delegation to the Paris Peace Treaty Conference. Baffi's evaluations were more pessimistic than Caffè's (ASBI, Banca d'Italia, Studi, file no. 336, folder no. 20 and Caffè's note to Baffi, 20 August 1945, in ASBI, Banca d'Italia, Studi, file no. 336, folder no. 21). In both cases, they estimated direct damage (buildings, productive assets, infrastructure, and transport) at 3,000 billion lire; in the second assessment, the costs borne by Italy to support the Allied war effort and to pay for Allied troops, as well as Italian claims against Germany, were also estimated (overall, more than 2,000 billion lire). Between the summer of 1945 and that of 1946, assessments regarding the composition of direct damage underwent some adjustment, as reflected in the report on Italy's immediate post-war economic situation prepared by Per Jacobsson (then Chief Economist of the Bank for International Settlements (BIS): see Toniolo, 2005, pp. 287-288 and 297) and by Baffi himself (see ASBI, Carte Baffi, Governatore Onorario, file no. 51, folder no. 17; see also Baffi, 1985, pp. 14-15). Following his visit to Italy at the beginning of 1947, Jacobsson drafted a provisional report (for internal BIS circulation) stressing with concern the vulnerabilities of the Italian economy; the second and final version of the report, less negative in tone, was completed the following summer by Baffi under Jacobsson's supervision. In both versions of the 'Jacobsson report', it was argued that wartime

of 1936 and by the backing of the IRI, would likewise have been incapable of managing monetary policies aimed solely at controlling inflationary pressures and therefore adopting a strongly restrictive stance. Finally, although the Italian public budget was burdened by serious allocative inefficiencies and worrying deficits, drastic short-term cuts in public spending would have made the already severe poverty and deprivation affecting broad swathes of the Italian population unsustainable.

Within this framework, Einaudi considered it inevitable to pursue a complex institutional and political strategy to support the development of the Italian economy. This explains his choice to implement pragmatic initiatives for the gradual restoration of the centrality of the market and competition, as well as his persistent optimism regarding the possibility of overcoming the country's difficulties by exploiting opportunities for growth.¹³ It also explains the gradual yet decisive efforts devoted to articulating and strengthening the organizational structure of Banca d'Italia to make it adequately committed and prepared to analyze the main problems of the real economy and, where appropriate, to participate in the formulation of major political decisions. These initiatives reflected the view that an effective stabilizing monetary policy could not be detached from the broader conduct of economic policy or from the strengthening of the institutional framework.¹⁴

The new Governor aimed first and foremost to guarantee the solidity of Banca d'Italia and to renew its prestige, following the path previously marked out by Bonaldo Stringher during the era of Giolitti's governments. At the beginning of the century, Stringher had efficiently and promptly restored Banca d'Italia's balance sheet, which had been burdened by the losses and immobilizations caused by the scandals and rescue of Banca Romana. Stringher had also strengthened the technical, consultative and proactive role of the central bank in the main national and international arenas in which the fundamental choices of economic and monetary policy were

damage in Italy had affected 75 per cent of industrial potential and had severely reduced railway and maritime infrastructure (for example, it was estimated that, by mid-1945, the Italian merchant fleet possessed only one eighth of its pre-war tonnage). At the same time, however, the report emphasized that recovery in industrial production and transport had been rapid, albeit uneven. By the end of 1946, Italian industrial production had on average reached 70 per cent of its pre-war peak, with some sectors (for example, textiles) already back to 100 per cent; railway reconstruction had been successfully launched; and the merchant fleet, although still inadequate for commercial needs, had recovered two thirds of its former capacity. Hirschman (1947a) likewise produced positive estimates not far removed from those of the BIS about the Italian economy's recovery potential. Estimates of the war damage suffered by Italy have been the object of further studies. See, for example, Saraceno, 1947; De Cecco, 1974; Zamagni, 1998 and 2003.

¹³ See also Ciocca, 2018, pp. 23-26.

¹⁴ In May 1945, at Einaudi's request, President Bonomi instructed ministers to send drafts of all legislative measures of an economic nature to the Governor of Banca d'Italia (see also below).

shaped.¹⁵ Similarly, at the end of the Second World War, Einaudi acted on numerous fronts. He focused on: (i) strengthening the Bank's balance sheet, heavily burdened by the almost total loss of gold reserves and by the disruption in the circulation of currency in Italy, caused by the presence of three different channels of issuance (lire, AM-lire, occupation marks); (ii) tackling the difficult economic phase that followed the armistice; (iii) defending the credibility of the Bank, weakened by Azzolini's arrest and by the public attention surrounding his judicial vicissitudes;¹⁶ and (iv) redesigning the organization of Banca d'Italia so as to equip it with high-level expertise and professionalism, and to achieve a high degree of efficiency. By addressing these challenges, Banca d'Italia would be able to stay at the center of national economic policy decisions and to become indispensable in international diplomatic negotiations between Italy and the winners of the war.

Einaudi made many decisions rapidly. At first, he relied on the experience of the former Commissioner and Director General, Introna. However, the likelihood of success of the new Governor's economic and institutional strategy depended on the fulfilment of two conditions. First, a positive interaction with the country's production apparatus as it had emerged from the war, structured around an important public pillar, a nucleus of large private firms operating in technologically advanced sectors (such as Fiat, Pirelli, Edison, and Montecatini), and a broader set of firms in the traditional manufacturing sectors. Second, the ability to mend internal rifts within Banca d'Italia and to establish cooperative relations with those political forces that had not been compromised by the Fascist dictatorship but that were hostile both to communist and socialist positions and to the reformist radicalism of the Action Party.¹⁷

Introna was an obstacle to the pursuit of these two conditions. Having played an active, albeit limited, role in the first-instance conviction of the former Governor Azzolini,¹⁸ Introna was perceived as a divisive figure by emerging members of Banca d'Italia.¹⁹ Moreover, despite lacking specific expertise in the problems of the real economy, he regarded the preservation of State owned companies as a choice for continuity with the previous Fascist regime. By appointing Menichella in Introna's place (April 1946, see below), Einaudi placed at his side a figure better suited to his strategy of strengthening the coexistence of State owned and private firms – that is,

¹⁵ The main national events concerned the conversion of public debt and industrial rescues following the crisis of 1907. On this point, see Toniolo, 2022, pp. 206-270. More generally, it should be recalled that Einaudi held Stringher in high regard, even when he did not share some of his choices (see, in this respect, Nerozzi, 2021, pp. 60-69 and 136-156).

¹⁶ See Roselli, 2000; Fubini, 2024.

¹⁷ See Soddu, 1993, pp. 18-29.

¹⁸ See Fubini, 2024, pp. 95-131.

¹⁹ See Gigliobianco, 2006, pp. 163-166; see also below.

the mixed economy – because the new Director General possessed solid experience both in banking and with State owned enterprises.

In the next seven sections (Sections 2–8), we provide and further develop the factual elements showing that the strategy of renewing and expanding the role of Banca d'Italia, implemented during the years of Einaudi's governorship, followed the lines indicated above. In the subsequent four sections (Sections 9-12), we then focus on monetary policy, shedding light on the controversial and demanding path undertaken by the central bank from the liberation of the country to the approval of the stabilization policy implemented in August 1947.

2. The trial: the evolution of the institutional framework

To pursue the objectives specified at the end of the previous section, Banca d'Italia needed to secure a full recovery of its autonomy. A fundamental step concerned the definition of new institutional arrangements that would help overcome past weaknesses while, at the same time, not imposing excessively binding constraints on the prerogatives of a central bank. Within this framework, the outcome of the debate on the possible inclusion of Banca d'Italia in the new Italian Constitution was crucial. That debate ran through a significant part of Einaudi's governorship and involved authoritative voices from both politics and academia. In line with developments in other European countries, the inclusion in the new constitutional framework of provisions concerning the fundamental objectives of Banca d'Italia was endorsed by opposing political and ideological positions. This inclusion was proposed with the aim of bolstering the public-law character of the central bank through the nationalization of its property rights.²⁰ The Economic Commission of the Constituent Assembly, chaired by the Bocconi economist Giovanni Demaria, did not rule out the possibility of transforming Banca d'Italia into a State owned entity. Pursuing – *ante litteram* – greater independence of the central bank from political power (see also below, footnote 25), Einaudi did not agree with such solutions. He stressed that even the salient features underlying an economic system were bound to evolve over time: the Constitution should therefore confine itself

²⁰ The proposal supported by the Italian Communist Party (PCI), initially outlined in general terms by its leader Palmiro Togliatti in an intervention before the Constituent Assembly on 20 June 1947 and later developed by Antonio Pesenti, moved in that direction. This proposal provided, among other things, for the abolition of the office of Governor and for the attribution of the highest decision-making responsibilities to an enlarged Directorate, in which the trade unions and members of cooperatives would be represented *ex officio*. On the same occasion, the PCI's leader criticized the fact that Einaudi had retained the office of Governor after his appointment as Minister: the decision, he argued, "gives rise to a singular impression [...] because we often speak of government control over banks and over credit, and therefore also over Banca d'Italia; but instead here a particular situation is created in which it seems that it is Banca d'Italia that controls the government [...]; and this is not right". The proceedings are available on the website "Come nasce la Costituzione", edited by Banca Intesa (<https://comenascelacostituzione.it/>).

to including only those principles relating to the fundamental rights of citizens, without imposing excessively binding institutional constraints.²¹

After an intense debate within the Constituent Assembly, the decision was taken not to proceed with any institutional reform of Banca d'Italia that would make its objectives and functions too rigid in exchange for constitutional status. The Governor and his closest collaborators interpreted this outcome as a strengthening of the Bank's identity and powers rather than as a downgrading. As Carli wrote, this result was based on a "wise" decision, taken by De Gasperi and shared by Saragat after the Palazzo Barberini split, because it helped to affirm the Bank's autonomy in the conduct of monetary policy: the choice was therefore to base "the country's monetary constitution on measures that should not have to be negotiated in the Constituent Assembly".²²

In line with that decision, the process of reforming Banca d'Italia's Statute concluded in April 1948 with the introduction of a few minor amendments, limited to incorporating the changes that had occurred in the broader political and institutional setting. The Bank's Board of Directors ("Consiglio Superiore") was thus restored, excluding members previously designated by the Fascist corporations, and appointments to the Council were entrusted to the general assembly of the Bank's institutional shareholders. Moreover, the procedure for appointing the Governor and the two members of the Directorate codified the orderly involvement of the highest institutional offices of the new Republic.²³

The autonomy of Banca d'Italia could not remain confined to the problem – fundamental though it was – of its institutional organization. In parallel, it was necessary to rebuild a central bank able

²¹ Einaudi did not perceive any contradiction between his endorsement of this general position and his strong support for the constitutional inclusion of the protection of savings, albeit compatible with private initiative (Article 47), and for the requirement that public expenditure be covered by taxation (Article 81). Moreover, the Governor reacted very strongly to potential external constraints on the Bank's choices, refusing to respond to the questionnaire prepared by Demaria's Commission. This questionnaire was intended to collect authoritative opinions on the possible definition of the country's future economic arrangements. Einaudi went so far as to argue that his refusal to contribute to the questionnaire implied that Banca d'Italia could not express an opinion on the matter (regardless of whether other members of the Bank's top management chose to take part in the Commission's consultation in a personal capacity). In his view, Banca d'Italia could only speak as a "moral entity" through its Governor (ASBI, Banca d'Italia, Direttorio Einaudi, file no.8, folder no.8, subfolder no. 9, 23 February 1946, Einaudi to Demaria). In his reply (*ibid.*, 27 February 1946), Demaria accused Einaudi of making 'prejudicial observations not fully in keeping with the country's needs. By referring to this and other episodes, Fubini (2024, pp. 153-163) criticized Einaudi's position harshly, interpreting it as a choice for continuity with the past.

²² Carli, 1993, p. 80. The issue was revisited in the 1970s and 1980s by an important group of legal scholarship (see Puccini, 1978, pp. 100 ff.; Elia, 1986, p. 132).

²³ According to the new Article 19 of Banca d'Italia's Statute, the appointment of the Governor was decided by the Board of Directors ("Consiglio Superiore") and then had to be approved by a Decree of the President of the Republic, proposed by the President of the Council of Ministers, in agreement with the Minister of the Treasury, after consulting the Council of Ministers. The new Statute was approved by Presidential Decree 482 of 19 April 1948. On this point, see Croce, 2020, pp. 11 ff.

to support the recovery of production activity and the reintegration of the Italian economy into the group of Western European countries. This evolution also required keeping social tensions among the different components of the Italian society under control and mending the deep fractures of interest between them. From the standpoint of Banca d'Italia, the issue was to secure an autonomous sphere of authority in three fundamental areas of activity: monetary policy, exchange-rate policy and the supervision of the credit sector. In order to handle these responsibilities with a sufficient degree of independence from political interference, the central bank had, however, to accept operating with well-defined boundaries: for example, in the field of supervision, within the framework set by a political body, as occurred from July 1947 following the establishment of the CICR. Moreover, Banca d'Italia had to be able to guarantee a high level of technical competence in all its areas of intervention.

The first objective of autonomy just outlined may appear self-evident. Today, it is taken for granted that a central bank bears full responsibility for deciding on and implementing the monetary policy of the economic area in which it operates, in pursuit of price stability and other possible macroeconomic objectives.²⁴ However, between the two world wars – and for several years after the Second World War – establishing such autonomy was anything but straightforward. Responsibility for defining monetary policy was often contested between Treasury Ministries and central banks and, at times, even among the different economic ministries within government.²⁵ Moreover, in Italy in the second half of the 1940s, political representatives converged in believing that monetary decisions had a significant impact not only on short-term economic performance, as orthodox theory would later acknowledge,²⁶ but also on long-term economic development, as the most radical followers of Keynes's *General Theory* would subsequently argue.²⁷ Hence, monetary policy was considered not merely as a component of economic policy, but also as being closely interconnected with fiscal policy and other financial initiatives. This is why our examination of monetary policy in this paper initially focuses on those aspects that intersect with supervision and exchange-rate policy.

²⁴ See, for example, Cukierman, 1992; Goodhart, 1994. It should also be noted that a branch of the economic literature has continued to argue that monetary policy and fiscal policy are closely intertwined, giving rise to different forms of “fiscal dominance”. An initial definition of “fiscal dominance” is offered by: Sargent and Wallace, 1981. A more recent analysis of the interplay between the two policies is provided by: Bassetto and Sargent, 2020. Although adopting a different approach, Benigno *et al.* (2023) examine a case of “fiscal dominance” in the euro area.

²⁵ For an analysis of the independence of central banks from a historical perspective, see Toniolo (ed.), 1988. Moreover, the objectives of central banks were not clearly defined. According to Panetta (2025, p. 2), as late as the early 1970s ‘price stability was not yet [...] the primary objective’ of central banks. In the remainder of this paper, it is assumed that Banca d'Italia was ahead of its time in adopting price stability as its objective as early as Einaudi's governorship (see, in this regard Panetta, 2024, p. 4).

²⁶ Friedman, 1968.

²⁷ Minsky, 1982.

The process that enabled Banca d'Italia to assert and then strengthen its authority over the control and supervision of the banking sector was rather complex, as it was distorted and rendered urgent by factors of monetary instability.

From the end of 1942, recourse to direct forms of the “capital circuit” had become ineffective. This circuit formed part of a process aimed at minimizing the imbalances between the diminished aggregate supply of goods, due to the inevitable reallocation of resources towards military production, and aggregate demand.²⁸ It imposed constraints on private spending through the compulsory allocation of liquid resources to the securities market and through administrative restrictions placed on the activity of financial intermediaries. The aim was to prevent the adjustment of these imbalances from falling entirely on rising prices.²⁹ The circuit thus relied on forms of “forced saving”; however, these latter proved incapable of containing the surge in demand for banknotes. That demand was easily met because of the massive increases in liquidity injected from various sources into the Italian economy. This phenomenon, triggered by the growing needs of the national public accounts, was aggravated after the armistice by the huge quantity of money placed in circulation within the national territory under the management of Allied troops in the South and of the Nazis in the Centre-North. Between 1942 and 1945, currency in circulation increased by a factor of 4.9 and bank deposits by a factor of 3.2. In those same years, the increase in wholesale prices (13.5 times) and in the cost of living (14.7 times) far exceeded the corresponding increases recorded in other countries involved in the war.³⁰

The explosion of inflation absorbed part of the excess liquidity relative to income. However, the multiplication of the most liquid assets within the national territory also undermined the effectiveness of the more indirect forms of the capital circuit. The latter sought to keep part of liquidity outside monetary circulation by encouraging the subscription of public bonds or the placement of voluntary deposits with the Treasury or Banca d'Italia.³¹ These indirect forms of the circuit generated the accumulation of large amounts of liquidity within the Italian banking sector, which were mainly held in the form of deposits with the central bank. Nevertheless, this allocation was temporary and remained ready to be re-injected into circulation whenever profitable lending opportunities emerged. When Einaudi was appointed Governor, the inflationary process was already under way, together with the looming threat of further surges in liquidity. This situation

²⁸ Caracciolo and Gelsomino, 2003, pp. 381-388.

²⁹ Mancini, 1948a, pp. 14-15.

³⁰ See also ASBI, Carte Introna, file no. 20, “Nota” drafted by Introna, August 1944, pp. 380-381.

³¹ Mancini, 1948a, p. 15; Gelsomino, 1998, pp. 263-265; Gigliobianco, 2006, pp. 148-149.

made it clear that, for the sake of stability, it was imperative to restore the effectiveness of the monetary authorities' control over the uses of liquidity managed by the banking sector.³²

The objective of stability was made even more pressing by the transformations undergone by the Italian financial system in the immediate post-war period. The banking sector experienced a sharp increase in the weight of savings banks and, to a lesser extent, of cooperative banks operating predominantly at the local or regional level. Moreover, outside the banking sector in the strict sense, there was a significant increase in the number of medium- and long-term credit institutions (ICMs), compared with the very limited number of these institutions that had already operated in the years preceding the Second World War.³³ Consequently, in addition to the need to bring the banking channel through which liquidity was transmitted under control, Banca d'Italia needed to reaffirm its functions of control and supervision regarding the response to the rapid structural changes affecting both banking and non-banking intermediaries. This task was arduous because it required, first and foremost, stepping up supervisory inspections. This did in part occur immediately after the war; indeed, between 1946 and 1948, inspections more than doubled, exceeding the annual threshold of 240. However, it was also necessary to reorganize the supervisory inspection service which, although marked by unexpected effectiveness in the complex task of managing communications between Via Nazionale, the Bank's branches across Italy and individual credit institutions, still required a substantial increase in inspectors in the field and a more functional organization of offices.³⁴

³² Since the second half of 1944, the Research Department of Banca d'Italia had pointed out that the banking sector held an excess of deposits ready to be injected into circulation at the first sign of recovery in industrial and commercial activity (ASBI, Banca d'Italia, Direttorio Baffi, file no.85, folder no. 3, M. Mancini, "Nota sull'andamento dei depositi in Italia e cenni sulla situazione determinatasi a Roma dopo il 4 giugno 1944", undated but presumably from late 1944). Baffi (1948, pp. 209 and 211–216) added two further elements: even considering that price increases had eroded the real value of bank deposits between the armistice and the end of 1944, the current rate of inflation was "far below potential inflation" at the beginning of 1945; moreover, inflationary prospects were bound to worsen, given the extraordinary increase in bank deposits recorded in the areas where the "tide of war" had ebbed. Immediately after the liberation, both Cesare Merzagora and the economist Ferdinando Di Fenizio, then holding leading positions within the National Liberation Committee for Northern Italy (CNLAI), insisted with Einaudi on the risks of a sharp resurgence of inflation induced by excessive credit expansion. They suggested that meetings should be organized with "the great bankers" in order to obtain data on banks' liquidity positions and learn bankers' orientations. See, in this regard, Archivio Storico della Presidenza della Repubblica (ASPR), Archivio Cesare Merzagora, folder no.3, box 18, "Commissione Centrale Economica", "Promemoria di Cesare Merzagora per il Commissario della Banca d'Italia", 27 April 1945; ASBI, Banca d'Italia, Direttorio Einaudi, file no. 38, folder no. 1, subfolder no. 1, 7 May 1945, Di Fenizio to Einaudi. The issue remained central to the analyses of Banca d'Italia's Research Department up to the stabilization package of 1947 (see Mancini, 1948a and 1948b; and below).

³³ Asso and Raitano, 1999.

³⁴ On this point, see the report drafted by the Head of Supervision, Paolo Ambrogio, in April 1946 at the Governor's explicit request (ASBI, Banca d'Italia, Vigilanza sulle aziende di credito, file no. 16, folder no. 2, "Appunto" and, *ibid.*, letter from Paolo Ambrogio to Einaudi, 9 April 1946). See also Einaudi, 1993, p. 253.

Within the field of supervision, the objective was to create the conditions for overcoming the legal limitations linked to the pre-war and wartime legacy. Following the Banking Law of 1936, Banca d'Italia did not hold exclusive powers over the supervision of the traditional banking sector but had to share that function with the Inspectorate for Credit and Savings and with the Treasury Ministry. Before the war, cooperation between the Bank and the Inspectorate had not given rise to substantial problems, as the latter was an institution that could, with some approximation, be regarded as an extension of Banca d'Italia. The Inspectorate's leadership had always remained under the Governor's direct or indirect control, and approximately 70 per cent of its staff had been seconded by Banca d'Italia.³⁵ Moreover, the political superstructure represented by the Inspectorate's coordinating body had not substantially affected the Bank's decisions regarding supervisory activities. By contrast, the relationship between Banca d'Italia and the Treasury proved far more problematic. The presence of that ministry in the supervisory sphere opened the door to political interference in activities that ought to have responded exclusively to technical criteria and pursued objectives of financial stability and efficiency. These distortions became even more significant after September 1944 when, following its relocation to Northern Italy under Nazi occupation (September 1943), the Inspectorate was abolished, and a large share of its powers was transferred to the Treasury Ministry. The result was that, precisely at the time when Einaudi was seeking to affirm the autonomy of Banca d'Italia, the latter lacked solid authority over banking supervision because it was directly subordinated to the Treasury Ministry.³⁶

Between 1944 and 1947, Banca d'Italia thus risked losing its grip on the control of liquidity transmitted through the banking channels as well. With Treasury Ministry officials who exercised supervisory tasks using bureaucratic procedures and privileging direct contacts with banking institutions without involving the central bank's inspectors, it became more difficult for the Bank

³⁵ See Toniolo, 2022, pp. 599 and 636–637. See also the note drafted by Baffi at the end of 1936 and delivered to Governor Azzolini in mid-December of that year (ASBI, Direttorio Azzolini, file no. 72, folder no. 1), and Polsi, 2002.

³⁶ The transfer of the activities of Banca d'Italia and of other bodies responsible for financial control and supervision to the part of the country under Nazi occupation is a complex chapter, intertwined with the removal of gold reserves (see, in this regard, ASBI, Carte Introna, file no. 20, "Nota" drafted by Introna, August 1944, pp. 377–379; Cardarelli and Martano, 2000; Fubini, 2024) and with the judicial proceedings involving Governor Azzolini (see ASBI, Carte Introna, file no. 20, unsigned memorandum, 10 June 1944, pp. 486–489; and ASBI, Carte Introna, file no. 19, pp. 83–103; see also Osio, 2022). Here it suffices to recall that, unlike the Inspectorate, between October 1943 and the end of the war Banca d'Italia only transferred a very limited number of employees from its traditional headquarters to Northern Italy, maintaining in Rome the operational unity of the Directorate (Tuccimei, 1993, p. 244 ff.; see also Azzolini's "Memoriali" in Caracciolo, ed., 1992, docs. 68 a, b, and c). Azzolini did not comply with the Republican order to transfer the Directorate and all heads of department to the North of Italy. He established a 'temporary delegation' in the North, in which he himself was involved only for a few months. Moreover, relying on the efficiency of the Milan office and on the authority of its long-standing director (Francesco Sforza), Azzolini ensured the existence in the North of an autonomous governing body under Sforza's responsibility, capable of meeting the needs of banking intermediaries operating there without requiring significant transfers of personnel and services from the Rome headquarters.

to safeguard its authority vis-à-vis the banking sector and to impose constraints on banks' balance sheets in line with the orientations and requirements of monetary policy.³⁷ Moreover, political inertia regarding the provision of legislative instruments did not suit a rapidly evolving economic and financial situation. Emblematic in this regard was the Treasury Minister's (Pietro Campilli's) failure to enact a decree on bank deposits that had been proposed by Banca d'Italia between December 1946 and February 1947 with the direct involvement of Einaudi and Director General Menichella (see below). It is not possible here to assess whether such political inaction stemmed from insufficient pressure by Banca d'Italia, from the weakness of Campilli and – more generally – of the third De Gasperi government, or from a more complex, but clear-cut design of power. The fact remains that every legislative initiative was made conditional on the approval of the CICR, which only came after a long and troubled process completed between March and July 1947.³⁸

Within this framework, it becomes clear why Banca d'Italia warmly welcomed the establishment of the CICR. Indeed, while not eliminating the role of politics in the control and supervision of the banking sector, the CICR had the advantage of reducing the weight of the Treasury Ministry and, above all, of defining a clearer and more reasonable division of labor with Banca d'Italia. Even if in forms that were anything but linear and transparent,³⁹ the establishment of the CICR assigned to political authorities the task of defining the regulatory framework and the strategic guidelines, while Banca d'Italia regained responsibility for autonomously and discretionarily carrying out supervision, inspection, and the enforcement of rules and sanctions towards the banking sector. Moreover, this institutional reconfiguration created the conditions for consolidating the extension of the central bank's supervisory tasks to ICMs, which had already begun in the autumn of 1946. This extension was of particular importance, given the expansion of non-banking financial intermediaries noted above.

³⁷ The point emerges clearly from the already mentioned report by the Head of Supervision, Paolo Ambrogio (see no. 34). Ambrogio argued that the transfer of powers between the abolished Inspectorate and the Treasury Ministry – where an Inspectorate section was devoted to firms and only had sporadic contacts with the Bank's supervisory service – had compromised the exercise of controls over banks and undermined the credibility of Banca d'Italia vis-à-vis the banking sector (ASBI, Banca d'Italia, Vigilanza sulle aziende di credito, file no. 16, folder no. 2, "Appunto" by Paolo Ambrogio for Einaudi, 9 April 1946). It was therefore vital to establish a clearer distinction between regulatory tasks (the definition of policy guidelines and of the various levels of regulation), which could remain within the competence of the Treasury Ministry, and supervision in the strict sense, which ought to be carried out exclusively by Banca d'Italia, including with regard to non-bank financial intermediaries (such as the ICMs).

³⁸ These topics will be taken up again in examining the choices of monetary policy (see, in particular, Sections 10, 11, and 12 below).

³⁹ The issue of the separation of powers ultimately affected specific but important aspects of banking and financial supervision. It was exacerbated by cumbersome rules which, until the end of the 1950s, were modified and applied in discontinuous ways. These rules conferred varying powers on other ministries as well (in addition to the Treasury). This can be explained above all by the uncertain boundaries between the supervision of banks and the supervision of ICMs.

It should nevertheless be recalled that the establishment of the CICR did not heal all the wounds inflicted on the autonomy of Banca d'Italia and on its role as the “bank of banks”, as sanctioned by the Banking Law of 1936 and reinforced by the statutory measures adopted in the following two years. In this regard, one aspect that would long limit the real influence of Governors within the CICR concerned the thorny issue of the procedures for appointing top managers in credit institutions. With the suppression of the Inspectorate in 1944, the provision reserving to that institution (in practice, to the Governor) the power to propose to the President of the Council of Ministers the names for the top positions in the savings banks was repealed. After 1944, that power and the associated functions were transferred to the Treasury Minister. Upon its establishment, the CICR obtained control over the entire decision-making process concerning appointments; however, since this was not explicitly provided for in its statute, it did not restore the previous power of proposal reserved to the Governor. This impairment of the central bank's autonomy was noted by Menichella who, shortly after his appointment as Governor, sought the opinion of the Bank's General Counsel on the possibility of regaining that power. The opinions were not encouraging.⁴⁰

It should be added that the path towards the establishment of the CICR was extraordinarily tortuous: a “long and unnecessary route” was chosen, passing through the Constituent Assembly. As Paolo Baffi emphasized, this choice irritated Einaudi and Menichella considerably, both of whom favored much swifter solutions and interventions.⁴¹ As already noted, and as will be discussed below (especially in Sections 10, 11 and 12), during the harsh winter of 1946-47 Banca d'Italia had become convinced of the need to launch a stabilization policy regarding credit aggregates and therefore emphasized the need for a rapid introduction of new rules governing bank deposits. Instead, the government had subordinated the approval of these rules to the establishment of the CICR. At the beginning of July 1947, Einaudi's pre-eminent role in the fourth De Gasperi government, and his close relationship with the new Treasury Minister (Gustavo Del Vecchio) and the new Minister of Finance (Giuseppe Pella) – whom Einaudi himself had helped to designate and whose action was coordinated by him – made the definitive approval of the CICR possible. In this regard, the role played by Ugo La Malfa was important. From February 1946 to February 1947, La Malfa had collaborated with Einaudi in the unprecedented capacity of the Governor's personal adviser (see Section 5); after leaving this role, he became President of the influential Permanent Commission for the Examination of Bills within the Constituent Assembly, thereby helping to accelerate the approval process of the CICR.

⁴⁰ The texts relating to Menichella's queries and to the replies of the Bank's legal office can be found in ASBI, Banca d'Italia, Direttorio Carli, file no. 86, folder no. 1, “Appunti” by Mario Fresi, 28 August 1948 and 1 September 1948.

⁴¹ See ASBI, Banca d'Italia, Carte Baffi, Servizio Studi, file no. 8, folder no. 10, Memorandum on “Inflazione postbellica, stabilizzazione e riserve obbligatorie”, undated (presumably June 1949) and unsigned (presumably by Marcello Mancini). See also Baffi, 1986, pp. 115-116 and Baffi, 1963, pp. 268-269.

The creation of the CICR was decided upon by the Council of Ministers on 23 April 1947. The Commission, chaired by La Malfa, examined the matter during the month of May and reached a decision on 11 June, given the need for prior approval of the definitive text of Article 47 of the Constitution. The lengthy process could only be considered complete on 3 July of that same year, with the final approval of the decree; the first meeting of the CICR was held on 2 August, when the stabilization plan was approved.

During the months devoted to the establishment of the CICR, Einaudi's position influenced two specific, significant decisions: the assignment of the CICR's chairmanship to the Treasury Minister rather than to the President of the Council of Ministers, and the reduction in the number of ministers included as institutional members of the Committee.⁴² The decision to limit the political presence within the CICR was reinforced by the strong role assumed, from the very outset, by the top management of Banca d'Italia. The minutes of the first CICR meeting were almost entirely devoted to two topics. First, a report delivered by Menichella, who set out the technical choices underlying the criteria for the new compulsory reserve regime that was instrumental to the monetary stabilization initiative; and second, the discussion of related measures, among which a prominent role was played by the controversial decision to establish the Fund for Mechanical Industries (FIM).⁴³

Also the acquisition of an important role in exchange-rate policy was a complex process for Banca d'Italia. From the 1930s onwards, the Bank had been excluded from the management of exchange rate matters, which had first been assigned to a "secretariat" and then to a specific ministry, led by Felice Guarneri. In 1944, however, the Bank's Commissioner, Niccolò Introna, succeeded in carrying out a profound reform of the field with the benevolent support of the Allies. The first measures of January 1945, which coincided with Einaudi's arrival at Via Nazionale, thus secured two important results: the abolition of a specific ministry devoted to exchange-rate matters and the transformation of the National Institute for Foreign Exchange (Istituto Nazionale per i Cambi con l'Estero, INCE) into the newly established Italian Exchange Office (UIC).

The establishment of the UIC, chaired by law by the Governor and placed under the control of Banca d'Italia,⁴⁴ ensured the pre-eminence of the Bank in the conduct of exchange-rate policy,

⁴² The Minister of Posts and Telecommunications (in that government, Umberto Merlin) was thereby excluded. He formally complained about this exclusion (see ASBI, Banca d'Italia, Direttorio Einaudi, file no. 32, folder no. 3, Merlin to Einaudi, 23 August 1947). Given the importance of the postal financial circuit, that Ministry had a stronger claim to serve as a member of the new Committee than some of the other ministers included (for example, the Ministers of Industry and of Public Works, who were subsequently involved in other supervisory functions in finance).

⁴³ The text of the minutes is now published in Cotula, Gelsomino and Gigliobianco (eds.), 1997, no. 17, pp. 246-255. Hereafter, this text will be quoted as Menichella, 1947d.

⁴⁴ According to the most authoritative legal doctrine, the UIC was an instrumental entity of Banca d'Italia. In addition to the chairmanship attributed *ex officio* to the Governor and the broad representation on the Council of members

replacing the previous competences of the Treasury Ministry and of the Ministry of Foreign Trade.⁴⁵ Nor was the choice of the new denomination – expressly desired by Einaudi – without significance: “Office” in place of the previous “Institute”. The implicit but clear message was that the transformation of the institutional arrangements in exchange-rate matters was intended to pave the way for overcoming the exchange monopoly regime that the reform had centralized in the UIC. The aim was to gradually establish conditions more favorable to market transactions and to greater freedom in international capital movements under the guidance of the central bank. Indeed, the choice to create an “Office”, rather than an “Institute”, was meant precisely to indicate the more limited time horizon of the new institution, which would hold and exercise, *pro tempore*, the monopoly over Italy’s foreign exchange resources.

In practice, the process of streamlining exchange-rate policy proved more complex than expected. Nevertheless, Banca d’Italia managed the process of unifying the foreign exchange market skillfully, discouraging the attractiveness of informal transactions and bringing the system of multiple exchange rates vis-à-vis the dollar to an end within three years.⁴⁶ It was therefore no coincidence that Italy was the first among the countries not belonging to the group of wartime victors to be admitted to the Bretton Woods agreements, and that it succeeded for a long time in preserving the stability of the lira’s central parity.

3. The tools: autonomy from the Treasury

To achieve greater autonomy from the changes in the institutional framework described in the previous Section, Banca d’Italia needed to regain control over its own instruments in order to influence the country’s economic policy. Well before the crucial monetary policy decisions that were implemented in August 1947, this objective was achieved through three main steps: the restoration of controls over the dynamics of the monetary aggregates, the restoration of controls over the financing of the economy, and the final settlement of its claims on the real sector. This Section first addresses the issue of settling the substantial credit that Banca d’Italia held vis-à-vis the IRI, and then turns, in more general terms, to the other two issues. The following Section

appointed by, or drawn from, the Bank, the latter provided the endowment fund and was required to transfer the lire resources needed for the purchase of foreign currency. On this point, see Ufficio Italiano dei Cambi, 1995.

⁴⁵ Political controversy was by no means lacking. For a long time, Cesare Merzagora, Minister of Foreign Trade in the fourth De Gasperi government, sought to alter the institutional nature of the Office. In a letter to President De Gasperi dated October 1947, Merzagora observed that, under conditions of widespread protectionism, “where all directives concerning foreign trade and exchange control emanate from my ministry, the Exchange Office can only be subordinated to that Ministry. Otherwise, my administration would lack, as it currently lacks, its principal lever of command”. Realistically, Merzagora proposed to De Gasperi that the appointment of the Director General of the UIC be assigned to the Ministry of Foreign Trade, while the Governor would retain the office of President (Merzagora to De Gasperi, 10 October 1947, FLE, ALE, Carte Einaudi, section II, Corrispondenza, folder ‘Merzagora’).

⁴⁶ This issue also gave rise to controversy within the central bank, involving Einaudi, by then President of the Republic, Baffi, and Caffè. See, in this regard, Visco, 2010. The issue will be taken up again in Section 8.

examines the first two public loans that Banca d'Italia conceived and defined: the five-year Liberation Loan, launched in April 1945, and the thirty-year Reconstruction Loan, issued between the end of 1946 and the first days of 1947.

The complex debt relations between the IRI and Banca d'Italia, which had made it possible to rescue a significant part of the Italian banking and industrial sectors during the Great Depression, had already been defined by the end of 1936.⁴⁷ It had then been agreed that these relations could be traced back to two sources: a debt of the IRI holding company to the central bank, not yet covered and amounting to just under 4 billion lire (precisely 3,943 million); and a similar pre-existing debt that had already been 'settled' (see below) amounting to 765 million lire. The resolution of the outstanding portion of this substantial debt – which in 1936 amounted to roughly 3.7 per cent of the national income – took the form of an accounting gimmick that was highly penalizing for Banca d'Italia. The horizon for extinguishing the debt was set at 1971, while coverage of the corresponding debt position was structured in two stages. First, the IRI had to immediately transfer long-term government securities with a value of 865 million lire to Banca d'Italia, equal to less than 22 per cent of the outstanding debt, while retaining entitlement to the interest payments on those securities. Second, the IRI had to extinguish the remaining 78 per cent of the debt (i.e. 3,078 million lire) and undertake to pay the corresponding yield (0.75 per cent), by acknowledging to Banca d'Italia precisely the same interest that the State owned conglomerate received on the government securities transferred to the Bank itself.

It should be noted that this procedure was completed by incorporating the effects of the previous repayment of part of the earlier debt, which had followed a scheme analogous to the two steps just described: the transfer to Banca d'Italia of long-term government securities with a value of 765 million lire, while ensuring that the IRI retained entitlement to the corresponding interest. The annuity (3.5 per cent per year) accrued on securities with a value of 1,630 million lire (865 million + 765 million) would be exactly sufficient to cover the remaining stock of debt and the corresponding yield (0.75 per cent) by the end of 1971.

The artificiality and, at the same time, the far-sightedness of this procedure for settling the IRI's debt position are evident. Its artificiality lies in the fact that Banca d'Italia was forced to accept a contract whereby a thirty-five-year credit was covered through the immediate transfer of relatively illiquid assets (government securities not easily marketable, as they were burdened by constraints on the interest) and the subsequent annual payment of nominal yields that were to be incorporated

⁴⁷ See the memorandum drafted by the Director General of the Treasury (Paolo Grassi) for the Minister of Finance, Thaon di Revel, and published in Guarino and Toniolo (eds.), 1993, pp. 871-882. See also the "Kamark report" prepared by Menichella for the Finance Sub-Commission of the Allied Control Commission (2 July 1944, republished in Cotula, Gelsomino, and Gigliobianco (eds.), 1997; in particular, pp. 168-171); and Menichella's note for Governor Einaudi of 16 April 1946, i.e. two days before his move from the IRI to Banca d'Italia (also in Cotula, Gelsomino and Gigliobianco (eds.), 1997, pp. 186-188).

into the assets already transferred. Accordingly, the IRI was repaying a large part of its debt (just under 80 per cent) by duplicating that very same transfer and was, in substance, paying nominal interest rates tending towards zero. The far-sightedness of the arrangement consisted in having thereby freed the IRI from a burden that would otherwise have led the holding company to bankruptcy, with serious consequences for the stability of the Italian economic system and for the prospects for post-war reconstruction.⁴⁸ It should also be noted that, in June 1944, Commissioner Introna wrote to Treasury Minister Soleri requesting a revision of the contract then in force;⁴⁹ in response, the IRI's Director General (Menichella) maintained before the same Minister that the dispute had been definitively settled and that the contract could not therefore be rewritten.⁵⁰ With Menichella's appointment as Director General of Banca d'Italia, Einaudi set the issue aside by accepting the IRI's argument.⁵¹

Banca d'Italia had even more pressing difficulties to address and resolve. As already noted, during the early years of the war the capital circuit had been effective in keeping inflationary dynamics under relative control; however, around the time of the armistice, the circuit was no longer able to contain the impact of the excess liquidity in circulation, also because of Italy's division into two parts. The growing presence of Anglo-American Allied troops in the Mezzogiorno (landing in Sicily on 10 July 1943 and in Salerno on 9 September of that year) led to the concentration of German troops in the North. In Southern Italy, the Allies issued AM-lire. In the Centre-North, by contrast, the Nazis exerted strong pressure on circulation by imposing German marks as a means of exchange and, above all, by demanding substantial monthly contributions in lire, which were paid by the Milan head office of Banca d'Italia to the Italian Social Republic (RSI). These sums financed occupation expenses and weighed directly on a public budget that remained in

⁴⁸ It lies beyond the scope of this paper to examine the role of the IRI in the Italian economy of the post-war period, as shaped by the events of the 1930s. On this point, see the six volumes devoted to the history of IRI and, in particular: Castronovo (ed.), 2012; Amatori (ed.), 2013; Ciocca, 2015. See also Barca (ed.), 2010.

⁴⁹ ASBI, Carte Introna, file no. 20, Introna to Soleri, 27 June 1944. Introna had drafted a memorandum at Soleri's request in which, among other things, he stressed that "the absurdity of this convention and the necessity that, in the interest of the country, the Bank of issue should be promptly freed from such immobilization are evident". See also the 'Notizia riservata' sent by Introna to the Secretary of the Treasury, Antonio Manes, on 16 June 1944: ASBI, Carte Introna, file no. 20; and ASBI, Carte Introna, file no. 16.

⁵⁰ Reference is made to Menichella's reports cited in footnote 47.

⁵¹ Despite this, the Governor had long perceived that the modalities of repayment of the IRI's debt penalized Banca d'Italia. In his diary entry of 19 July 1945 (1993, p. 461), Einaudi noted that – according to Introna – this repayment was taking place through the "yield on securities" held by Banca d'Italia, so that "in reality" the Bank was repaying "to itself the debt of another". As early as March 1945, Einaudi had made it clear to President Bonomi that Banca d'Italia would no longer accept the underwriting of similar arrangements; this refusal was reiterated to Minister Corbino the following November, categorically excluding intervention by the CSM in favor of the IRI due to the lack of guarantees (see ASBI, Banca d'Italia, Direttorio Introna, file no. 44, folder no.1, subfolder no. 2, Einaudi to Corbino, 18 November 1945). In addition, as early as 1938, Baffi had clarified the formal steps of the repayment and had raised doubts about its actual implementation (cf. "Note on the financial calculations relating to the settlement of the IRI's debt to the Bank of Italy", in APPB, Carte Baffi Fregene, fald. n. 2, fasc. n. 2).

disequilibrium notwithstanding the impact of inflation.⁵² In addition, the German army succeeded in definitively appropriating both the gold reserves and other components of Italian public wealth as compensation for the war effort undertaken to defend its ally, now entrenched in the Republic of Salò.⁵³

The consequence was that, at the end of the war, Banca d'Italia needed to resolve a number of urgent problems before it could regain full control over monetary issuance: countering the impact of parallel circulations associated with the presence of AM-lire in the Mezzogiorno and with the more limited quantity of German currency in the North; managing the severe shortage of reserves caused by the seizure of gold reserves and by the long and uncertain process through which their hoped-for – though only partial – recovery might be achieved; and bringing under control both the liquidity supplied by the banking sector and the monetary flows injected into the economic system in order to meet the needs of deficit spending originating from the Treasury Ministry (the so-called “circulation on behalf of the Treasury”).⁵⁴

In August 1945, Einaudi developed an initial plan to reclaim on behalf of Banca d'Italia areas of autonomy in the management of the monetary base by reasserting the monopoly of seigniorage and opposing the role of “Treasury’s bank” that had already been stigmatized by the Banking Law of 1936. After lengthy and intense discussions with the Allied financial authorities, which culminated in the February 1946 agreement between De Gasperi and Stone,⁵⁵ Einaudi secured the re-centralization of the functions of issuing legal tender in the central bank. Moreover, thanks to its highly qualified participation (including top officials) in national delegations to international meetings (see Sections 7 and 8), Banca d'Italia made a substantial contribution to the conclusion

⁵² The first estimates of the effects on monetary circulation of the agreements between the RSI and the German army reached Einaudi’s desk following the already mentioned trip by Baffi and other Bank officials to Northern Italy (see footnote 12). On that occasion, Baffi produced a series of statistics concerning Banca d'Italia’s extraordinary advances and the settlement of payments made in favor of the Reich. These were monthly amounts averaging between 10 and 20 billion lire, paid into two interest-bearing accounts in the name of the German ambassador in Italy, one in Verona and the other in Milan. See FLE, ALE, Corrispondenza ‘Paolo Baffi’, Baffi to Einaudi, 23 May 1945.

⁵³ See the already cited Cardarelli and Martano, 2000.

⁵⁴ According to internal estimates produced by the Research Department of Banca d'Italia, between 8 September 1943 and the end of September 1945, more than 240 billion lire were issued in Italy: approximately 138 billion (just over 57 per cent) on behalf of the RSI in the Centre-North, mainly to cover the monthly contribution for occupation expenses paid to the German armed forces by the Fascist administration; approximately 74 billion (31 per cent) on behalf of the Allies operating in the South and Islands; and almost 30 billion (just over 12 per cent) on behalf of the Italian government. To these figures must be added the direct issuance of liquidity by the Allies themselves (the AM-lire), which circulated south of Rome to the tune of just above 66 billion, as well as the occupation marks introduced by the German troops and circulating in the North of the country. See, on this point, the notes drafted by Marcello Mancini, in ASBI, Banca d'Italia, Direttorio Baffi, file no. 85, folder no. 3, ‘Vicende della circolazione dei biglietti di Banca d'Italia dal 1942 a oggi’, June 1944, with updated figures.

⁵⁵ On this point, see ASBI, Carte Introna, file no. 11, Stone to Parri and Einaudi, 1 November 1945; ASBI, Banca d'Italia, Segretariato, file no. 1072, folder no. 5, subfolder no. 3, De Gasperi to Einaudi, 4 January 1946, and Corbino to Einaudi, 29 January 1946, transmitting the text of the agreement. See also below.

of agreements, to the granting of aid, and to the consequent partial restoration of foreign-exchange reserves.⁵⁶ Finally, following – at least initially – his own liberal stance, Einaudi concentrated efforts to control the money supply on attenuating the links with the public budget rather than on containing the liquidity of the banking sector.

We return to the problem of the role played by the banking channel when discussing monetary policy choices (see Sections 9-12). Here, by contrast, it is important to focus on Einaudi's efforts to free Banca d'Italia from the political and institutional pressures associated with the automatic financing of public deficits through the issuance of new money. Three main initiatives were pursued to achieve this objective.

The first took the form of firm opposition to reform projects centered on currency conversion and the associated extraordinary tax measures. After the liberation of Northern Italy had rendered superfluous the stamping of banknotes in circulation, intended to prevent surreptitious injections of lire hoarded or manufactured by Germany, Einaudi expressed concern about the proposals advanced by the Minister of Finance, Mauro Scoccimarro, and supported by the left wing of the government, in favor of the exchange of currency and bearer securities and the introduction of an extraordinary capital levy.⁵⁷ The Governor clearly understood that the principal aim of currency exchange was to extend the scope of a possible extraordinary tax on wealth to that wealth held in liquid form. While not, in principle, opposed to capital levies,⁵⁸ Einaudi believed that implementation of the tax designed by Scoccimarro would have two negative effects: by focusing on liquid wealth, it would be regressive, as it was bound to affect small savers above all;⁵⁹ moreover, by increasing the velocity of circulation of money, it would make it more difficult for Banca d'Italia to control the monetary aggregates and would ultimately have increased consumption and fueled inflation.⁶⁰ Nonetheless, the Governor fulfilled his institutional duties

⁵⁶ As will be clarified in Sections 7 and 8, the two issues are closely connected, as they were crucial in determining the allocation of war expenditure in the Italian territory after the armistice. Moreover, foreign-exchange reserves reached a safe level as an indirect effect of the budgetary earmarking of part of the lire counterparts of the funds disbursed in the first phase of the Marshall Plan (see, on this point, Fauri, 2010, Chapter 4). In the second phase, Italy instead used a large share of the aid to trigger a process of growth. The role of the Marshall Plan in Italian economic development between the late 1940s and the early 1950s is not addressed in this paper. In addition to Fauri (2010), a useful reference on the consequences of the Plan for the Italian economy is Bianchi and Giorcelli, 2023.

⁵⁷ Scoccimarro, 1956; Mori, 1987.

⁵⁸ Faucci, 1986, pp. 189-192 and 350.

⁵⁹ It is not possible here to examine in depth the fiscal policy advocated by Scoccimarro. It suffices to note that Einaudi's criticism was based on the fact that the incidence of the more liquid components of wealth was greater for less affluent groups. The criticism was therefore mainly empirical rather than analytical. In principle, it would have been possible to apply differentiated rates to the different types of financial assets, directly correlated with their degree of illiquidity. It should also be recalled that an expert in public finance such as Sergio Steve maintained that the introduction of progressive rates would have rendered Scoccimarro's project impracticable (see Steve, 1947).

⁶⁰ Baffi, 1963, pp. 263-265. See also Banca d'Italia, 1948, pp. 137-138.

diligently in organizing the currency conversion and put in place a highly detailed plan defining all aspects of the operation.⁶¹ Einaudi did not, however, conceal his aversion to the currency conversion and, in agreement with Menichella, did not regret the theft of the instruments used to reproduce the newly issued notes (July 1946), which in practice marked the end of Scoccimarro's twofold project.⁶²

The second initiative, more proactive though no less problematic, was the creation of new relations with the Treasury, precisely in the sphere of financing public expenditure. It has already been noted that the most important steps in this regard were taken in 1945 and 1946. Here it is sufficient to recall that, taking advantage of his longstanding familiarity with Minister Soleri, Einaudi succeeded, by means of a decree in March 1945, in suspending Banca d'Italia's extraordinary advances to the Treasury.⁶³

This led to the third initiative, closely linked to the second: technical as well as general support for the launch of two extraordinary loans through which the Treasury returned to the markets in order to finance its deficits. These were the Liberation Loan (spring-summer 1945) and the Reconstruction Loan (autumn 1946). As will be specified in the next Section, the first achieved considerable success by draining liquidity that had been temporarily hoarded. Also, by virtue of that result, and of an economic performance that had been surprisingly favorable in the first year of his governorship, Einaudi persuaded Soleri's successors at the Treasury (first Corbino and then Bertone) to make ready for the launch of a second public loan, which was issued in November

⁶¹ See ASBI, Banca d'Italia, Segretariato, file no. 1450, folder no. 5, "Nota", 12 January 1946. This text defined the relations with the Allies concerning the production of the new currency and the transport and security arrangements associated with the "exchange". Einaudi returned to this subject several times in responding to the criticism made by external observers. In his already cited letter to Giovanni Demaria (ASBI, Banca d'Italia, Direttorio Einaudi, file no. 8, folder no. 8, subfolder no. 9, 31 January 1946), the Governor emphasized that he had resorted to temporary measures to produce 300 billion lire in new banknotes and 200 billion lire in temporary securities within the deadlines required by the Italian authorities. The Governor defended himself against accusations that he had thereby needlessly squandered public resources in preparing an operation that would never be carried out and that, in any event, would barely have been managed by Banca d'Italia. A curious confirmation of the Governor's meticulous commitment to the operation may be inferred from another passage in the same letter to Demaria: according to Einaudi, the post-war configuration of the banking sector's branch network would not have ensured an adequate territorial coverage to guarantee an effective exchange of currency and bearer securities in all areas of the country. Scholars have paid little attention to the fact that this shortcoming added to the many reasons that led the Governor to lift the suspension on the opening of new bank branches (see below, Section 6).

⁶² Faucci, 1986, pp. 349-350; Barucci, 2008, pp. 45-52. The minutes of the meetings held at Banca d'Italia between October and December 1945 to prepare the technical aspects of the currency conversion are in ASBI, Carte Introna, file no. 19. The dating of these events becomes important when we examine the stages of the Reconstruction Loan (see the following Section). In a memorandum from September 1945, Baffi also expressed concerns about the currency exchange due to technical complexities and organizational difficulties (including the preparation of bank counters and security measures) of the operation (cf. APPB, Carte Baffi Fregene, fald. n. 3, fasc. n. 6).

⁶³ ASBI, Carte Baffi, Monte Oppio, file no. 32, folder no. 1, "Appunto", undated and unsigned but marked "Studi". Moreover, in that context, an agreement was concluded obliging the Treasury to reimburse the interest on fixed-term deposits in current accounts held with the Bank of Italy.

1946. This second issue of long-term securities produced far more controversial outcomes, however, even though it generated significant proceeds at the end. Taken together, the two loans brought about a reduction in the share of the stock of public expenditure that had to be financed through monetization. They also likely facilitated the legislative process for a statutory measure that legitimized the temporary agreement reached with Soleri and prohibited the Treasury's automatic recourse to extraordinary advances from Banca d'Italia for the financing of the public deficit. The bill, presented in June 1947, was definitively approved in May 1948, at the time of Einaudi's appointment as President of the Italian Republic.

To strengthen the strategy of controlling the monetary base in relation to public financing needs, Einaudi also made use of his position as President of the CSVI. As already noted, the presidency of that body had just returned to the Governor.⁶⁴ From the very first months of 1945, the Governor-President introduced substantial changes to the Consortium's areas of intervention, reducing the weight of the "special operations" granted in support of the current expenditure (predominantly the payment of salaries) of public administrations or local authorities. At the same time, care was taken to prevent the CSVI from being involved, like the IMI and other medium- and long-term credit institutions, in the management of international funds (above all, the Eximbank loan and later the Marshall Plan) and domestic funds earmarked to support the reconstruction of the country. More gradually, Einaudi also reduced the Consortium's "ordinary" activities, which committed Banca d'Italia to financing industrial credit. In 1947, he decided to prohibit new operations and to prevent access to rediscount at the Bank for bills linked to operations still outstanding.⁶⁵ Within a few years, these steps led to the Consortium's definitive closure.⁶⁶

We have gone into detail on this set of initiatives partly because they confirm our main explanatory key to Einaudi's governorship: namely, a broad understanding of the role that the central bank was called upon to play in post-war Italy as a pre-eminent actor in national economic policy. This does not mean that the Governor relegated the institutional tasks of Banca d'Italia to

⁶⁴ From its establishment in 1914, the Governor of Banca d'Italia also served as President of the CSVI. However, in October 1943, in response to Azzolini's delaying tactics with respect to the transfer of the Bank's operations to the North, the Treasury Minister of the Italian Social Republic had removed the Governor and appointed an Extraordinary Commissioner: Angelo Tarchi (see ASBI, Banca d'Italia, Verbal del Consiglio Superiore, reg. 593, seduta del 29 October 1943). This anomaly was immediately remedied at the beginning of Einaudi's governorship.

⁶⁵ See Banca d'Italia, 1946a, pp. 24-42; and Banca d'Italia, 1946b, pp. 64-68 and 110. In Paolo Baffi's words: "it is not surprising that Einaudi, who from his position as a scholar of monetary issues had helplessly witnessed the establishment of such a hypocritical and unhealthy practice, should take a firm stance against it in the first report, emphasizing as a merit of Banca d'Italia the fact that, after liberation, it had resisted pressures to return the Consortium under its control to the 'evil path' of special operations; and expressing concern that new 'extravagant' operations [...] might be carried out in the regions that had remained under German occupation" (see Baffi, 1963, p. 259).

⁶⁶ Asso and Raitano, 1999, pp. 327 and 345 ff.

the background. On the contrary, Einaudi sought to ensure that the Bank regained full control over its instruments of monetary policy and of supervision of financial intermediaries, since these were basic conditions for carrying out the tasks proper to a central bank efficiently.⁶⁷ He was also aware that Banca d'Italia's operational autonomy and independence had to be embedded in a renewed institutional framework and had to take concrete form in more effective operational capacities, based on a strengthening of expertise and of the Bank's internal organization (see Section 5). Yet the Governor clearly understood that the objectives and strategies of monetary policy were interconnected with other instruments of economic policy: monetary stability could not have been successfully pursued if the real economy had remained weak. This explains the marked pragmatism Einaudi displayed in his monetary policy choices, but above all his commitment to setting up the central bank's new powers and functions, and its restored organizational strength, at the service of the country's economic development.

In carrying out his role as Governor within this broader perspective, Einaudi was careful to avoid initiatives that were not consistent with the institutional tasks of a central bank. Yet at certain junctures, he did not fail to explain the higher objective of defining monetary policy and control over the financial sector, also in relation to budgetary and industrial policies. In this respect, a note in his diary during the first months of his governorship – in March 1945 – is particularly emblematic. Recalling the outcome of meetings with Guido Carli and Manlio Brosio, the Governor observed that taking monetary policy decisions meant “controlling circulation not by the usual classical means, which today are of no use whatsoever (raising the discount rate and restricting discounts that no one asks us for), but by intervening directly in discussing government measures, which may impose an increase in circulation or spread uncertainty, thereby undermining the success of state loans”.⁶⁸ This statement reiterated that Banca d'Italia should be ready to ensure the most effective technical conditions in support of stability, even in cases in which it was a matter of implementing political choices with which it did not agree; at the same time, however, it highlighted that the Governor had to assume responsibility for dialogue with, and influence over, the political choices of Presidents of the Council of Ministers or Treasury Ministers whenever the consequences were relevant both for monetary equilibrium and for the country's economic future.

Indeed, beginning in March, also thanks to the intervention of Brosio and the Liberal Party, Einaudi explicitly made a request to Bonomi already recalled above (see footnote 14): “I should like the texts of decree-laws to be sent to me before their discussion, at least as regards economic

⁶⁷ Introna had already expressed concern that Banca d'Italia had lost control over supervision and exchange-rate policy: see ASBI, Carte Introna, file no. 20, “Nota” handwritten by Introna, undated, p. 483.

⁶⁸ Einaudi, 1993, pp. 182-83. Manlio Brosio, formerly a leading figure in the Liberal Party, served as Minister without Portfolio in the Bonomi government.

bills”.⁶⁹ The President of the Council readily accepted, issuing the relevant instructions to the ministers concerned: “My attention has been drawn to the advisability that, before their examination by the Council of Ministers, draft measures of an economic or financial nature should also be sent, for information, before their examination by the Council of Ministers, to Senator Einaudi, Governor of Banca d’Italia. This request seems worthy of acceptance, and I therefore ask you to make arrangements accordingly”.⁷⁰

It is in this perspective that Einaudi’s voice was often influential and, at times, critical with regard to the positions adopted by Treasury Ministers (such as Soleri or Corbino) and by President De Gasperi himself. According to the Governor, it was necessary for Banca d’Italia to contribute to the definition and implementation of measures capable of improving the quality of public expenditure, reforming the mechanisms for financing the public debt, supporting private investment, and strengthening the financial sector and Italy’s production apparatus. It is therefore no coincidence that the Bank found itself on the front line of numerous discussions on crucial turning points for the Italian economy that could be directly connected with monetary problems, but that were more properly concerned with broader issues: the drawing up of the international agenda, the definition of redistributive interventions (for example, compulsory procurement), the evaluation of fiscal measures, intervention in public works and the real estate market, and several other policy areas.

In international financial circles, the rapid assertion of Banca d’Italia in the management of monetary policy – and more generally in the country’s economic life – and the consequent growth of its autonomy and reputation were often regarded as a blessing for the Italian economy and, at times, with a degree of envy. In an internal Bank of England memorandum of January 1946, it was observed somewhat caustically that: “Corbino privately reassured Einaudi that Treasury policy would be guided by the Bank; in other words, in a system lacking the Olympian harmony that reigns elsewhere, Corbino would take his orders from Einaudi”.⁷¹ Moreover, in May 1946, the BIS economist Per Jacobsson already mentioned above (see footnote 12) stated in a letter to his colleague Otto Niemeyer⁷² that “most of the sensible things done today in Italy in the economic

⁶⁹ The quotation is again taken from the Diary. See Einaudi, 1993, p. 183.

⁷⁰ Archivio Centrale dello Stato (ACS), Presidenza del Consiglio dei Ministri, acts 1944-1947, box 10/1, file no. 32634. Ivanoe Bonomi to Antonio Pesenti, Meuccio Ruini, Marcello Soleri, Giovanni Gronchi, Umberto Tupini, 16 May 1945. At least for the acts of the Bonomi government, Einaudi’s comments on individual bills are preserved in ASBI, Banca d’Italia, Direttorio Einaudi, file no. 118, folder no. 1, “Osservazioni sui disegni di legge”.

⁷¹ Bank of England Archives (BEA), Overseas Department, 36/24, Memorandum by KW, 22 January 1946.

⁷² In addition to having been a member of the Directorate of the Bank of England on the eve of the war, Niemeyer had represented the United Kingdom on the Board of the BIS since its foundation in 1931. According to Baffi (1985, p. 13), Jacobsson and Niemeyer were the ‘two most influential figures’ at the BIS.

and financial fields can be traced back to Mr Einaudi, Governor of Banca d'Italia... If one looks around the world, central banks still have some influence".⁷³

These considerations justify an initial conclusion: in the years immediately following the Second World War, Banca d'Italia exercised a significant influence over the political and institutional decisions that affected the combination of economic policy instruments designed to reactivate the country's productive forces and to foster rapid economic growth. This explains the pragmatism, relatively free from theoretical or doctrinal constraints, with which Einaudi undertook actions compatible with political constraints. The successes and limitations that characterized the issuance of the first two major public loans of the 1940s provide a further example in this regard.

4. The tools: the two extraordinary loans

In this Section, we show that the more problematic of the two public loan issues discussed above – namely, the Reconstruction Loan implemented in the autumn and winter of 1946 – imposed a severe penalty on subscribers and was ineffective for monetary stabilization. The wealth invested underwent substantial reductions in terms of its real value, while the overall absorption of circulating liquidity was modest. The top management of Banca d'Italia was involved, in various ways, in the design and implementation of this operation.

A year and a half before the launch of the Reconstruction Loan, the Liberation Loan – also known as the Soleri Loan, after the Treasury Minister who formally promoted it – had been successfully introduced. The Liberation Loan centered on the issuance of five-year Treasury bonds maturing in April 1950 and bearing an interest rate of 5 per cent on the face value (100), which the state undertook to pay in half-yearly arrears (on 1 April and 1 October in each year of the bond's life). In Southern Italy and Lazio, the subscription period extended from 5 April to 19 May 1945, and the issue price was set at 97.50 lire. In the Centre-North, by contrast, the subscription period was postponed to 15 July-25 August 1945, for obvious wartime reasons, and the issue price was set at 99 lire. Subscribers could purchase as many new securities as they wanted, either in cash or by transferring coupons maturing during the issue period in respect of various types of public securities held in different forms. Considering the redemption premiums and the possible receipt of other ad hoc bonuses, the average yield on the securities subscribed in Southern Italy and Lazio was 6.17 per cent, while that on the same securities subscribed in the Centre-North was 5.80 per cent.⁷⁴

⁷³ BEA, Overseas Department, 36/6, Per Jacobsson to Otto Niemeyer, 9 May 1946. Albert Hirschman, then an economist at the Federal Reserve, also believed that there were differences in the monetary policy approach of different countries in addressing post-war difficulties, notably in the case of France and Italy (see Hirschman, 1947a, 1947b, and 1948).

⁷⁴ Banca d'Italia, 1946b, pp. 22 and 103-109; Manfrellotti, 2008, pp. 39-45.

These yields might appear inadequate in the face of inflation rates that, during 1944, had reached annualized peaks of 150 per cent and that was still around 70 per cent on an annual basis in 1945.⁷⁵ Although it was greatly attenuated, the inflationary process still remained at very high levels, which meant that, at the time of issuance, real yields were strongly negative.⁷⁶ Several factors must nevertheless be taken into account that made subscription to the Liberation Loan relatively attractive.

Two factors may be recalled at the outset. First, potential subscribers could not limit their assessment of inflation dynamics to the year in which the loan was issued but had to refer to the five-year maturity of the public securities to be subscribed. In the early summer of 1945, the sharp slowdown in price dynamics and the commitments to more prudent management of the public budget tended to fuel the hope – perhaps somewhat naively – of rapid stabilization. Second, those able to form more accurate expectations regarding price dynamics over the period, and the distribution of the present real value of five-year returns, also had to acknowledge the lack of alternatives. Italian financial markets did not offer investments with more attractive yields and comparable levels of risk to those issued under the Liberation Loan. As the Governor recalled in the already cited Report for 1945,⁷⁷ during the months in which that loan was subscribed, the interest rates paid by banks on their various types of deposits reached 2 per cent at most. By contrast, the yields paid on the long-term Treasury bonds issued under earlier war loans were just below 6 per cent. Thus, although annual nominal yields close to 6 per cent were considered insufficient to protect the real value of invested financial wealth, they were nonetheless regarded as preferable to those offered by other investment opportunities of comparable risk available in Italian markets.⁷⁸

Even riskier financial investments, which at the time were beyond the reach of small and medium savers, did not offer particularly attractive returns. The years from 1943 to 1947 coincided with very depressed levels for share prices in Italy, second only to the collapse of 1907; and, despite brief phases of recovery, prices remained extremely volatile during the three-year period

⁷⁵ Gaiotti, 2003, pp. 443–444.

⁷⁶ Ricossa, 2003, p. 396n. That note cites a letter from Baffi to Parri, then President of the Council of Ministers, acknowledging that the expected yield of the Liberation Loan was negative in real terms (see the letter of 26 June 1945, reproduced as doc. 13 in Ricossa and Tuccimei, eds., 1992). Baffi thus sought to allay the opposing concern voiced by sections of the government on the left – namely, that the nominal interest rate had been set too high. In a later text (1986, p. 120), Baffi emphasized that his forecasts were, regrettably, confirmed *ex post*.

⁷⁷ See Banca d'Italia, 1946b.

⁷⁸ It should be added that the five-year Treasury bonds were also exempt from taxation and, in particular, from inheritance and registration taxes. Moreover, as recalled in Banca d'Italia's Report (1946b, pp. 81–82), from February 1945 onwards banks could earn at most interest rates of between 4 and 4.5 per cent on special current-account deposits held with the central bank and tied up for four and six months respectively, while from January 1946, both rates were reduced by half a percentage point. It is indicative that, during 1945, the banking sector allocated a large share of its available funds to current-account deposits at 4.5 per cent.

1948–1950 too.⁷⁹ Likewise, between 1944 and 1945, the market for bonds issued by private companies (industrial firms or ICMs) declined because of the sharp fall in the second half of 1945, which more than offset the good performance of 1944 and of the first months of the following year; and the prices of long-term Treasury bonds remained higher than those of industrial bonds and of those issued by the ICMs also in the final years of the Liberation Loan (1948-1950).⁸⁰ There remained the possibility of investing in non-financial assets. It is reasonable to assume that real estate investments, or acquisitions of other real assets, offered nominal returns higher than 6 per cent. These were, however, rather uncommon and highly illiquid forms of portfolio allocations. Since they did not fall within the sphere of influence of central banks, except in terms of supervision over bank financing, they lie outside the scope of our analysis.⁸¹

This is sufficient to explain why holders of wealth showed a favorable inclination to buy medium-term Treasury securities with positive yield differentials relative to financial assets of comparable risk in 1945. This attitude was reinforced by the fact that Italian households and firms displayed a low average propensity for risk and a marked aversion to the rules that, from 1942 onward, had imposed compulsory registration of shares for tax-control purposes. Consequently, there was a strong ‘reluctance on the part of Italian savers to invest in equities’.⁸² Somewhat paradoxically, this resulted in an efficient use of the information available, given that, in the years 1945-1950 (with the sole exception of 1949), annual rates of return on equities were far lower than those on Treasury securities.⁸³

In practice, the Liberation Loan was such a gratifying success that it induced Einaudi to enthusiastically proclaim a “plebiscite of savers in favor of the government of a reborn Italy”.⁸⁴ Subscriptions yielded a total of 106 billion lire (33 billion collected in the first period and 73 in the second), distributed among nearly two million purchasers. Of the total proceeds, 64 per cent were covered by private subscribers, 24 per cent by banks and other financial and insurance institutions, and 12 per cent by industrial and commercial companies. Above all, non-bank

⁷⁹ See Banca d’Italia, 1946b, pp. 112-113; Banca d’Italia, 1947, pp. 179-183; Banca d’Italia, 1951, pp. 227-230; Siciliano, 2011, pp. 15-23. Share prices only recorded systematic increases from 1951 to the end of 1955, before accelerating their growth rates between 1959 and the early 1960s (see Barbiellini Amidei and Impenna, 1999, pp. 663–667).

⁸⁰ See Banca d’Italia, 1946b, p. 114; and Barbiellini Amidei and Impenna, 1999.

⁸¹ Real estate investments were, moreover, not open to the banking sector, which could instead – and frequently had to – operate on the supply side of financing in the market. It would be very complex to establish comparisons between returns on financial and non-financial assets net of risk. The empirical irrelevance of the problem advises against pursuing it further.

⁸² The reference is to a Doxa survey of 1951, whose results were reinforced by a contemporary article by Eugenio Scalfari in the *Financial Times*. See on this point Barbiellini Amidei and Impenna, 1999, p. 748.

⁸³ Banca d’Italia, 1951, p. 228, Figure 13.

⁸⁴ Banca d’Italia, 1946b, p. 108. See also Baffi, 1963, p. 260.

subscribers financed about 60 per cent of their purchases with liquid funds and the remainder by using bank deposits; the intervention of Banca d'Italia, by means of rediscount operations and advances, remained below 15 per cent.

The fact that refinancing operations were limited does not mean that the Bank only provided a modest contribution to the success of this first post-war issuance of public debt. In fact, the Bank also resumed its traditional functions of financial diplomacy, media persuasion, and the formal and informal organization of placement syndicates – a function that would expand in subsequent years. Moreover, the Bank's influence was decisive in persuading the new President of the Council of Ministers, Ferruccio Parri, to extend the loan issue to the recently liberated territories of the Centre-North immediately. Einaudi acted in this direction by exploiting the personal relationship he had with Minister Soleri; and, in an article published by *Il Globo*, Baffi emphasized the advantages for savers in the North of subscribing to the Loan. Moreover, in an unorthodox manner and only in his personal capacity, Baffi wrote to Parri in order to inform and reassure him about the contribution that the Milanese banks would have presumably made in ensuring a successful outcome for the operation.⁸⁵ During his adventurous journey to the North in May 1945 (see footnote 12), Baffi assembled leading managers of the “great banks” of Milan, who provided him with evidence and statistical data encouraging a rapid extension of the Liberation Loan to the North. It was above all the position taken by Mattioli, whom Baffi met on that occasion, that was reassuring: a large part of the substantial liquidity that the major Milanese banks had deposited with the local branch of Banca d'Italia would find a natural outlet in the new public bonds issued after Liberation.⁸⁶

The scale of the results obtained with the Soleri Loan can be further appreciated with reference to two indicators. The first concerns the ratio of the proceeds to total currency in circulation and to total deposits, which reached 28 per cent and 34 per cent respectively, exceeding the levels recorded by the long-term issue of 1943. The second relates to the coverage of the public deficits: during the fiscal years 1943-44 and 1944-45, these deficits were covered for almost 8 per cent by the initial proceeds of the Liberation Loan and for just under 70 per cent by monetization through

⁸⁵ See Ricossa and Tuccimei (eds.), 1992, pp. 187 ff. This volume includes the correspondence between Einaudi and Parri, as well as that between Baffi and Parri, together with Baffi's article in *Il Globo*.

⁸⁶ In a letter sent to Mattioli some years later, Baffi recalled his impressions of that first meeting between a distinguished representative of Banca d'Italia and some top managers of the major banks. He particularly stressed the role played by the leading representative of Comit in persuading the other bankers to accept the terms of the loan: “it was May 1945; the winds of revolt were blowing among those assembled; Pizzoni [President of Credito Italiano], who chaired the meeting, voiced ideas of cheap money. It was your highly effective intervention [the reference is to Mattioli], which, without being that of a conservative economist, succeeded in bringing views into line with the formula proposed by Einaudi and Soleri. On that occasion, I understood that, in the Italian banking world, you were in a class of your own” (Historical Archive of Banca Intesa, hereafter ASBINT, Carte Mattioli, box 19, file no. 8, Baffi to Mattioli, 26 August 1960).

Banca d'Italia; by contrast, in the opening months of the subsequent fiscal year 1945-46, the use of the further and more substantial proceeds of the loan, supplemented by the issue of ordinary Treasury bills and recourse to the interest-bearing current account with the Cassa Depositi e Prestiti, made it possible to eliminate recourse to monetization altogether.⁸⁷

These gratifying results help explain why, in the early spring of 1946, there were optimistic expectations regarding the impact that the new and more ambitious Reconstruction Loan might have. An initial outline for a possible new issuance of long-term public bonds was announced in mid-February by Minister Corbino and approved one week later in the Council of Ministers, despite considerable internal disagreements over some fundamental aspects of the operation, including the yield and the maturity. Interpreting that favorable climate, the Governor went so far as to declare in the Report of the Banca d'Italia on 1945: "I have full confidence that the entirely voluntary and therefore significant expression of Italian savers will be even more impressive on the occasion of the forthcoming consolidated loan".⁸⁸ Moreover, in an interview seven months later (*La Settimana INCOM*, 31 October 1946), broadcast on the eve of the opening of subscriptions (20 November), Einaudi reiterated that Italian savers would find it advantageous to subscribe to the Reconstruction Loan, by virtue of the tax benefits associated with the new bonds and of the possible redemption of the loan through a lottery with constant annual instalments beginning after three years.⁸⁹ In addition, in many writings and public speeches, the Governor stressed the importance of protecting savings for both economic and ethical reasons.⁹⁰ The issuance conditions of the Reconstruction Loan did not ensure an adequate protection.

The Reconstruction Loan was offered for subscription in the form of thirty-year redeemable securities bearing an interest rate of 3.5 per cent and an issue price of 97.50 lire on a nominal value of 100 lire. Initially, the subscription period – managed by a broad consortium of banks chaired by Banca d'Italia – was set between 15 November and 10 December 1946. The arrangement entailed that interest would be paid by the state in half-yearly arrears from 1 January 1947 onwards and that the lottery for redemption would begin on 1 January 1950, with constant annual instalments throughout the thirty-year life of the new bonds. Hence, the expected maturity of the securities would in any event be long term, amounting, on a probabilistic basis, to 21 years (or, more precisely, 18 expected years plus the three years of postponement before the first draw). These characteristics implied an average yield on the securities of 3.72 per cent.⁹¹ Complex

⁸⁷ See Banca d'Italia, 1947, p. 118; Baffi, 1963, pp. 265–266; Manfrellotti, 2008, p. 25.

⁸⁸ Banca d'Italia, 1946b, pp. 108-109.

⁸⁹ See ASBI, Banca d'Italia, Direttorio Menichella, file no. 58, folder no. 4, subfolder no. 1, written transcript of the recording of Einaudi's speech on RAI, 9 November 1946.

⁹⁰ See, for example, Einaudi, 1949, part III; Einaudi, 1947a, pp. 436-437; Einaudi, 1947b, pp. 552-553.

⁹¹ A detailed presentation of the contents of the loan examined here can be found in ASBI, Banca d'Italia, Studi, file no. 336, folder no. 32. The document (late February 1946) refers to the original formulation of the loan. The terms

operations were required in order to make the placement consortium operational and to complete individual purchases with the related delivery of the securities. The difficulties encountered led to the decision to postpone the opening of subscriptions to 20 November and to extend the subscription period until 4 January 1947.⁹²

Quite apart from the extension of the subscription period,⁹³ the yields offered on the Reconstruction Loan proved, *ex post*, to be wholly inadequate.⁹⁴ There were, moreover, at least two reasons that should have signaled this problem *ex ante*. First, after a pause between the summer of 1945 and the spring of 1946, there was a marked upturn in inflation, which returned to around 60 per cent on an annual basis, with peaks above 100 per cent, and showed signs of strengthening.⁹⁵ Second, a yield of below 4 per cent was markedly lower than that paid on shorter-term Treasury bills (estimated, on average, at 5.25 per cent). To compensate for the latter factor, the new bonds enjoyed a tax advantage: exemption of the wealth invested in them and of the related interest from all taxes, including extraordinary present and future taxes – thus also including the capital levy designed by Scoccimarro and the subject of lively political debate (see the previous Section). In the radio interview mentioned above, Einaudi explicitly insisted on this point, a point which also recurred in all presentations of the loan.⁹⁶

By the autumn of 1946, Scoccimarro's project had already been examined by the government and, in principle, could have been implemented in the following months. We have nonetheless emphasized that its effectiveness with regard to the more liquid components of wealth was

of issuance were subsequently modified, as indicated by the rules for subscription drawn up by Banca d'Italia (1 November 1946). On this point, see ASBI, Banca d'Italia, Sconti, file no. 1624, folder no. 2. In the same dossier, see also the "Issuance Programme" (pp. 192-193). It should also be recalled that the preliminary proposal for the interest rate on the thirty-year securities was 3 per cent and that, in the final stage of negotiations, the consortium banks pressed strongly for a revision, securing an increase to 3.5 per cent (see ASBI, Carte Baffi, Monte Oppio, file no. 39, folder no. 1, meeting of 11 October 1946 between Bertone, Einaudi, Menichella, and representatives of the banks). Baffi supported this request, while considering the increase to 3.5 per cent insufficient (ASBI, Carte Baffi, Monte Oppio, file no. 39, folder no. 1, "Appunto" of the Research Department, 15 November 1946).

⁹² See ASBI, Banca d'Italia, Studi, file no. 336, folder no. 32. The relevant unsigned document is attributed to Mario Ercolani, then a member of Banca d'Italia serving in the Financial Operations Department and later, in the 1970s, a member of the Directorate and then Director General.

⁹³ In the continuation of the document cited in the preceding note (pp. 8-11), Ercolani emphasized the importance of the postponement, noting that the majority of actual subscriptions (about 61 per cent) occurred in the days following the original deadline (10 December 1946). This finding is confirmed by the final document in which Banca d'Italia summarized the contents and results of the loan (see ASBI, Direttorio Einaudi, file no. 69, folder no. 1). It should also be noted that, for reasons of allocative efficiency, it is rational behavior for savers to subscribe to loans close to their deadlines.

⁹⁴ See Baffi, 1986, p. 120. Baffi regretted not having pressed more strongly for an increase in yields.

⁹⁵ Gaiotti, 2003, p. 444; Gelsomino, 1998, pp. 265-268.

⁹⁶ See ASBI, Banca d'Italia, Studi, file no. 336, folder no. 32; and the letter of 12 October 1946 sent by the Governor to the directors of the Bank's branches, in ASBI, Banca d'Italia, Sconti, file no. 1624, folder no. 2.

conditional on currency exchange, a project that experts did consider highly unlikely to be realized as early as the first months of 1946 (see footnote 61) and that had by then been abandoned because of the theft of the plates for the new issuances in July 1946 (see Section 3). It remains difficult to assess whether, between the end of 1946 and the beginning of 1947, the expected incidence of a capital levy was such as to make the tax exemption a certain and sufficient premium, more than compensating for the low nominal yields of the Reconstruction Loan securities across different categories of subscribers. The preceding considerations suggest a negative answer. This certainly held true for credit institutions, given the repeated indications that they would in any event not be subject to the most significant components of the extraordinary tax and given their greater amount of information regarding political orientations.⁹⁷ By contrast, the assessment was less clear-cut and more varied for non-financial subscribers. It depended on subjective variables that are difficult to quantify and that turned on the probability attributed by each holder of wealth to the occurrence of specific circumstances: the actual implementation of the capital levy, the exemption threshold, and its more-than-proportional incidence above that threshold. Moreover, each assessment had to be related to the level and composition of the specific wealth held.

Without venturing onto such difficult terrain,⁹⁸ it is possible to make a rough *ex post* estimate by referring to the average official quotations after the close of the loan's subscriptions and interpreting them as "revealed preferences". Given that the discounting of interest and of the capital to be repaid gave a current value of 78.05 lire for the thirty-year securities,⁹⁹ a necessary condition for the market to assess *ex post* the advantages of tax exemption as adequate compensation for the low yields was that the prices of these bonds should at least be equal to the subscription price (97.5 lire). By contrast, in February 1947 average quotations stood at around 90 lire and then fell below 80 lire in April.¹⁰⁰ The extraordinary capital levy scheme presented by Minister Campilli to the Constituent Assembly on 29 March 1947 – which set the date for assessing the wealth subject to taxation – certainly had no positive impact on those quotations. By only valuing presumptively liquid wealth and the value of bearer securities, the tax weakened the much-publicized fiscal advantages of holding Reconstruction Loan securities.¹⁰¹ Proof of this

⁹⁷ It may suffice to add that, according to what Einaudi noted in his personal diary (see 1993, pp. 717-718), by the first days of 1947 even Scoccimarro had abandoned the proposal to introduce a capital levy and the related initiatives.

⁹⁸ A proper assessment would require microeconomic data to be incorporated into a model capable of identifying the principal determinants of the expectations of the various groups of subscribers. Moreover, the empirical evidence derived from such a model would have to be compared with the average wealth position of non-subscribers.

⁹⁹ See ASBI, Banca d'Italia, Studi, file no. 336, folder no. 32.

¹⁰⁰ See ASBI, Banca d'Italia, Sconti, file no. 1624, folder no. 2.

¹⁰¹ Einaudi agreed with Campilli's choices, stressing that savers were already paying the price of inflation and that, therefore, no new reasons for "distrust of monetary saving" should be added. Otherwise, there would be economic, financial and psychological damage of "catastrophic" proportions, also in terms of "large scale inflation" (see ASBI, Direttorio Einaudi, file no. 4, folder no. 3, subfolder no. 8, Einaudi to Campilli, 20 April 1947).

is that, as will be discussed shortly, it soon became necessary to proceed to a restructuring of the loan, which in any case only had limited effects on the quotations of the securities, whose average level rarely exceeded 70 lire after the summer of 1947.

The unsatisfactory conditions of the Reconstruction Loan explain the extraordinary and unusual communication effort undertaken to attract subscriptions.¹⁰² More than 120 million lire were spent on posters, postcards and leaflets advertising the convenience of investing in the new thirty-year securities. Both Einaudi and Menichella were involved in meetings with advertising experts in order to establish the most effective use of the daily and periodical press. Specific pressure campaigns were targeted at farmers through the involvement of provincial inspectorates and agrarian consortiums, on the well-founded belief that they held substantial liquid resources. Attempts were also made to exploit the persuasive power of the clergy and of the principal Catholic associations, albeit with modest success because of the simultaneous existence of an open dispute concerning State support for bishops and parish priests.¹⁰³ There was a further radio interview by the Governor who, after reiterating the importance of the tax advantages associated with the new bonds for the loan, made a heartfelt appeal to Italians' patriotism in order to encourage subscription. The credit institutions forming the placement consortium, and the banking sector as a whole, were urged to mobilize for the success of the Reconstruction Loan: in Menichella's words, all banks should "make their contribution, whether great or modest, to the reconstruction of the Fatherland".¹⁰⁴

The weaknesses of the Reconstruction Loan were confirmed by the numerous incentives provided for subscription.¹⁰⁵ The banking system as a whole was allowed to finance part of its purchases by using current account deposits or other bonds pledged with Banca d'Italia, without notice requirements or loss of interest. It was possible to acquire the thirty-year securities by converting, on favorable terms, other Treasury securities (ordinary and long-term) already held, thereby also

¹⁰² See ASBI, Banca d'Italia, Direttorio Einaudi, file no. 69, folder no. 1.

¹⁰³ In support of the operation, Menichella involved the president of Azione Cattolica Italiana (ACI), Vittorino Veronese. In a circular, the ACI emphasized the importance of the loan and declared itself "pleased to cooperate in this work of civic solidarity and patriotic restoration by exhorting everyone to contribute to it" (see ASBI, Banca d'Italia, Direttorio Menichella, file no. 50, folder no. 49, Menichella to Veronese, 25 November 1946).

¹⁰⁴ ASBI, Banca d'Italia, Sconti, file no. 1624, folder no. 2. The insistence on the interest of the Fatherland more than on economic convenience revealed the growing concerns of Einaudi and Menichella about the outcome of the Loan. Einaudi's pessimism is attested by notes preserved in ASBI, Banca d'Italia, Direttorio Einaudi, files no. 17 and 69, folders no. 1 and 5.

¹⁰⁵ See on this point the letters of 13 and 16 November 1946, sent by Menichella to various divisions of Banca d'Italia, and the reply that the Bank sent a few days later (on 25 November) to the Treasury Ministry to clarify its favorable opinion on the matter (both in ASBI, Banca d'Italia, Sconti, file no. 1624, folder no. 2). In that reply, the Bank moreover referred to a circular issued by the Treasury Ministry on 26 October 1944. In addition, the letter of 13 November recommended bureaucratic simplifications in order to facilitate subscriptions (again in ASBI, Banca d'Italia, Sconti, file no. 1624, folder no. 2).

encouraging a lengthening of the maturity of public debt. Finally, bonuses were granted for the first five years of the loan.

This combination of pressures and incentives ensured a good level of subscription, which eventually amounted to 231 billion lire. Among the consortium banks, only 9 per cent failed to cover their assigned quota, while more than 35 per cent (including four of the five largest banks with the highest absolute placements) reached at least 200 per cent of their initial commitment.¹⁰⁶ Three weaknesses nevertheless emerged relative to the earlier Liberation Loan: the pool of purchasers was narrower, given the limited attractiveness of the new loan for banks and for small holders of wealth not directly exposed to the risk of a capital levy; the ratio of proceeds to total currency in circulation and to bank deposits did not reach 12 per cent, amounting to less than half of the previous level; and the conversion of ordinary or long-term Treasury securities already held in portfolios accounted for a significant share (about 41 per cent), thereby weakening the impact of the new loan in terms of absorption of cash and deposits.¹⁰⁷ Einaudi himself expressed disappointment at the limited participation of subscribers and at the relatively modest impact on public deficits and on their financing. In his personal diary, the Governor noted disconsolately that “the public no longer responds” and that Menichella “does not have the impression that the deadline can be extended”.¹⁰⁸

This empirical evidence justified the fierce criticisms that many economists, including some within the Research Department of Banca d'Italia, formulated regarding the design of the Reconstruction Loan even before its implementation. Francesco Coppola d'Anna went so far as to say that it was “a miscarriage” that should not have been supported by competent policymakers with “a good head on their shoulders”; Sergio Steve, in addition to underlining the inconsistencies of the tax exemption mechanism, questioned whether there was still a real advantage in terms of

¹⁰⁶ See ASBI, Banca d'Italia, Direttorio Einaudi, file no. 69, folder no. 1. See also the transmission of Comit's data, made by Mattioli to Einaudi, in mid-February 1947 (APPB, Carte Baffi Fregene, fald. no. 4, fasc. no. 13). Those data highlighted the significant impact of large subscribers (with more than 250,000 lire of nominal capital).

¹⁰⁷ Subscriptions in cash amounted to 102 billion lire. It should be noted that as much as 24 billion lire derived from the conversion of instalment debts owed by the ministries to firms for military supplies and liquidated by assigning them to the CSVI. Another 10 billion came from the Cassa Depositi e Prestiti against claims it had on the Treasury, while the remainder was subscribed in BTOs (16 billion) and BTPs (79 billion). See the documents in ASBI, Banca d'Italia, CSVI, Sede Principale, file no. 197, folder no. 9, “Testo dell'accordo fra Einaudi e Bertone”, 7 November 1946; ASBI, Banca d'Italia, CSVI, Sede Principale, file no. 757, folder no. 3, Menichella to Banca d'Italia, 20 November 1946; ASBI, Carte Baffi, Monte Oppio, file no. 17, folder no. 1, subfolder no. 2, undated but attributable to spring 1947, “Testo redatto in occasione di un'intervista del Governatore Einaudi con l'Herald Tribune”; Banca d'Italia, 1948, pp. 110-111 and 218. See also Baffi, 1986, pp. 113-116.

¹⁰⁸ Einaudi, 1993, p. 707.

the interest to be paid by the state, and Baffi himself stressed that issuing a loan requires “confidence, and the announced conditions are ruinous and undermine confidence”.¹⁰⁹

In the years following the closing of the loan, Baffi wondered how it had been possible for Einaudi and Menichella to endorse such an ill-conceived initiative.¹¹⁰ The fact remains that, when the weakening of the capital levy became evident in April 1947, it was inevitable that a restructuring of the Reconstruction Loan was required in order to stem the already observed fall in its price: on 28 April, an option was offered to convert, at par, the original thirty-year securities into irredeemable 5 per cent securities, with the simultaneous renunciation of the tax exemption from the capital levy and of the other specific advantages of that loan (for example, bonuses were reduced).¹¹¹

5. Organization: new people at Via Nazionale

Our reconstruction has shown that all subscribers to the Reconstruction Loan saw a sharp reduction in their wealth. Moreover, unlike the earlier Liberation Loan and contrary to the Governor’s intentions, that second loan only resulted in a modest absorption of liquidity (currency in circulation and deposits). In the final part of this work (see Sections 9 and 10), we shall return to the possible consequences that the implementation of the loan had for monetary policy in 1947. Before doing so, however, it is appropriate to complete our examination of the renewed roles played by the central bank in light of the results already achieved.

In the immediate post-war years, Banca d’Italia encountered difficulties in reducing excess liquidity and controlling inflation. As noted above, it nevertheless achieved two important results: it regained a monopoly over the money supply and secured greater autonomy from the Treasury within a more solid institutional definition of its prerogatives. A third and significant advance, which enabled the Bank to fully exploit these achievements, was the strengthening of its internal organization and its reputation. Although some traces of this have already been identified, it is

¹⁰⁹ ASBI, Carte Baffi, Monte Oppio, file no. 39, folder no. 1, “Appunto riservato” by Baffi for Einaudi and Menichella, 9 October 1946. See also Baffi, 1986, p. 113.

¹¹⁰ Baffi wrote: “To what extent Einaudi and Menichella championed the chosen formula, or were merely involved in it, is not clear to me [although] at the meeting of the Constituent Assembly on 18 September De Gasperi thanked him [Menichella] for the work carried out in that venue [the committee of ministers with which Menichella collaborated after Corbino’s resignation]” (Baffi, 1986, p. 114).

¹¹¹ With respect to the capital losses that would have resulted from liquidating the investment at market values, small holders of wealth and credit institutions deemed it less penalizing to proceed to conversion and accept yields that were, in any case, lower than those of the securities issued under the Liberation Loan. By contrast, large private holders of wealth preferred to refuse conversion, so as to deduct from their stock of wealth the nominal value of the Reconstruction Loan securities they held and to use those same securities as payment of the tax up to a maximum of 20 per cent. As a result, the conversion involved more than 54 per cent of the original subscriptions (Banca d’Italia, 1948, pp. 137-138). According to Baffi (1986, p. 120), both the Liberation Loan and the Reconstruction Loan caused heavy losses for subscribers, estimated at between one third and one half of the wealth invested.

worth examining in detail an organizational transformation that was radical, insofar as it led to the redefinition of the tasks of various departments and, consequently, to the selection and recruitment of new personnel. Specifically, the internal network of functions and competencies was redesigned; credibility vis-à-vis other national and international institutions was consolidated; human resources already available were enhanced and new ones acquired; and there was an important opening toward the involvement of external collaborators, marking a discontinuity with the past, at least in terms of its extent. Banca d'Italia thereby put itself in a position to renew the prestige it needed in order to pursue, in ways that were not merely wishful thinking, the complex strategy designed by Einaudi.

The new Governor attached great importance to these measures for internal reorganization. From the moment of his arrival at Via Nazionale, Einaudi decided to entrust Baffi, in his role as acting Head of the Research Department, with the task of reconstructing the Bank's organizational framework. That framework appeared highly uncertain and problematic despite the efforts – at times successful – made between the wars, first by Stringher and then by Azzolini and Introna.¹¹² During the war, these latter two figures sought to safeguard the operational and functional continuity of the central bank. Governor Azzolini resorted to effective delaying tactics in response to the demands of the German military and of the ministers of the Italian Social Republic that the management and a large part of Banca d'Italia's senior staff be transferred to the North. The result was that, apart from the Governor's brief stay in the Republic of Salò, no high-ranking official of the Bank was compelled to leave Rome against his will. Moreover, after becoming Commissioner of the Bank and especially from the second half of 1944 onwards, Introna worked to improve organizational efficiency and to restore connections between the head office and the branches – at least the southern ones – that were necessary for the day-to-day operation of the payments system and of the banking network.

However, the long list of organizational deficiencies and unresolved issues documented by Baffi described a problematic situation. The first negative aspect concerned the depletion of the Bank's assets, attributable not only to the seizure of gold reserves but also to the loss of various branches in foreign territories and to war damage affecting Bank-owned buildings in many parts of the country.¹¹³ The Bank's balance sheet was also weighed down by a high volume of disputed claims and by the substantial immobilization of its significant exposure to the IRI (see above, Section 3).

¹¹² As Toniolo recalls (2022, pp. 516-524 and 659-663 and 665-671), in 1928 Stringher completed a revision of the Statute that also formalized the Directorate composed of the Governor (himself), the Director General (Azzolini), and a Deputy Director General (Introna). During his governorship (between 1936 and 1938), Azzolini reformed the small Economic and Statistical Research Department, established in 1926, transforming it into a genuine Research Department divided into two sections (Italy and Foreign), with the first section managed by Baffi. On this point, see Croce, 2020.

¹¹³ See Banca d'Italia, 1946a, pp. 8-14; see also above, Section 1 and, in particular, the frequently cited footnote 12.

The second negative aspect related to managerial difficulties, caused above all by the adverse conditions under which the printing works operated and by the depletion of human resources. In this respect, the number and importance of managerial staff at Banca d'Italia who had been subjected to purge proceedings or who had died were considerable. In his report to Einaudi, Baffi stressed the absence of numerous senior officials: "the Secretary General, the Chief of Staff, the Head of Personnel, the Chief Legal Advisor, the Director of the Consortium for advances on industrial securities, and the heads of industrial and real-estate divisions [of the CSVI]".¹¹⁴

Combined with the incompleteness of the top governing bodies – the already noted absence of the Board of Directors ("Consiglio Superiore") and of one member of the Directorate –, these managerial vacuums hampered the conduct of an ever-growing number of activities and also jeopardized internal discipline and respect for hierarchies.¹¹⁵ Baffi's diagnosis concluded with an alarming observation: the arrival of Einaudi and then of Menichella had ensured Banca d'Italia the presence of "two men of exceptional quality, but coming from outside [and...] compelled to speak directly with interlocutors of modest intrinsic ability, age, rank, and prestige (among whom I include myself, as Active Director of Research) and to deal with matters which, instead of being channeled through an orderly hierarchy, rebounded upon [Einaudi] owing to absence or vacancy at other levels of the Directorate".¹¹⁶

Baffi's observations on the difficult condition of the "Governor's solitude" therefore pointed to the need for a far from straightforward reorganization of offices and functions within Banca d'Italia; above all, they revealed the need to strengthen human resources.¹¹⁷ This assessment was consistent with the initiatives undertaken by Einaudi who, in addition to introducing new organizational models, decided to promote younger staff already employed within the Bank to senior positions and, at the same time, to attract important resources from outside. The first group included Paolo Baffi himself, who was formally appointed Head of the Research Department; Paolo Ambrogio, from the Inspectorate, who was placed at the head of Supervision; Antonio Rainoni, formerly a student of Ernesto Rossi in Bergamo and his intermediary with Einaudi during

¹¹⁴ Baffi, 1986, p. 117.

¹¹⁵ In addition to Baffi's observations and various notes contained in the first part of his diary (see Einaudi, 1993, pp. 67-68, 124-125, 128-130), the Governor was prompted to request the intervention of an intermediary between the Allied military government and Banca d'Italia in order to bring under control the discontent of employees over the decision to grant differentiated wage adjustments by geographical area according to the related inflation differentials (see ASBI, Banca d'Italia, Direttorio Einaudi, file no. 14, folder no. 4, subfolder no. 1, Einaudi to Graffey Smith, 30 June 1945).

¹¹⁶ Baffi, 1986, p. 118.

¹¹⁷ During the years of Einaudi's governorship, there was a marked increase in the number of employees, which rose overall from 7,957 (31 December 1944) to 9,000 (31 December 1947) and, one year later, to 9,121. These peaks were only surpassed from the second half of the 1980s onwards. The relevant data were provided to us by Paolo Croce, to whom we are grateful.

the years of imprisonment and internal exile, who became Head of the Governor's General Secretariat; Antonio D'Aroma, who took on the delicate task of directing the office that liaised with the Allied financial authorities;¹¹⁸ Riccardo Troilli, who was entrusted with the control of foreign exchange operations; and Edoardo Roffi, formerly one of Einaudi's students at Bocconi and later his private secretary at the Quirinale, who was appointed Chief of Staff at the UIC. The second group was, of course, characterized by the appointment of Donato Menichella as Director General of Banca d'Italia. Menichella had been employed by the Bank for a three-year period in the 1920s; then, he took up the important position of Director General on 9 May 1946, at the age of 50, after having served as Director General of the IRI for a decade (1934-1944).

During Einaudi's governorship, openness to external collaborators also became regular practice. Interacting with the Bank's top management or with the Research Department, these collaborators were entrusted with developing scientific contributions or examining specific issues relating to monetary policy, international relations, and particular measures concerning economic and fiscal policy. As will be seen, on certain occasions some of these collaborators soon came to take on representative functions or to act as the Governor's "alternates". Among others, Einaudi appointed Guido Carli as his personal adviser (from January 1946);¹¹⁹ Ugo La Malfa as "scientific adviser on general economic issues" (from March 1946); and Silvio Golzio as an analyst of sectoral price dynamics and of the real economy (from September 1946).¹²⁰ In different ways, established academics (Costantino Bresciani Turrone) and rising scholars (Sergio Steve), as well as prominent business executives (Francesco Giordani), were also involved and interacted with internal figures (not only with Baffi but also with Federico Caffè).¹²¹

It should be recalled that La Malfa left his position as adviser to the Governor at a particularly delicate stage in the drawing up of monetary policy (March 1947). As a member of the Constituent Assembly, from the second half of 1946 onwards La Malfa had begun to receive remuneration from another public body; for this reason, he became the target – like Campilli and Vanoni – of defamatory campaigns led by Andrea Finocchiaro Aprile and of a subsequent investigation by the

¹¹⁸ Having joined the Bank in 1938, Antonio was the son of a former Deputy Director General of the Bank (Pasquale) and of a cousin of Bonaldo Stringher (Fredesvinda Gobbato). D'Aroma also followed Einaudi to the Quirinale, becoming his private secretary: see D'Aroma, 1975.

¹¹⁹ ASBI, Carte Carli, file no. 2, folder no. 3, subfolder no. 2, Einaudi to Carli, 21 January and 16 February 1946. In 1945, Einaudi had promoted Carli's appointment as a member of the Board (with executive powers) of the new UIC, of which Carli himself became General Adviser in June 1948. On the latter office and the broad range of matters entailed by the position of General Adviser, see ASBI, Carte Carli, file no. 2, folder no. 3, subfolder no. 2, 30 June 1948, Menichella to Carli.

¹²⁰ See ASBI, Banca d'Italia, Studi, file no. 384, folder no. 1, subfolder no. 82, Golzio to Einaudi, 11 October 1946.

¹²¹ On the assignment entrusted to Bresciani Turrone and concerning questions of international economic relations and economic statistics, see ASBI, Banca d'Italia, Direttorio Einaudi, file no. 3, folder no. 4, subfolder no. 12, Rainoni to Bresciani Turrone, 29 September 1945.

“Commission of Eleven”, chaired by Alfonso Rubilli. Despite Einaudi’s advice to the contrary, La Malfa stood by his decision to terminate – at least temporarily – his formal relationship with Via Nazionale, out of concern that Banca d’Italia and its Governor might also be drawn into the arena of political controversy.¹²²

The clear intention to establish systematic exchanges between Banca d’Italia and external scholarly circles should not suggest that the new Governor pursued across-the-board changes. Einaudi proceeded with caution in organizational and personnel terms as well. For example, in the initial phase of his governorship, he refused to appoint Banca d’Italia’s delegates to London and New York, fearing that the international situation was still too fluid and would compromise any systematic initiative. Consequently, the Governor arranged for the primary responsibility of reactivating negotiations with the Allies – including on economic matters – to lie with Alberto Tarchiani, the new Italian ambassador to the United States.¹²³

Within this framework of measured yet decisive renewal, it is necessary to examine more closely the reasons that led to Menichella’s appointment as Director General. It should first be stressed that the divergences between Einaudi and Introna had become more pronounced. Although the Governor initially expressed appreciation for the Director General because of his loyalty to Stringher’s Bank,¹²⁴ he did not share the critical stance taken by Introna towards Azzolini and the issue of the gold reserves.¹²⁵ Specifically, Einaudi regarded as damaging to the reputation of

¹²² In his letter of resignation to Einaudi, La Malfa wrote: “These are unworthy matters that fill me with fury. Nevertheless [...] after the modest increase in the allowance for members of parliament resident in Rome, I prefer to request your consent to suspend the consultancy until the conclusion of the legislative work. Beneath all this there lie unavowable and petty political motives, in the face of which I prefer to be entirely free, even though, after leaving Banca Commerciale and now suspending the limited professional activity I owed to your kindness, I am not in the best state to appreciate the value of such freedom” (ASBI, Banca d’Italia, Direttorio Einaudi, file no. 32, folder no. 3, La Malfa to Einaudi, 31 March 1947). La Malfa retained the office of Einaudi’s “alternate” at the IMF. See also, on his formal relationship with the Bank: ASBI, Banca d’Italia, Direttorio Einaudi, file no. 17, folder no. 2, subfolder no. 1, 2 March 1946, Einaudi to the Chief Inspector for the Office for Expense Verification.

¹²³ A well-known anti-Fascist committed to the “Justice and Liberty” movement, Tarchiani had taken refuge in the United States at the beginning of the Second World War after a long stay in Paris. In the United States, he established such solid relations with the Allies that, after a brief stay in the United Kingdom, he accompanied their troops in the landing at Salerno. Minister of Public Works in the second Badoglio government, Tarchiani was appointed ambassador to Washington by De Gasperi in February 1945 after Einaudi had declined that post in favor of the governorship.

¹²⁴ Einaudi, 1945, p. 119; see also Introna’s deferential reply, 1945, p. 123.

¹²⁵ After the armistice, Introna devised an ingenious expedient to hide about half of the gold reserves kept in the sacristy of Banca d’Italia, thus placing them beyond German reach (see also the already cited handwritten document by Introna, in ASBI, Carte Introna, file no. 19; see also above, footnote 36). At first, Azzolini gave his assent to the initiative; then, upholding the view (disproved by various witnesses at his trial, though not by Introna in the cited note of August 1944: see above, footnote 36) that the Germans had detailed information on the size of the stock of gold held at the Bank, he ordered the hiding place to be dismantled and consented – though subject to a series of constraints – to the transfer of most of the reserves, first to the Milan branch of Banca d’Italia and then to Fortezza (Cardarelli and Martano, 2000; Fubini, 2024).

Banca d'Italia the decision to bring a civil claim against the former Governor, even if this claim was limited to the issue of the gold reserves.¹²⁶ Introna, by contrast, viewed the Bank's active role in the judicial dispute as a necessary step to protect its property rights with respect to the gold to be recovered at the end of a predictably complex and delicate international controversy. Moreover, during his period as Commissioner, Introna had reopened the delicate issue of the IRI's debt to Banca d'Italia, linking his position to the demand that the IRI itself be dismantled as an "autarkic" leftover.¹²⁷ Finally, after being appointed Director General, Introna advocated the application of the existing rules concerning the capital constraints of banks, dating back to the Banking Reform of 1926, which would have led to a more restrictive monetary policy (see below).

The complex institutional web that the new Governor sought to weave made the existence of internal conflicts within Banca d'Italia – already weakened by the small size of its top management and exposed to unstable political and institutional arrangements – unsustainable.¹²⁸ As already suggested above, it is therefore unsurprising that Einaudi did not agree with Introna's positions and wished to proceed with the appointment of a new Director General. During 1945 and the first months of 1946, Menichella did have several opportunities to meet and get to know the new Governor.¹²⁹ Einaudi's assessment of Menichella evolved from viewing him as an IRI director operating in the Italian tradition of bank management¹³⁰ to a full appreciation of the vigilant yet non-intrusive manner in which this IRI Director had exercised oversight of the three banks of national interest (BIN), thereby avoiding political interference in their management.

¹²⁶ ASBI, Banca d'Italia, Verbal del Consiglio Superiore, reg. 593, session of 18 September 1948, speech by Menichella. In his capacity as Commissioner of Banca d'Italia, Introna decided to constitute the Bank as a civil party in the trial against Azzolini, limited to the charge concerning the spoliation of the gold. This was a controversial decision even within the Bank. No judgment on the merits is intended here with respect to such a complex affair, which is not central to our analysis (for two differing positions, see the already cited Cardarelli and Martano, 2000; Fubini, 2024, pp. 110–131). It is enough to add that, in Azzolini's defense, authoritative voices were raised, such as that of Mortara (cf. the letter of 27 August 1946 addressed to Menichella, in: ASBI, Banca d'Italia, Direttorio Menichella, Pratt. n. 98.1, fasc. 8).

¹²⁷ On this point, a detailed discussion is provided by Fubini, 2024. Here we limit ourselves to stressing that an exhaustive treatment of the issue would require an assessment of the mixed economy (that is, one based on the coexistence of government and private ownership: see, for example, Barca, ed., 2010) in subsequent Italian economic development.

¹²⁸ Banca d'Italia, 1946a, pp. 5–17.

¹²⁹ The various contacts are confirmed in Einaudi's diary (see Einaudi, 1993, pp. 249, 251, 438–439, 516, 582, 632) and in other archival materials. For this reason, it is difficult for us to understand the reasons that led Menichella, in his recollections on Einaudi delivered on the sidelines of the Concluding Remarks of the new Governor Carli (see Menichella, 1962, p. 802), to claim that he had not had the opportunity to meet Einaudi until the proposal of his appointment as Director General of the Bank in April 1946. Menichella's thesis is endorsed by Faucci (1986, p. 341). More nuanced, however, are the positions of Ricossa (1992, pp. 12–13) and of one of Einaudi's sons (see Mario Einaudi, 1986, p. 150).

¹³⁰ Einaudi, 1993, p. 76.

It is likely that the change in Einaudi's assessment was influenced by the very positive views expressed about Menichella by Raffaele Mattioli and by Henry Tasca, the influential economist of the US Treasury Department.¹³¹ Informal meetings that Einaudi held with Menichella himself, prompted by Guido Carli, were also important. In more detail, at a meeting held on 7 April 1945, Menichella informed Einaudi of the purge proceedings initiated in October 1944 against senior IRI managers (including himself, Pasquale Saraceno and Giovanni Malvezzi).¹³² The Governor's indignation in this regard may explain why Einaudi decided to intervene by testifying in Menichella's favor in the purge trial.¹³³ Menichella was acquitted of the charges on 23 February 1946 and was reinstated as Director General of the IRI on 16 March. Less than one month later, in April 1946, he was designated by the De Gasperi government – on Einaudi's recommendation – as Director General of Banca d'Italia, and he was formally appointed to the office on 8 May.

Einaudi's choice of Menichella was grounded in objective considerations that found immediate and positive confirmation from the outset of their collaboration. Menichella's experience in complex banking matters in the 1920s and at the IRI guaranteed a profound knowledge of Italian financial and production structures; this made it possible to strengthen the functions of control and supervision over the banking sector, while balancing firms' financing needs with the need to prevent a possible return to speculative excesses and, above all, to overly close relationships and cross shareholdings between banks and industrial companies.¹³⁴ As already noted, in Einaudi's view Menichella had also shown considerable skill in managing the three BINs, safeguarding their operational and managerial autonomy from political interference while maintaining adequate supervision and careful oversight; this attested to determination and managerial competence.¹³⁵ Finally, the 50-year-old Menichella enjoyed a clear age advantage over the almost 80-year-old Introna and the over-70-year-old Einaudi.

¹³¹ Einaudi, 1993, pp. 207-208 and 438. On Tasca's role, see also below footnote 192.

¹³² In the proceedings against Menichella, the crucial charge was that he had acquiesced in the decision of the IRI Commissioner, Alberto Asquini, to transfer the securities portfolio of the large State owned holding company to the North.

¹³³ Even before learning of the Court's judgment, Menichella wrote a long personal letter to Einaudi (December 1945) to thank him for the "most authoritative and irreplaceable" support offered through his intervention at the trial, emphasizing that it helped to dispel any doubt about the existence of possible controversies between the IRI and Banca d'Italia (see FLE, ALE, Corrispondenza, 'Donato Menichella,' main file 2, Menichella to Einaudi, 23 December 1945).

¹³⁴ See Toniolo, 2022, pp. 571 and 592-600.

¹³⁵ According to Menichella's own testimony (1962, pp. 802-804), this was the principal reason for Einaudi's decision: "he recalled the empirical medicine adopted by the IRI and thought that the pharmacist who had used it [...] might be of some help [...]. He thought, as he later told me, that this confounded matter of control was in the end a question of dosage, of direction, but not of invasiveness, of a rigorous distinction of functions and not of the substitution of the controller for the controlled."

The age factor was certainly not secondary: being in “the full vigor of his years”,¹³⁶ the new Director General had the energy to shoulder the burden of the numerous and, in many respects, delicate and demanding international missions in which Banca d’Italia would be called upon to participate from June 1946 onwards: the lengthy conference on the Peace Treaty, the negotiations for Italy’s accession to the new international monetary system, the restructuring of foreign debt, and state visits alongside the President of the Council of Minister. As Baffi noted in this regard, Menichella’s first year at the Bank was spent almost entirely away from Via Nazionale because of his extensive involvement in international missions and at negotiating tables. Moreover, Menichella’s intermittent presence at the Bank continued during the delicate months of the winter and spring of 1947.¹³⁷

The conclusion is that, for Einaudi’s purposes, Menichella was an ideal figure, well suited to interact with the banking sector, to graft a solid knowledge of the country’s productive and entrepreneurial realities onto the culture of Banca d’Italia, and to cooperate in consolidating fruitful relations with various foreign governments. He was, in short, “the right man in the right place” to share, strengthen and implement the complex strategic plan that the Governor was pursuing.¹³⁸

The existence of a strong complementarity between the Governor’s skills and those of the prospective Director General is further confirmed by the arguments that Einaudi conveyed to the government in support of Menichella’s candidacy. In a note of April 1946 prepared for Minister Corbino, in view of an upcoming meeting of the Council of Ministers, Einaudi pointed to the desirability of “placing at the head [of Banca d’Italia] a first-rate man in the full vigor of his years [...], endowed with exceptional competence in both banking and industry”. He added that Menichella’s entry into the leadership of the issuing institution would ensure greater effectiveness in the struggle against inflation and would facilitate the task “of achieving effective control by drawing on solid knowledge of the overall situation of Italian industry, both nationalized and non-

¹³⁶ This is an expression used by Einaudi in a letter to Minister Corbino (see also *infra*, FLE, ALE, Corrispondenza, ‘Epicarmo Corbino,’ Einaudi to Corbino, 17 April 1946).

¹³⁷ Baffi, 1986, p. 118.

¹³⁸ Introna’s replacement, to whom the title of Honorary Director General had been conferred, was not without bitterness. More than two weeks after his appointment, Menichella complained to Einaudi that Introna remained too cumbersome a presence within the Bank and continued to maintain relations with many officials without, however, coming to see him in order to mark the succession (FLE, ALE, Corrispondenza ‘Donato Menichella,’ Menichella to Einaudi, 24 May 1946). After another ten days had passed, Einaudi wrote to Introna, urging him to carry out a formal handover so that Menichella could take possession of all matters pertaining to the Director General. Introna replied somewhat irritably that he had awaited a call from Menichella “from the very first moment”; Einaudi reacted just as sharply by pointing out that, “as was proper”, it was for Introna to make contact with Menichella, and not vice versa, thus requesting him to proceed “without further delay” (FLE, ALE, Corrispondenza, ‘Niccolò Introna,’ Einaudi to Introna, 6 June 1946).

nationalized [...], at a critical juncture when it is being decided whether economic recovery can be accomplished without recourse to monetary inflation”.¹³⁹

Despite Einaudi's commitment, the appointment of the new Director General was not free from obstacles. It was necessary to overcome the open hostility of some ministers and certain reservations on the part of Corbino and De Gasperi himself. Although to varying degrees, both the President of the Council and the Minister expressed doubts as to the advisability of entrusting such great responsibilities in the banking and monetary field to a figure from the top ranks of the IRI.¹⁴⁰ The minutes of the Council of Ministers concerning the choice of the new Director General of Banca d'Italia also show that it was the President of the Council himself who put an end to the discussion and settled the matter definitively. De Gasperi informed the ministers that since Banca d'Italia had “to deal with the real economy and the industrial sector”, Einaudi was right in urging that “a practical person” be placed at its head.¹⁴¹ De Gasperi's position paved the way for the subsequent unanimous approval of Menichella's appointment.¹⁴²

The question remains open as to why, despite the reorganization efforts undertaken, Einaudi did not complete the full structure of Banca d'Italia by reconstituting of the Board of Directors (“Consiglio Superiore”) and appointing the third member of the Directorate. The procedures for appointing the Board required the active involvement of the territorial branches; and the division of Italy into two parts had rendered such a step impracticable at the time of the Governor's appointment (January 1945) as well as during the following months. Moreover, the full

¹³⁹ FLE, ALE, Correspondence, ‘Epicarmo Corbino,’ Einaudi to Corbino, 17 April 1946. In the same letter, Einaudi returned to the delicate topic of the bank-industry relationship: “I would only add that if, as might happen because of an external suggestion, one were to say that Menichella's appointment is caused by the desire of industry to gain a foothold in Banca d'Italia, it is obvious to observe that the proposal stems precisely from the opposite concern, namely that of fulfilling the purposes of control proper to Banca d'Italia by availing oneself of a secure awareness of the situation of the whole of Italian industry, nationalized and non-nationalized.”

¹⁴⁰ The settlement of Banca d'Italia's credit claim on the IRI (see Section 3) is emblematic of the potential conflict of interest that would have involved Menichella without the prompt decision not to reopen the issue. Menichella would in fact have found himself in a leading position on the lender's side, evaluating a debt contract that he himself had entered into on the borrower's side. The ministers, however, directed their criticisms to other aspects. For example, Gullo (Agriculture) argued in favor of waiting for the Constituent Assembly, while Scoccimarro (Finance) stressed that Menichella should not be removed from the IRI. Though expressing doubts about the name proposed, Corbino was nevertheless determined in recognizing the urgency of the appointment.

¹⁴¹ Council of Ministers, Minutes of 18 April 1946 in Ricci (ed.), 1996, pp. 974-975.

¹⁴² Ibid. It is worth recalling that, after his election to the Presidency of the Republic, Einaudi again had to make his voice heard within the government to support Menichella's candidacy for Governor. Some ministers in the fifth De Gasperi government advanced an external candidate, Costantino Bresciani Turrone, who was not viewed favorably by the new President of the Republic. Moreover, also during his governorship, Einaudi played a very active role in influencing appointments to important public offices outside Banca d'Italia. It suffices to recall the cases of Alessandro Molinari at ISTAT and Ernesto Rossi at ARAR (see respectively: ASBI, Banca d'Italia, Direttorio Einaudi, file no. 19, folder no. 8, subfolder no. 5, Molinari to Einaudi, 27 August 1945; ASBI, Banca d'Italia, Direttorio Einaudi, file no. 8, folder no. 6, subfolder no. 5, Einaudi to De Gasperi, 15 December 1945).

functioning of the Board of Directors (“Consiglio Superiore”) required the ordinary activities of the decentralized branches and, therefore, the prior repair of the property damage suffered, to varying degrees, by Banca d’Italia’s branch network. However, by the time of the appointment of the Director General and in any event by June 1947, when the Governor’s functions were delegated to the Director General and a new Deputy Director General (Paride Formentini, also from the IRI) was appointed,¹⁴³ these obstacles had been overcome or could be circumvented, as Introna himself had in fact suggested.¹⁴⁴ Yet the Board of Directors (“Consiglio Superiore”) was only restored in July 1948, when Einaudi had already become President of the Republic. Our hypothesis is that these delays resulted from a combination of the political weakness of the governments and a deliberate choice on Einaudi’s part. Given the numerous extraordinary decisions that still had to be taken, the new leadership of the Bank preferred to concentrate responsibilities in the hands of the Governor (or of whoever acted in his stead) and of a small group of newly appointed managers.¹⁴⁵

6. Organization: new problems in supervision

A fundamental aspect of the history of Banca d’Italia during the years of Einaudi’s governorship, and one that merits a specific reflection, concerns the resumption of activities of control and supervision over the banking sector. The aim is not to revisit the analysis of institutional and regulatory evolution along the lines already sketched in summary form in Section 2. Rather, our intention is to take the framework defined there as a given in order to clarify two important issues not yet addressed: the policy of Banca d’Italia with regard to the structural articulation of the banking sector at the end of the Second World War (cf. section 6.1); and the Bank’s own position with regard to the numerous bottom-up initiatives that, beginning in the spring of 1946, gave rise to a spontaneous process of growth and transformation among the institutions authorized to engage in medium- and long-term lending (ICMs) (cf. Sections 6.2 and 6.3).

¹⁴³ Gigliobianco, 2006, pp. 249-254.

¹⁴⁴ See ASBI, Carte Introna, file no. 11. These are two handwritten notes by Introna concerning the Statute of Banca d’Italia, undated but presumably dating to between June 1947 and May 1948.

¹⁴⁵ Our interpretation is supported by a later testimony by Baffi, contained in an exchange of letters with D’Aroma. In that exchange, the importance of organizational problems with respect to the timing and contents of monetary policy during Einaudi’s governorship was recalled. According to Baffi, it appears plausible that Einaudi “relied too heavily on Menichella’s substitution as acting governor, while he himself was engaged in the activities you recall (i.e. the Constituent Assembly, etc.), so that issues of internal management and control over liquidity (through moral suasion, interest-rate policy, and reserve requirements) remained somewhat neglected (and in this I recognized my share of responsibility). My impression is that they were aware of this but they did not feel able to choose a Deputy Director General from among officials who were deeply divided, partly subject to purge proceedings and (with some exceptions) with inadequate standing” (ASBI, Carte Baffi, Governatore Onorario, file no. 16, folder no. 11, Baffi to D’Aroma, 5 February 1986).

6.1. The policy of opening new branches

With reference to the first issue, during the initial two years of his governorship, Einaudi intervened above all to relax the pre-existing constraints that greatly conditioned the activities of the banking sector, with the aim of broadening the degrees of freedom available to credit institutions in financing the process of reconstruction and economic recovery. It is in this light that one should read the decision to remove the “suspension” on the opening of new branches, which had been introduced in 1938.¹⁴⁶ Maintained by Commissioner Introna and substantially accepted by Minister Soleri, the “suspension” formed part of a normative and institutional framework that had undergone no substantial change relative to the banking laws of 1926 and 1933, and that was regarded as satisfactory by both the Economic Commission for the Constituent Assembly and the Constituent Assembly itself in terms of the structure of credit supply and the relationship between banks and non-financial firms.¹⁴⁷ Moreover, the morphological configuration of the Italian banking sector had registered structural changes traceable to a strong process of concentration, which was particularly intense during the crises of the 1920s and 1930s: this had led to the exit from the market of about 70 per cent of banks and to the shutdown of about 35 per cent of banking branches, with a consequent fall of 25 per cent in the so-called “bankable areas”.¹⁴⁸

It is hardly surprising that, in this situation, the large banks aimed to consolidate the structure of the sector while local banks sought new spaces. The freeze on the opening of new branches thus generated growing tensions, because it hindered the success of the pressing requests for authorizations that the various categories of banks advanced for different purposes. Einaudi’s decision to remove this constraint also rested on the preliminary findings and final results of an inquiry that, as mentioned above, was drafted by the new head of supervision (Paolo Ambrogio)

¹⁴⁶ For the entire duration of the conflict, the number of bank branches had remained virtually unchanged, with modest fluctuations around the level of 6,850. See G. L.[ovato], “Cenni sulla storia della politica degli sportelli bancari seguita negli ultimi quindici anni,” November 1962, ASBI, Banca d’Italia, Studi, file no. 1171, folder. no. 1.

¹⁴⁷ See Gigliobianco, Piluso, and Toniolo, 1999, p. 231. See also Albareto and Trapanese, 1999, pp. 39-41 and 73-74. As already noted, the only significant change had been brought about by the abolition of the Credit Inspectorate. In this regard, it should be recalled that Article 28 of the 1936 Banking Law assigned to the Inspectorate the task of authorizing the establishment of new banks and the opening of branches by existing institutions on the basis of criteria laid down by the Committee of Ministers. After its abolition and beginning in August 1947, the competence to approve the opening of new bank branches passed to Banca d’Italia, which acted in compliance with the strategic guidelines established by the newly created CICR. Before reaching this arrangement, however, there was a phase – already mentioned – in which there was confusion in the division of tasks between the Bank and the Treasury Ministry. In this respect too, therefore, the years of Einaudi’s governorship were characterized by a high degree of institutional uncertainty. In practice, decisions were adopted by the Bank and then submitted to the Treasury Ministry for approval; the procedure, however, rested on rather indeterminate criteria for evaluating the different requests.

¹⁴⁸ See Albareto and Trapanese, 1999, p. 45. See also Conigliani, 1990.

in April 1946.¹⁴⁹ That inquiry confirmed the need for branch expansion that would also provide a hoped-for increase in bank lending, with the twofold aim of supporting the growth of production activity and improving the profitability and managerial operations of banks. Indeed, the Italian banking sector was required to bear a heavy burden in absorbing the rising labor costs that derived, *inter alia*, from the freeze on dismissals and the obligation to reinstate returning war veterans.¹⁵⁰

The reorganization of the Italian banking sector was not limited to requests for new branches but extended to the objective of increasing capitalization and introducing statutory changes.¹⁵¹ Compared with the modest figures of 1944, capital increases carried out by credit institutions amounted to almost 538 million lire in 1945 (with 49 authorized operations) and stood at around 1.25 billion lire in 1946 (with 70 authorized operations).¹⁵² These were significant figures, though still insufficient to offset the structural deficiencies that Italian banks had accumulated during the war and that had been aggravated by the heavy erosion of their assets in real terms caused by inflation. In any case, in the first three postwar years, the most important transformations in the banking sector concerned the opening of new branches, also because a restrictive policy was continued with regard to requests for the establishment of new banks. It should be recalled that, until the advent of the CICR, Banca d'Italia's choices in this matter took the form of opinions that then had to be submitted to the final authorizing scrutiny of the Treasury Ministry.

The modest number of new branches definitively approved (119) and actually opened (75) during 1945 gave way to a much more marked expansion in the following year, so that, for the two-year period as a whole, the rates of increase were high both in the volume of requests submitted by banks and in the share of approvals decided by Banca d'Italia and enacted by the Treasury. Indeed, the requests submitted by banks approached 30 per cent of the number of branches existing at the end of 1944, while those definitively authorized amounted to almost 8 per cent (respectively 1,981 and 531 compared with the initial stock of 6,848). The total number of potentially operative branches at the end of 1946 thus reached 7,379, with an increase of as many as 140 "bankable" municipalities.¹⁵³ Especially if read in light of the ambiguous quantitative evidence discussed in

¹⁴⁹ Reference is made to the previous footnotes 12 and 34.

¹⁵⁰ See Albareto and Trapanese, 1999, pp. 126–127. See also Mazzantini, 1949 and the letter from Mattioli to Einaudi, 13 febbraio 1947, in APPB, Carte Baffi Fregene, fald. n. 4, fasc. n. 13.

¹⁵¹ The important issue of statutory changes is not addressed here, since it became crucial in the early 1950s. On this point, see Asso and Nerozzi, 2016, pp. 115–126; Asso and Nerozzi, 2017, pp. 198–211; Asso, Nerozzi, and Selmi, 2024, pp. 324–328. With regard to considerations on capital strengthening, see also Albareto and Trapanese, 1999, pp. 75–78.

¹⁵² See in particular Banca d'Italia, 1946a, p. 19; 1946b, pp. 27 and 44–45; 1947, pp. 150–151.

¹⁵³ Banca d'Italia, 1946b, pp. 46–48; Banca d'Italia, 1947, pp. 147–149. In evaluating the empirical evidence, however, it is essential to refer to at least a two-year period, since requests for authorization by banks rarely obtained a definitive decision within the calendar year. It is also necessary to consider the overlaps deriving from the double filter exercised by Banca d'Italia and the Treasury Ministry. Suffice it to say that, in the first year in which new authorizations were granted (1945), against requests for the opening of 603 new branches, Banca d'Italia expressed 162 favorable

the previous footnote, however, it is difficult to assess the expansionary impact of the authorizations (perhaps different) desired by the Bank and implemented by the Treasury. Consequently, we are not in a position to offer a well-grounded assessment of the significance of these changes for the structure of the Italian banking market. The impression is that the opening of branches decided by Einaudi did not constitute a structural discontinuity.¹⁵⁴

This last observation should not be interpreted in an extreme sense: there were indeed significant changes. In examining percentages, two aspects must be borne in mind. First, the banking sector put forward requests with considerable impact, justified by the exceptional nature of the times and by new operational needs; the result was an increase of almost one third in the total branch network over the course of two years. Second, the aggregate incidence of approved requests was affected by the fact that the authorizations granted did not passively adapt to the composition of demand for the opening of new branches but responded to the central bank's morphological objectives.¹⁵⁵

In this regard, it should be noted that requests for new branches came above all from the large banks, which in many cases (the clearest examples being BNL and Banco di Roma) aimed to strengthen their networks in newly industrializing areas and in medium-sized and large urban centers. Their expansion plans were judged as "excessive" by Banca d'Italia, not least because Einaudi's choice was to concentrate new branches in areas that were not covered (thus making them "bankable") and to strengthen the coverage of urban peripheries, rural areas and other decentralized zones that remained poorly served.¹⁵⁶ This strategy led to privileging local

opinions and rejected 319 applications, while failing to complete the evaluation in more than 20 per cent of cases (122); the Treasury thus examined 481 requests, definitively approved fewer than 25 per cent of them (119), rejected 192, and did not complete the procedure in more than 35 per cent of cases (170). If one were arbitrarily to refer the 119 final authorizations only to the favorable opinions issued by the Bank in that year, the Treasury's acceptance rate would be nearly three times 25 per cent – that is, 73 per cent; and it would reach an even higher percentage if one included the favorable decisions adopted by the Treasury in 1946 but referring to 1945. The reading of the data becomes even more difficult for 1946. In that year, against applications for the opening of 1,378 new branches, Banca d'Italia expressed 484 favorable opinions and rejected 186 applications, failing to complete the evaluation in almost 40 per cent of cases; the Treasury screened the equivalent of just over 77 per cent of the favorable opinions received from the Bank, authorizing 27 per cent of the requests in that year. The empirical picture becomes even more opaque if one adds that there were also delays between the definitive authorization and the effective opening of branches by the beneficiary banks. Although the law provided that authorization to open a branch would remain valid for a maximum of six months, only 63 per cent of the branches authorized in 1945 and fewer than 53 per cent (198) of those authorized in 1946 were actually opened in the respective years.

¹⁵⁴ To be more explicit, our impression is that authorizations for the opening of branches were subject to strong political screening. Gigliobianco (2006, pp. 208-209) offers a more positive reading of the figures included here.

¹⁵⁵ Banca d'Italia, 1947, pp. 144-146.

¹⁵⁶ ASBI, Banca d'Italia, Vigilanza sulle aziende di credito, file no. 16, folder no. 2, *Report for the financial year 1945*, 11 May 1946. The report observed that "informally, an attempt was made to induce the individual institutions to specify their most important requests [...]; it cannot be concealed that it is not possible to satisfy everyone even

institutions that were more strongly oriented toward financing small firms, artisans and traders operating in those areas. Proof of this is that, in 1946, the savings banks obtained the opening of 121 branches and the cooperative banks 71; by contrast, the corresponding increase in the branches of the three large banks of national interest (BIN) stopped at 22. In this way, also through a significant increase in bankable localities, Einaudi inaugurated a process aimed at the territorial extension and fragmentation of credit activities, which Menichella would later pursue in more intensive ways during the 1950s. During the three years of Einaudi's governorship, bankable localities increased from 3,680 to 3,961.¹⁵⁷

It would, however, be going too far to ascribe Einaudi's choices to a determination to proceed towards a decisive liberalization of banking activities. Indeed, in the two-year period 1945-1946, the rate of negative evaluations expressed by Banca d'Italia with regard to applications for the opening of new branches remained very high, approaching 51 per cent;¹⁵⁸ in 1946, the Bank decided not to authorize two thirds of the requests for the establishment of new banks, so that the total number of banks fell further, from 1,461 to 1,360 during Einaudi's governorship.¹⁵⁹

It remains true that, unlike the priorities that would later characterize Menichella's governorship, Einaudi did not confine himself to extending bank-firm relations in the various local segments of the credit market but also sought to promote some form of competition. As was stressed in the Report of the Bank of Italy for 1946, one of the aims of supervision was to ensure the coexistence of the different categories of banks (large and small, State owned and private, savings and cooperative banks) in every province; in order to give substance to this objective, additional authorizations were granted in relation to the trend of economic growth. At the same time, the very stringent constraints on the creation of new banks were meant to avoid an excessive concentration of similar categories of institutions within the same area, so as to "reconcile the justified requirements of the banks with the desirability of not prejudicing pre-existing

with regard to the minimum programme, especially when key localities such as Prato, Empoli and Monza are concerned, where two, three, or even five institutions are simultaneously aiming."

¹⁵⁷ It should nevertheless be recalled that, at least in principle, the Governor was not an uncritical supporter of small local banks, recognizing both their potential strengths and their many fragilities. On this point, see Einaudi, 1930; Albareto and Trapanese, pp. 23-24. More generally, Einaudi's position on the implications of an excessive number of institutions in terms of operations and efficiency, and his assessment of the banking concentration process in the 1920s and 1930s, are set out in various writings. See, for example, Einaudi, 1926, 1934, and 1935.

¹⁵⁸ This high percentage was also caused by the differing composition of the applications, mentioned above. It is not possible to be more precise in this regard because neither the General Report of the Supervision Department nor the Bank's Annual Report dwelt on the reasons adopted for rejecting the requests.

¹⁵⁹ G. L.[ovato], "Cenni sulla storia della politica degli sportelli bancari seguita negli ultimi quindici anni," November 1962, ASBI, Banca d'Italia, Studi, file no. 1171, folder no. 1.

institutions”.¹⁶⁰ This, however, foreshadowed a subordination of the principle of competition to the objectives of stability and the protection of banks’ accounts.

This finding is too circumscribed to open a systematic reflection on the complex relationship between competition and stability in the Italian banking sector.¹⁶¹ It is certain, however, that Einaudi’s choices contributed to safeguarding banking profitability despite substantial wage increases for personnel and rising installation costs. By contrast, it is problematic to establish whether the way in which the suspension on the opening of new branches was overcome strengthened efficiency and competition or, on the contrary, consolidated rent positions in various local segments of the Italian credit market. Here it is sufficient to say that it is analytically unjustified to assume market segmentation as invariant and to attribute the negative consequences for competition to concentration within each of the relevant segments. At least in principle, an increase in concentration could in fact reduce the degree of segmentation by placing previously fragmented territories and markets in competition with one another, including through transfers between branches of the same institution.

6.2. The transformation of medium- and long-term credit

Einaudi did not conceive Banca d’Italia’s supervisory role as being limited to the control of the banking sector as such. During his governorship, the Bank also played an active and significant role with regard to the profound and controversial transformation of medium- to long-term credit.

In the interwar years, the stability of the medium- and long-term credit circuit had been guaranteed by the existence of a small number of institutions (the so-called “Beneduce institutions”¹⁶²) that had limited the involvement of banks, strictly speaking, in the financing of investment projects characterized by high capital intensity and deferred returns. Thanks to the activity of the Beneduce institutions, the risks of perpetuating that intermingling between banks and firms which had underlain the long and dramatic period of banking defaults – and had required the public rescue of the country’s three largest banks and of many smaller institutions as well – were reduced. A favorable context and important innovations in financial instruments had then made possible the birth and development of a long-term bond market that contributed to financing investments without requiring a marked transformation of bank maturities, thereby providing an additional

¹⁶⁰ Banca d’Italia, 1947, pp. 145-146.

¹⁶¹ The issue is addressed in Albareto, 1999, and in Gigliobianco, Piluso, and Toniolo, 1999. Those analyses, however, focus on the 1950s and beyond.

¹⁶² The reference is to the Consorzio di Credito per le Opere Pubbliche (CREDIOP) and the Istituto di Credito per le Imprese di Pubblica Utilità (ICIPU), established respectively in 1919 and 1924; to these were added, in 1929, the Istituto di Credito Navale (ICN) and, in 1931, the Istituto Mobiliare Italiano (IMI). See Baratta, 1983; Asso and De Cecco, 1994; Lombardo, 1998.

safeguard for financial stability. The complex reform of 1936 and the new financial arrangements were the outcome of those crises and rescues.

However, the Banking Law of 1936 had not provided a clear and rigorous discipline for medium- and long-term credit in its various operational and institutional aspects. There were two principal critical points. First, Title VI of the law (devoted specifically to “medium and long term”) was addressed exclusively to a limited number of institutions; the reference was in fact restricted to the Beneduce institutions and to those institutions that had been authorized under previous legislation to engage in mortgage, construction and agricultural credit. Especially in light of the stringent constraints that supervision by Banca d’Italia had imposed on the inclusion of this type of credit in the operations of ordinary banks (even though not explicitly prohibited by the 1936 law), this implied a “closure” with respect to who was entitled to provide medium- and long-term credit; a “closure” for which there was no counterpart in traditional banking activity. The second, and equally sensitive, issue concerned the vagueness of the other articles included in the same Title VI; particularly with regard to the ICMs, nothing was said about the regulation of their supervision, the instruments for prior authorization, the types of liabilities they could issue, or the possible limits concerning the acquisition of equity participations.¹⁶³

It is therefore unsurprising that, while the war was still under way and the first public funds were being allocated for the reconstruction of industrial plants,¹⁶⁴ firms and commercial banks themselves (including savings banks and cooperative banks) pressed for a widening of the set of medium- and long-term credit institutes in operation. Taking advantage of these substantial voids in the regulations, these pressures easily succeeded in forcing the “closure” in the number of ICMs provided for by the Banking Law. After a lengthy negotiation and a troubled review process, bottom-up pressures achieved a first and noteworthy success with the authorization that the Treasury Ministry granted to the opening of Mediobanca in April 1946.¹⁶⁵

Initially, Banca d’Italia opposed this authorization, which marked the evolution of medium- and long-term credit in Italy. Pending systematic legislative intervention – repeatedly wished for by the Supervision Department in the form of a “Consolidated Banking Act” and rendered ever more urgent – Einaudi adopted a restrictive orientation. He asked the Treasury Minister, who was in charge of the decision on the authorization of the new institution, to wait at least until the

¹⁶³ Medium- and long-term credit was governed by just four articles: Article 42, which required the transmission of balance sheets to the Inspectorate; Article 44, which gave the Inspectorate the power to authorize capital increases or the issuance of bonds; Article 45, which prohibited participation in underwriting syndicates for shares or bonds without authorization from the Inspectorate; and Article 46, which prohibited recourse to foreign loans and the purchase of financial participations abroad without authorization from the Inspectorate.

¹⁶⁴ The first of these funds was allocated by the Lieutenant Legislative Decree 367/1944.

¹⁶⁵ Asso and Raitano, 1999; La Malfa, 2025.

government had taken steps to fill the regulatory vacuum.¹⁶⁶ Einaudi's reservations were supported by reasons that went beyond legal problems; they raised concerns in terms of monetary and banking stability and, more generally, in terms of the inefficient use of public resources allocated for financing reconstruction. In this latter regard, the Governor interpreted the enthusiasm that, from 1944 onwards, was directed toward the creation of numerous new ICMs, as an attempt by exponents of the political, banking, and industrial worlds to secure important shares of the public resources and international aid that would be destined for financing investment in new plants and machinery.¹⁶⁷ He also feared that an excessive extension of the circuit of the ICMs would open spaces for reproducing the perverse interconnections between banks and firms that would generate maturity mismatches between funding and loans, with a high risk of reproducing the conditions that had characterized Italian banking crises in the interwar years.

Although Einaudi's critical and restrictive approach was shared during Menichella's regency and later governorship, Banca d'Italia failed in its attempt to prevent excessive proliferation of new ICMs. The initiative for the foundation of Mediobanca, first advanced by Comit alone in September 1944,¹⁶⁸ succeeded and served as the spearhead of an unstoppable increase in the number of ICMs. Banca d'Italia did, however, succeed – though not without difficulty and recurrent delays – in limiting the potential damage that this process of institutional change might have generated for monetary stability and the general tax burden by obtaining a clearer definition of the regulatory and supervisory framework.

Within a matter of months, Mediobanca (April 1946) and Centrobanca (May 1946) were established, followed – after a lengthy controversy – by the transformation of Efibanca into a

¹⁶⁶ Einaudi's position also rested on various "Appunti" by Ambrogio that Introna, the Director General, had shared (ASBI, Carte Introna, file no. 12). In addition to the Supervision Department, Einaudi also made use of the Bank's "Legal Advisory" service, headed by the jurist Guido Ruta. External consultants were likewise involved, among whom Alfredo De Gregorio (Professor of Commercial Law at la Sapienza University of Rome), who intervened with opinions and memoranda for the Governor. See ASBI, Banca d'Italia, Vigilanza sulle aziende di credito, file no. 8734, folder no. 9, where the first texts produced in reaction to the authorization granted to Mediobanca are kept.

¹⁶⁷ Immediately after the armistice, a first, special Act had been approved (the abovementioned Law 367/1944), which allocated public resources to the reconstruction of plants and provided normative support to the ambitions just mentioned. Moreover, the new law designed generalized incentives for the distribution of public funds, thereby weakening the separation between short-term and long-term credit for both structural reasons (granting privileges to State owned banks not included among the ICMs) and technical reasons (the possibility of granting collateral and advances so as to circumvent the short-term constraint). See also Asso and Raitano, 1999, pp. 331 ff.

¹⁶⁸ In March 1946, Einaudi informed the director of the Milan branch of Banca d'Italia (Sforza) that he had not supported the initiative. Mattioli's original project (September 1944) envisaged that the new institution would take the name of "Unione bancaria per l'esercizio del credito mobiliare" (or, in abbreviated form, "Unionbanca"), thereby confirming the desire to create a broad base of participating institutions. At the time of its establishment (April 1946), the new institution was named "Banca di credito finanziario" (or, in abbreviated form, "Mediobanca"), which was then definitively transformed into "Mediobanca. Banca di credito finanziario" in October 1949.

fully-fledged institution authorized to engage in medium-term lending.¹⁶⁹ In the end, Einaudi softened his opposition to the launch of Mediobanca out of fear that the major commercial banks might open special-credit sections of their own or, in any event, become involved in medium- and long-term activities. The Governor knew well that, in the event of the project's failure or downsizing, Banca Commerciale Italiana under Mattioli's leadership would itself activate long-term operations by packaging assets in forms compatible with the short-term constraint: "the point is," Einaudi wrote in his Diary, "that the banks of national interest will also undertake medium-term operations by giving them the appearance of short-term operations."¹⁷⁰ However, once Mediobanca had been established, Banca d'Italia had to accept the implementation of similar initiatives in order to avoid discrimination that would have otherwise allowed the three BINs to benefit from exclusive privileges. Some public credit institutes nevertheless remained excluded from the provision of medium- and long-term credit, while Banco di Napoli and – above all – BNL obtained authorization to strengthen or open numerous "sections" entrusted with the exercise of long-term credit operations.¹⁷¹

The distortions that the birth of the new ICMs produced in the general architecture of the 1936 Banking Law were so obvious that Banca d'Italia's supervisory reports did not indulge in diplomatic language. This process for transforming the medium- and long-term credit circuit was stigmatized with expressions of unusual severity: "useless duplicates", created for "political motives", the outcome of maneuvers originating from "pressure groups for the appropriation of

¹⁶⁹ Efibanca (Ente Finanziamenti Industriali) had been established in 1939 and only became a proper ICM in September 1949. The original project had been realized by a group of large industrial firms, both State owned and private (including IRI, Fiat, Pirelli, SMI and others), with the aim of liquidating and restructuring their claims on the state arising predominantly from war contracts. Approval for its transformation into an ICM followed a very long and controversial process, which began in April 1946 (coinciding with the birth of Mediobanca) and lasted more than three years. This three-year period of negotiations was marked by bitter polemics opposing Efibanca's president (Cesare Merzagora from September 1945) and Banca d'Italia (see Asso and Raitano, 1999). The Centrobanca initiative, by contrast, was much more rapid and straightforward. It was sponsored by a qualified group of northern cooperative banks (Novara, Milan and Bergamo held the largest shares) in order to facilitate the provision of medium-term financing to small and medium-sized enterprises.

¹⁷⁰ Einaudi, 1993, p. 299.

¹⁷¹ There were also many tensions on the front of "special credit sections" within institutions of public law, owing to the refusals encountered by some of them (Monte dei Paschi and Banco di Sicilia) in contrast to the openness reserved to others (namely BNL and Banco di Napoli). Above all, within a few years, BNL managed to complete its programs of "parallel managements" covering the different segments of special credit: alongside sections for mortgage lending (1923), credit for the movie industry (1935), credit for fisheries (1937), and credit for the tourist industries (1937), BNL opened sections for small and medium-sized enterprises (1947), cooperation (also 1947), industry (1949), and, finally, public works (1958). By contrast, the clear refusals made to Monte dei Paschi di Siena and Banco di Sicilia drew strength not only from weaker political protection, but also from the conflict that arose regarding the reform of their statutes (see, on this point, Asso and Nerozzi, 2016 and 2017).

public funds”.¹⁷² In order to limit the damage of such a trend, Einaudi and his closest collaborators sought to establish more stringent rules that would clearly circumscribe the fields of operation for the new institutions; and, at least initially, they achieved these objectives.¹⁷³

6.3. *Banca d'Italia's initiatives*

From the autumn of 1945 onward, the Governor urged the relevant ministers to define by statutory means the legal, temporal and even lexical limits that were to govern the operations of the new ICMs.¹⁷⁴ The principal aim was to avoid any confusion or interconnections with traditional banking channels, to the point that, in May 1946, the newly arrived Menichella proposed that, in order to eliminate any possible misunderstanding on the part of the public concerning the nature of the ICM, the use of the suffix “bank” in the corporate names of medium- and long-term credit institutions should be prohibited.¹⁷⁵ That proposal, which went beyond the understandable need to preserve the distinction between the various forms of credit and risk and degenerating into a veritable ostracism of medium- and long-term finance, did not succeed. The concerns expressed by Banca d'Italia nevertheless helped to stimulate the debate over the rules.

The main point at issue concerned the liabilities side of the balance sheet. The statutes of the new ICMs in fact provided for a significant extension to the modes of funding, whereas funding for first-generation institutions had been limited to the issuance of long-term bonds. The Governor's position was that the new ICMs should also be allowed to record forms of financial wealth tied up for at least two years on the liabilities side; and that, even if they complied in substance – and not merely in form – with this minimum time threshold,¹⁷⁶ those liabilities should not be labelled as a “deposit”. The purpose was to exclude any risk of overlap or misunderstanding between the methods for collecting savings of ordinary banks and those of the ICMs, by imposing clearly defined limits on the liabilities of the latter with regard to form, maturity and counterparties. The

¹⁷² Specific reference is made to a preliminary draft of the Annual Report of the Supervision Department for 1950. See also Asso and Raitano, 1999, pp. 387-389; Baratta, 1999.

¹⁷³ After expressing his opposition to the Mediobanca project, Einaudi made it clear to Sforza that the battle over the rules had only just begun. The intention was in fact to secure approval of “restrictive rules on the possibility of collecting deposits from other credit institutions and on the possibility of issuing bearer savings certificates” (Introna to the Treasury Ministry, 6 March 1946, cited in Asso and Raitano, 1999, pp. 366-367).

¹⁷⁴ Einaudi also dealt with the issue in his last Concluding Remarks (Banca d'Italia, 1947, pp. 158-159).

¹⁷⁵ The reference is in a text produced by the Supervision Department proposing amendments to the Banking Law in order to supplement the rules contained in Title VI. The text was sent by Menichella to Ministers Corbino (July 1946) and Bertone (November 1946), without however succeeding in having it incorporated into legislative provisions (see Asso and Raitano, 1999, pp. 384-385).

¹⁷⁶ The point made is a complex one and concerns entries on both sides of the balance sheet. There are in fact multiple expedients that make it possible to elude the constraint of assets only in the short term and liabilities only in the medium and long term. The issue is disregarded here, save for some brief remarks to be made shortly.

intention was, in fact, to avoid exposing households – and particularly those possessing only modest stocks of wealth – to riskier allocations without their knowledge.

The Governor successfully urged the introduction of three further cornerstones: the prohibition on the new institutions' access to rediscount at Banca d'Italia in the event of a liquidity crisis; the non-extension to the new institutions of the favorable tax treatment originally provided for the Beneduce institutions, so as to avoid dangerous tensions in the public balance sheet; and the extension of the Bank's supervisory powers over all ICMs, even though these powers had not been envisaged by the banking laws of 1926 and 1936. Only in the case of Mediobanca did Banca d'Italia obtain the establishment of a fourth safeguard. The authorization of Mediobanca was in fact made conditional on the signing of a "letter of intent" in which the Treasury Ministry required a formal commitment "not to collect, in any form, funds pertaining to national credit institutes". This clause – which had no counterpart in the statutes or constraints applying to the other institutions authorized to provide credit beyond the short term – aimed to attenuate the ties that would inevitably be created between the three large banks of national interest (and Comit, in particular) and the new institution headed by Enrico Cuccia. It was formally incorporated by Mediobanca's Board at its first meeting on 15 June 1946 and was "scrupulously observed" until its suspension in 1965.¹⁷⁷

The general weakness of the Italian political and economic situation, which led to Corbino's resignation in September 1946 and fueled the new inflationary upswing, did not provide a favorable setting for the acceptance of the requests advanced by Banca d'Italia's Supervision department. Nevertheless, shortly before resigning, Corbino succeeded in approving an initial and important measure that applied to the new ICMs not only the rules laid down in Title VI of the 1936 Law (thus overcoming the problem of the "closure" in the number of ICMs), but also those governing Titles V (short-term lending), VII (crisis resolution procedures), and VIII (disciplinary provisions).¹⁷⁸ In substance, thanks to the new law, second-generation ICMs were made subject to the Bank's supervision also through the exercise of inspection powers and authorization procedures for capital increases and the issuance of bonds. Matters not covered by the law were then deferred to the approval of a consolidated law, which, however, would never see the light of day.¹⁷⁹

¹⁷⁷ See Mediobanca Corporate Archive (hereafter MBCA), SGEM, CS2F, 4, pp. 17-18, Cuccia to the Supervision Service for Credit Institutions, 18 December 1964.

¹⁷⁸ DLCPS, 23 August 1946, no. 370, containing "Norme relative alla vigilanza sugli istituti esercenti il credito a medio o a lungo termine." The measure was published in the Official Gazette only after a further three months, on 7 December 1946.

¹⁷⁹ Most of the requests submitted by Banca d'Italia to mark the differences between a "bank" and an "institution" were not accepted. As Menichella observed laconically in a hand-written note in the margin of a letter sent to him by

More than three years passed before other cornerstones, already included in Banca d'Italia's proposals from the spring of 1946 onwards, were received and applied to the new institutions. It was in fact necessary to wait for the CICR resolution of 21 October 1949 to reach a clearer distinction between banks and ICMs, officially setting the maturity terms of the asset and liability operations that the new institutions would be permitted to undertake. As regards funding, the instruments of the new ICMs were limited to the issuance of bonds and savings certificates (between 18 and 60 months), while also allowing the offering of deposit certificates (between 12 and 60 months) subject, however, to an overall ceiling fixed at fifteen times the value of capital.¹⁸⁰ In addition, the possibility for the new institutions to take on equity participations was constrained by a maximum value equal to half of the value of capital. Finally, the CICR definitively rejected the proposals formulated by Cuccia and Merzagora that would have allowed the new ICMs access to operations for liquidation and for restructuring assets at the central bank. Some flexibility in refinancing procedures was nonetheless permitted through the discount of public securities and financial repurchase operations.¹⁸¹

Negative reactions to this regulation were not long in coming. As president of Efibanca, Merzagora expressed "serious dismay" at the CICR resolution, arguing that one should not think "only of the brake but also of the accelerator"; he added that the creation of new ICMs represented a strengthening of, not a threat to the stability of the banking sector, so that the contrasting fear of Banca d'Italia seemed "exaggerated and mortifying".¹⁸² In substance, the CICR resolution ensured that the new ICMs had access neither to advances from the issuing institute nor to forms of public guarantee for their liabilities. The Bank considered such prohibitions to be indispensable, not only to prevent the liquidation of possible non-performing loans at the expense of general taxation, but also for "freedom of action in the conduct of its monetary and banking policy".¹⁸³ In this regard, Menichella's sharp reply to Merzagora's criticisms was twofold: first, access to rediscount by ICMs would have forced the Bank "to shore up difficult situations through the permanent expansion of the currency in circulation";¹⁸⁴ second, from the fiscal standpoint, the

Treasury Minister Campilli concerning the statute of Centrobanca: "Ambrogio: and what became of all our observations?" (cited in Asso and Raitano, 1999, p. 385).

¹⁸⁰ For Banca d'Italia, the inclusion of short- to medium-term certificates of deposit among the funding instruments of the special credit institutions (ICS) was the price to be paid in order to achieve the results just mentioned.

¹⁸¹ With regard to asset transactions, a maturity in excess of one year was established and concentration levels in lending were limited.

¹⁸² Archivio Storico del Banco di Roma (hereafter ASBR), Carte Guarneri, main file 12, file no. 45, 'Efi', Merzagora to Menichella, 18 March 1950.

¹⁸³ ASBI, Banca d'Italia, Vigilanza sulle aziende di credito, file no. 50, cited in Asso and Raitano, p. 334, note 45.

¹⁸⁴ ASBR, Menichella to Merzagora, 29 August 1949, Carte Guarneri, main file 12, file no. 45, 'EFI', cited in Asso and Raitano, 1999, p. 377.

decision not to provide forms of public guarantee on the securities issued by the new ICMs was based on the fact that they pursued not “objectives of public interest, but profit-making ends”.¹⁸⁵

The conclusion is that, despite a convergence of interests among ministers, bankers, and leaders of the industrial world, the barriers erected by Einaudi and Menichella to contain the expansion of ICMs made it possible to limit their operational extension despite the absence of adequate overall regulations. In order to strengthen its supervisory and monetary policy prerogatives, Banca d'Italia favored the decision to concentrate the funds, allocated by the State to reconstruction through emergency legislation, in the IMI (1946-1953). Einaudi maintained that, in order to limit the misuse of public resources, it was advisable to rely on the old Beneduce institutions, and on the IMI in particular, which ensured a lower risk of political interference and more reliable technical standards for the selection of new loans. The IMI was thus not required to shoulder the patrimonial liability for the loans, operating “on behalf of the State” through “special sections” and “management committees” that were separate from its ordinary activity. Moreover, it was authorized to issue short-term savings certificates in order to support firms’ reconstruction plans through prefinancing or bridge loans. The access of other ICMs to a residual share of these funds did not enjoy analogous privileges. Nonetheless, these same funds represented the principal and, in some phases, exclusive source of supply if other ICM, given their difficulty in financing themselves through ordinary issues on the domestic market.

Banca d'Italia also intervened successfully to prevent the extension of medium- and long-term credit to insurance companies. The proposal advanced by the State-owned INA to authorize insurance companies to grant such credit was rejected by the government, accepting the Bank of Italy’s negative opinion.

As a complement to these initiatives, Einaudi eliminated any involvement for Banca d'Italia in the provision of industrial credit through the CSVI. The governor did not even comply with Menichella’s solicitations in support of the requests of the wool sector (May 1946) and declined the invitation to take part in the committee entrusted with issuing opinions on the allocation of the first one billion lire of State-guaranteed advances in favor of firms. In Einaudi’s view, Banca d'Italia had to “remain alien from participating in operations extraneous to its office”.¹⁸⁶ In the subsequent period, with regard to the management of public resources and – above all – of those originating in international markets or from international investors (Eximbank loans, ERP loans, World Bank loans), Menichella rigorously pursued the choice to concentrate in the IMI and later also in the Cassa per il Mezzogiorno all these resources.

¹⁸⁵ ASBI, Banca d'Italia, Vigilanza sulle aziende di credito, file no. 26, folder no. 34, Memorandum from Menichella of 16 January 1948, cited in Asso and Raitano, 1999, p. 393. To reinforce his statement, Menichella added: “one cannot accept specific reasons concerning the national economy such as to justify exceptional measures.”

¹⁸⁶ ASBI, Banca d'Italia, Direttorio Einaudi, file no. 118.

7. Foreign diplomacy after September 8th: the difficult first rounds of negotiations

In Einaudi's view, regaining the autonomy and prestige of Banca d'Italia also had the objective of contributing to strengthening the roles and initiatives that, at diplomatic level, the Italian government was called upon to undertake in important international negotiations but which, for obvious reasons, it was difficult to do so. In the eyes of many of the countries that had emerged victorious from the war after bearing very high human and social costs in defense of their own freedom and of European democracy, Italy belonged to the ranks of the enemies that had been the source and cause of the world conflict. On the other hand, the early signing of the armistice and the related national war of liberation had transformed Italy into one of the countries that contributed to the defeat of Nazism and Fascism. As emerged during the negotiations, therefore, Italy's position was ambiguous and its prospects problematic. Italy sought to secure for itself the status proper to a co-belligerent country within the new international economic order that was taking shape in those years. To achieve that goal, however, it was necessary for the Allies to recognize the Italian ambition as legitimate. The decisive issue at stake for Italy therefore concerned, first and foremost, being admitted as a participant and actor in the negotiations.¹⁸⁷

The contribution of Banca d'Italia was especially valuable in three areas. The first derived from the fact that, beyond contingent tensions with the Allied forces (see below), the Bank and its top management testified both to a discontinuity with Fascism and to the persistence of reliable institutional safeguards. The second area derived from the effort made by the Bank to secure international recognition of the economic effort made by Italy after 8 September 1943 in order to finance the war against Germany on its own territory and to bear the occupation costs of the Allied forces. The third area, projected onto a medium-term horizon, aimed to define a gradual and realistic path that, via a balanced fixing of the exchange rate between the lira and the US dollar, would allow the reintegration of the Italian economy into international markets.

To give substance to the latter two areas, Einaudi relied on the great technical and negotiating abilities of Menichella and Carli, who would later become his successors as Governors. Both representatives of the central bank succeeded in carving out leading roles for themselves in the various negotiations. It should, moreover, be reiterated that, in the phase of building more cooperative relations with the Allied military forces, Introna made important contributions; and that the positions of Menichella and Carli received increasing analytical and statistical support from the Bank's Research Department, led by Baffi – namely by their most immediate successor in the role of Governor. This testifies to the fact that Einaudi committed the Bank's best human resources to supporting the country's insertion into the new international framework.

¹⁸⁷ On the occasion of the Bretton Woods Conference in July 1944, the request presented by the Bonomi government to send a representative as an observer had been rejected by the United States.

The fact is that, during Einaudi's governorship, Banca d'Italia found itself engaged on several international fronts. The three principal ones were: the opening of new relations with the Allies, aimed at reducing the degree of conflict and strengthening sentiments of mutual trust, the support for the De Gasperi governments in the complex drafting of the Peace Treaty (April-October 1946) and in the management of the first official mission to the United States (January 1947), and the decisive contribution to negotiating Italy's entry into the Bretton Woods agreements and facilitating the settlement of pre-war debts (October 1946-August 1947). This section examines the first front; the following one examines the latter two.

The first front, which led to the settlement of the financial ramifications of the conflict and to the solution of the longstanding question of the am-lire (1945-1946), only takes on its proper significance if one considers that – as noted above – the relations between the Allied financial authorities and Banca d'Italia were for some time extremely strained. It should be recalled in this regard that, in the months immediately following the Anglo-American landing in Sicily, the Bank's branches in the liberated territories were in a precarious condition and only had limited operational capacity, which made it difficult to satisfy the monetary needs of the Allied troops.¹⁸⁸ In addition, various incidents occurred. In his *Diario* for 1 February 1945, Einaudi recalled an episode concerning the Bank's Palermo branch on the arrival of the Allies: contrary to the statements of other employees, the director had decided to conceal the stock of notes available and had thereby fed the mistrust of the US command toward the Bank.¹⁸⁹ Moreover, as the Allied troops advanced up the peninsula, both the Banco di Napoli and the Banco di Sicilia had proposed the restoration of their old functions as issuing banks to the Anglo-American commands, dusting off the old printing plates they had used until 1926.¹⁹⁰ Specifically, as early as April 1944, qualified reports reached Commissioner Introna announcing the Allies' intention to restore the right of the Banco di Napoli to issue legal tender, since it was the only Italian institution able to boast substantial deposits in the United States.¹⁹¹

These signals naturally generated concern within Banca d'Italia, which thus saw the possibility of restoring its own control over the money supply in the national territory fading away. Tensions

¹⁸⁸ Until Einaudi's arrival, the branches in the liberated territories were formally directed by Commissioner Arturo Atti. As Gigliobianco recalls (2006, pp. 175 ff.), Atti had been a member of the Bank's Board of Directors ("Consiglio Superiore") and lived in Bari, where he had previously served as acting head of the local office.

¹⁸⁹ Einaudi (1993, p. 100) wrote that, in fostering Allied suspicions towards Banca d'Italia, "the attitude of the director of the Palermo branch of the Bank may have been an influence: when asked by the Allies what stock of banknotes he possessed, unlike the others he simply replied *none*" (italics in the original).

¹⁹⁰ ASBI, Carte Baffi, Monte Oppio, file no. 84, folder no. 1, memorandum by Mancini on the clandestine market in valuables and foreign currency in Rome from the armistice onwards. The memorandum also contained certain observations in the margins by Introna on the advisability of including some of its parts in the Bank's Annual Report.

¹⁹¹ ASBI, Carte Introna, file no. 20, unsigned memorandum but presumably by Luigi Podestà, formerly the Bank's delegate in New York, 21 April 1944.

with the Allies only were eased in November 1944 when, thanks to the choices of certain US officials and particularly to the intervention of the young economist Henry Tasca (sent to Rome by Treasury Secretary, Henry Morgenthau, as his direct trusted representative), it became unequivocal that Banca d'Italia would be the sole interlocutor of the Allied Military Government (AMG) on matters connected with monetary circulation and exchange rates.¹⁹²

This clarification made it possible to resolve various institutional issues that we have already recalled in part. From January 1945 onwards, Tasca worked to ensure that Banca d'Italia had full authority over exchange-rate policy. In agreement with the Bank's top management, he opposed the reconstitution of the old INCE (National Institute for Foreign Exchanges) and dissuaded Soleri from making the new Exchange Office (UIC) directly dependent on his Treasury Ministry.¹⁹³ In addition, the Quintieri-Mattioli mission to the United States, unsuccessful in several other respects, had nevertheless managed to open negotiations for the restoration of full monetary sovereignty into the hands of Banca d'Italia (November 1944).¹⁹⁴ Introna concluded this negotiation after one year, reaching an agreement with the president of the Allied Financial Commission (Admiral Ellery Stone) whereby the Bank would regain the exclusive right to issue legal tender throughout the country, including the am-lire that had been printed directly by the Allies up until then. This point was included in the agreements signed between Stone and De Gasperi in February 1946.¹⁹⁵

¹⁹² See Harper, 1986, pp. 33-34. Tasca, permanent representative of the US Treasury at the US Embassy in Rome, was a point of reference for Italy's exchange-rate policy and international financial relations for a long time. According to Caffè, then an economist in the Research Department, Tasca occupied "a room in the Directorate of Banca d'Italia (and) supervised everything concerning our country's financial relations," beginning with the regulation of exchange rate policy (Caffè *et al.*, 1983, p. 77).

¹⁹³ Soleri acknowledged that it would have been a mistake to exclude Banca d'Italia from exchange-rate policy, as had instead been done in the 1930s by Guido Jung and Felice Guarneri (Toniolo, 2022, pp. 616 ff.). Introna wrote in this regard: "the Allies, with Tasca at their head, have only one thesis: Banca d'Italia must manage exchange-rate policy" (ASBI, Banca d'Italia, Direttorio Introna, file no. 54, folder no. 1, subfolder no. 3, "Note su una riunione tenuta il 15 gennaio 1945 con Soleri, Introna, and Einaudi"). It should nevertheless be recalled that, in the same meeting, Einaudi had to accept the refusal by Soleri and Introna of a proposal of his that envisaged the inclusion of certain representatives of the commercial banks, alongside representatives of the various economic ministries, on the Board of the new UIC. Presumably, Einaudi's objective was to establish a greater balance between political office-holders and representatives of the banking world so as to allow an initial process of decentralization of exchange-rate decisions towards the principal market intermediaries.

¹⁹⁴ The mission had been sent by the President of the Council of Ministers, Ivanoe Bonomi, to provide the Allies with an initial picture of the state of the Italian economy. Led by two bankers – Quinto Quintieri (Banca di Calabria and formerly Finance Minister in the second Badoglio government) and Raffaele Mattioli (Comit) – and completed by Egidio Ortona and Enrico Cuccia, the mission remained in the United States from November 1944 to March 1945. Despite the lack of tangible results on the principal economic and financial questions under discussion – beginning with US recognition of the circulation of am-lire – the mission was the first important occasion for diplomatic negotiations between Italy and the United States. For a recent reconstruction, see Tremolada, 2015.

¹⁹⁵ Following the De Gasperi-Stone agreement (February 1946), Banca d'Italia entered a new item of 105 billion lire on the liabilities side of its balance sheet, equal to the am-lire in circulation, and a corresponding claim on the Italian

The most complex dispute with the Allies, however, did not concern institutional aspects but rather the financing of the expenses incurred for the liberation of the country, as had already become clear from the unsatisfactory outcome of the Quintieri-Mattioli mission. The financing of those expenditures had greatly affected the expansion of the money supply, contributing – according to a widespread interpretation shared by Banca d'Italia – to generating instability and renewed price pressures. The first instrument for financing Allied war expenditures had been the issuance of am-lire destined both to pay soldiers' wages and to ensure essential supplies and the purchase of consumer goods and services. This had activated a dense network of transactions between the Allied army, on the one hand, and industrial firms, public bodies, and representatives of the "civil economy" (to use an expression of Baffi's¹⁹⁶), on the other. On that basis, the Allies argued that a substantial part of the am-lire had been issued in order to meet the needs of Italian general government or in compliance with the provisions of the armistice.¹⁹⁷

This thesis provoked an indignant reaction on the part of Banca d'Italia from the outset. Even before the Charter of the United Nations entered into force (24 October 1945), the countries that had signed that charter at the San Francisco Conference (26 June 1945) had recognized that Italy's status had changed after September 8, 1943, from hostile country to "co-belligerent" country. Yet this fundamental change did not prevent the Allies from treating the modest amounts of am-lire put into circulation before the armistice and the huge sums issued in the subsequent period of the common war effort on the same footing.¹⁹⁸

Coinciding with the presence of the Quintieri-Mattioli mission in Washington, President Roosevelt had taken a first step in the direction desired by Banca d'Italia by committing the United States to allocating an amount equal to the am-lire issued to the Italian Treasury funds, albeit only for the component relating to the payment of troops. Converted into dollars, those sums were set aside in a special "counterpart fund" (100 million dollars), made available to the Italian government for the purchase of essential goods on the US market. Anticipating the first United

Treasury Ministry on the assets side. These funds, subsequently allocated to the financing of the Allied forces, were disbursed directly by the Treasury under the mandate of the Bank, while the Treasury assumed the corresponding debt in full. In 1944, Commissioner Introna had unsuccessfully proposed that the stock of am-lire issued by the Allies be used to cover imports of goods rather than occupation expenses (see ASBI, Carte Introna, file no. 20, handwritten memorandum undated but attributable to August 1944). It should also be noted that the De Gasperi-Stone agreement formed the basis (albeit with slightly different calculations from those specified in the Introna Papers) of the agreement concluded between Bertone and Einaudi on 31 December 1946 to regulate the State's debt to the Bank of Italy (cf. APPB, Carte Baffi Fregene, fald. n. 4, fasc. 10). That agreement also specified that, if it obtained "recognition from the USA", the Treasury would be obliged to credit it to the Bank of Italy or to record it as an increased extraordinary advance granted by the Bank to the Treasury itself (cf. the 1936 agreement).

¹⁹⁶ ASBI, Carte Baffi, Monte Oppio, file no. 48, folder no. 1, subfolder no. 1, August 1946, 'Memorandum' for the Ministry of Foreign Affairs on the services rendered and the damages suffered by the Italian economy.

¹⁹⁷ ASBI, Banca d'Italia, Direttorio Introna, file no. 24, folder no. 1, undated but early 1945, Graffey Smith to Soleri.

¹⁹⁸ See Menichella, 1946a, pp. 199-201. See also the data presented in the following section 8.

Nations Relief and Rehabilitation Administration (UNRRA) aid, the government's access to this fund amounted to a breath of fresh air because it made it possible to offer US goods at controlled prices on the domestic market. However, partly as a consequence of the death of the elderly president, Roosevelt's concession did not lead to further negotiating progress.¹⁹⁹ Moreover, it had no effect on Banca d'Italia's balance sheet or on the amount of liquidity in circulation. Despite Einaudi's objections, the Italian Treasury held that purchases on the US market could not replace part of domestic public expenditure and that the lire counterpart of the 100 million dollars should therefore not be used to lighten the already cited balance-sheet items of Banca d'Italia (see footnote 195). Einaudi derived concerns from this for treasury management, arguing in a note of February 1946 that abandoning a policy of rigor and prudence risked compromising the relative standstill in domestic price growth.²⁰⁰

The circulation of uncovered am-lire also conditioned the behavior and evaluations of Banca d'Italia even after the De Gasperi–Stone agreement. The Allied Financial Commission actually continued to submit large requests to the Bank for the issuance of am-lire, which had to be promptly satisfied.²⁰¹

The controversies between the Allied Financial Commission and Banca d'Italia over war expenditures were by no means limited to am-lire alone. In July 1944, the same Commission had ordered the Bank to transfer to the Allies all forms of wealth or deposit accounts registered in the name of the German government or of German nationals. Yet the provisions laid down by Italian law following the declaration of war against Germany (13 October 1943) went in the opposite direction, assigning the right to freeze any property of German ownership to the national government. Moreover, first Introna and then Einaudi argued that the deposits registered to German subjects and held at Banca d'Italia or at banking branches largely coincided with the residue of the exorbitant advances (initially equal to 12 and then to 20 billion lire per month) that the central bank itself had been obliged to pay to the German army in compliance with the commitments taken on by the Italian Social Republic. These advances had covered the occupation expenses of the northern part of Italy and the financing of the notorious Todt Organization,

¹⁹⁹ Italy asked the United Kingdom and the other co-belligerent countries to follow the US example. However, as De Gasperi (in his capacity as Foreign Minister) communicated with disappointment to Banca d'Italia in January 1946, the request was not accepted (ASBI, Banca d'Italia, Segretariato, file no. 1072, folder no. 5, subfolder no. 3, Ministero degli Affari Esteri to Banca d'Italia, 4 January 1946).

²⁰⁰ ASBI, Banca d'Italia, Direttorio Einaudi, file no. 57, folder no. 1, subfolder no. 1, undated and unsigned memorandum (though attributed to Einaudi, February 1946). That text stated, among other things, that: "it does not appear consistent with the sound canons of economics and finance that the Italian State should collect the proceeds of the sale of goods and use the revenue for other purposes without transferring it to Banca d'Italia, while the latter would remain with another uncovered item on its balance sheet. This would falsify treasury management with accidental and non-recurring revenues and would confer no prestige on that line of economic policy that the government has imposed upon itself and that seeks to counter the further aggravation of the inflationary process."

²⁰¹ In the month of March 1946 alone, the amount of new am-lire issued by Banca d'Italia approached 20 billion lire.

charged with the construction of fortifications and other war infrastructures for the Nazi occupiers. The thesis advanced first by Commissioner Introna and then by Governor Einaudi was that these advances had not been fully collected by the Germans only because of the ability of Banca d'Italia officials who, after having booked them on the balance sheet, succeeded by various stratagems in delaying the effective transfer of currency in circulation. Therefore, even from the formal point of view, this was not German financial wealth but liquidity belonging to Banca d'Italia.²⁰²

Despite these impassioned arguments, the Allies reiterated their claims, invoking reasons of public order, protection of real assets, and confiscation of financial assets belonging to the enemy. Indeed, they extended the scope of application of their pressing requests for transfer, even if they downgraded the imposition to a measure that was “purely precautionary in nature”.²⁰³ The fact is that, at the end of 1944, the Italian government ordered Banca d'Italia to proceed with an initial transfer. In a personal communication containing expressions of deep regret over the decision taken, Introna informed Minister Soleri that he had “on his part executed the aforesaid instructions” but had at the same time transmitted an official note of protest to the Anglo-American authorities “appealing to the Allies’ sense of justice”, the Commissioner of Banca d'Italia requested that the matter be re-examined, “so as to give due recognition to Italian rights vis-à-vis Germany”.²⁰⁴

This partial solution failed to satisfy the Allied forces either: well beyond the end of the war, they continued to press both Banca d'Italia and the Italian government to complete the transfer of all the securities originally seized from the Germans and of all the assets already confiscated but not yet collected because of formal defects.²⁰⁵ In December 1945, however, Einaudi explicitly opposed the further Allied requests in relation to financial assets bearing German names and held at Banca d'Italia.²⁰⁶ The Governor signed a harsh memorandum addressed to the supreme

²⁰² On the stratagems adopted by the Milan office of Banca d'Italia to prevent the German army from ordering the delivery of all the foreign-currency assets and residual claims in lire on the eve of liberation, see also the ‘Memorie’ (memoranda) of the director of the Milan office of the Bank (Forte) to Cesare Merzagora and Commissioner Francesco Sforza, respectively of 27 and 29 April 1945, in ASPR, Archivio Cesare Merzagora, folder no. 3, box 18, ‘Commissione Centrale Economica.’

²⁰³ ASBI, Banca d'Italia, Direttorio Introna, file no. 10, folder no. 2, Introna to Howell, 26 August 1944, in which the Commissioner of the Bank “takes as good” the reasons adduced by the Allied authorities.

²⁰⁴ ASBI, Banca d'Italia, Direttorio Introna, file no. 10, folder no. 2, Introna to Soleri, 17 November 1944.

²⁰⁵ In a reply to the Allied financial authorities, Einaudi justified the failure to transfer certain securities of German ownership, “inasmuch as they lacked proper endorsement” and were therefore not formally attributable to a German subject. See ASBI, Banca d'Italia, Segretariato, file no. 1214, folder no. 1, Einaudi to the Supreme Command of the Allied Financial Agency, 1 December 1945.

²⁰⁶ It is likely that Einaudi also relied on the reconstruction of German finances provided to him by the representative of the Reichsbank in Italy, Maximilian Bernhuber, at that time detained in Bolzano prison. See ASBI, Carte Baffi, Monte Oppio, file no. 94, folder no. 2, Bernhuber to Einaudi, 24 September 1945, with a “Report of German Finances in the Bolzano Province” attached.

command of the AMG, in which he reiterated the idea that “none of the securities could be considered German,” since they were the fruit of a resistance action implemented by Azzolini’s Banca d’Italia.²⁰⁷

In more detail, Einaudi reiterated to the Allies in that memorandum that the Bank had devised – month after month – various techniques to limit the amount of payments made to the Nazis as occupation indemnities, so that the Germans had been forced “to leave deposited the difference in the monthly indemnities that they were unable to withdraw in cash in a current account in the name of the Reichskreditkasse [...]. Only thus, at the moment of the German military collapse, was it possible to save large current account balances which the retreating enemy was unable otherwise to withdraw [...]. These are accounts in which a deliberate ‘viscosity’ was created to the detriment of the Germans. Therefore, rather than speaking of German assets to be considered as war booty, one should instead speak of securities testifying to German exactions from Italy”. Einaudi’s conclusion was caustic: “we trust that the Allied Authorities, in recognizing the different nature of such assets, will in due time arrange for their return to the Italian government [...] since extortion evidently does not constitute a motive for valid acquisition and would paradoxically threaten to complete the damage to Italy which the Germans had been unable to do”.²⁰⁸

In January 1946, Introna calculated that the amount arbitrarily appropriated by the Allies had been 12.5 billion lire. In the following month, Einaudi raised the figure to more than 15 billion lire, also as a result of an inquiry carried out within the banking sector of northern Italy. On that basis, he requested the intervention of Corbino and then of De Gasperi himself with the US Allies so that it might be established that this substantial sum was not “war booty” but rather a stock of Italian wealth which the Germans had failed to appropriate. The 15 billion therefore had to be returned as soon as possible. The waiting time for this restitution was, however, by no means short. In the course of the negotiations held during 1946, no progress was made. A few months before the Paris Peace Conference (July-October 1946), which preceded the drafting of the Peace Treaty, the balance sheet of Banca d’Italia still recorded withdrawals by the Allied forces of seized deposits and securities amounting to 16 billion lire. Moreover, as examined above, the other problem concerning full coverage of the am-lire also remained unresolved. Since the controversy

²⁰⁷ ASBI, Banca d’Italia, Segretariato, file no. 1214, folder no. 1, Einaudi to the Supreme Command of the Allied Financial Agency, 1 December 1945.

²⁰⁸ See the above cited memorandum by Einaudi to the Supreme Command of the Allied Financial Agency, 1 December 1945. To reinforce his analysis, the Governor underlined that Reichsbank director Maximilian Bernhuber (a key figure in the removal of Italy’s gold) had been brought to trial for various offences, one of the charges against him being precisely that of “having *imposed* the payment of those occupation expenses on Italy” (ASBI, Banca d’Italia, Segretariato, file no. 1214, folder no. 1, Einaudi to the Supreme Command of the Allied Financial Agency, 1 December 1945; italics in the original).

entered fully into the discussions on the economic clauses of the Peace Treaty, it only found a solution after the conclusion of that Treaty.

The settlement of other problematic points also had to wait for many months. For example, only at the beginning of April 1947 did Menichella's mission to London succeed in unblocking part of Italy's credit balances in sterling that had accumulated in the United Kingdom and were unusable because of the restrictions imposed on that currency, and in converting them into dollars. In September of that same year, however, a critical intervention by Merzagora brought to light the fact that this agreement had prevented Banca d'Italia from converting another significant stock of sterling (30 million) into dollars.

The fact remains that Italy managed to cope with the negative impact of this set of unresolved problems chiefly thanks to two factors: an increase above expectations in exports of goods and services and in the inflow of "invisible" items, which in 1946 limited the negative current account balances and, in the following years, ensured that the persistently negative balances of the trade account were more than offset at current account level; and the first international aid provided by UNRRA.²⁰⁹ Yet owing to various adverse developments (international aid lower than expected, inconvertibility of sterling, poor agricultural harvests), by the end of 1947 the foreign exchange reserves that the country had thus managed to accumulate – and that were crucial "for the purchase of the goods essential to keep the population alive and to proceed with reconstruction" – were being exhausted.²¹⁰ This situation made the outcome of the parallel initiatives undertaken by Italy at international level all the more important. It is therefore appropriate to turn to the examination of the hard-won and non-linear successes achieved by Italy, above all on the exchange rate front.

8. Achievements and failures in international negotiations: the Peace Treaty and the admission to the Bretton Woods Agreements

As early as May 1946, Banca d'Italia held negative expectations regarding the process of revising the economic clauses of the Peace Treaty. In close connection with the new Director General Menichella, the Bank's Research Department judged that the economic arrangements then being drafted in Paris were so onerous and punitive for the Italian economy as to jeopardize its prospects for stabilization and reconstruction. In the documents of the time, there were recurring references to the disastrous impact that, little less than thirty years earlier, a similar treaty signed only a few kilometers away had had on European institutions and socio-economic systems (beginning with

²⁰⁹ See Ricossa, 2003, p. 398; Menichella, 1946a, pp. 192-193. Italy began to benefit from UNRRA aid from March 1945 thanks to the conclusion of two treaties (8 March 1945 and 19 January 1946). UNRRA then continued its aid plans beyond the scheduled end date of 1946, but only until the available funds were exhausted. The topic will be taken up again in section 12 below.

²¹⁰ 'Memoria' [del governo italiano], 18 September 1947, now in Ricossa and Tuccimei (eds.), 1992, pp. 475-476.

Germany). Moreover, the contents of the draft articles of the new treaty remained too generic on crucial points, such as the overall value of reparations. Finally, Italy had inexplicably been forced to renounce any claim it held against Germany, with disastrous consequences for the possibility of recovering the gold reserves stolen by the Germans.²¹¹ Inevitably, the overall effect on the Italian economy was to increase uncertainty and to affect the expectations of producers and consumers negatively. In short, how the Treaty was taking shape accentuated the underestimation of the role played by Italy as a co-belligerent country. After having impeded the solution of the problems relating to the am-lire and to the allocation of German assets (see the previous Section), this underestimation threatened to distort the assessment of the efforts undertaken and of the war damages suffered by Italy.

Within the scope of its authority, Banca d'Italia sought to put forward highly skilled negotiators and to provide particularly detailed technical analyses and statistical evidence in order to obtain mitigation of the most vexatious economic clauses contained in the various drafts of the Treaty. In a personal letter to De Gasperi, Einaudi designated the newly elected Director General Menichella to become a member of the Italian delegation and to chair over its economic section. In the preparatory work for that section, numerous memoranda were drafted that also included and processed a large mass of data and quantitative evidence. In this regard, Menichella relied on the close collaboration of Baffi.

The approach followed by Banca d'Italia did not set itself the objective of contesting the value of reparations demanded of Italy as such, but rather of pragmatically optimizing the financial implications of the notion of “co-belligerency” that had first been formally attributed to Italy by the new United Nations Organization. This was the line pursued by Menichella. In continuity with the strategy previously drawn up by Introna and Einaudi, Menichella reiterated that the notion of co-belligerency was frequently invoked in official declarations without, however, producing significant economic effects, so that Italy ended up being placed “on the same plane as Germany.”²¹² This was a crucial point because, as Baffi's estimates showed, from October 1943 to June 1946 the contribution made by Italy to financing the war efforts of the Allied armies had been enormous. This contribution amounted to more than 1.3 trillion lire corresponding, at the official exchange rate, to 5.3 billion dollars.²¹³ With exclusive reference to money transfers, Baffi

²¹¹ Excluding gold, the Research Department estimated that the value of claims against Germany amounted to 690 billion lire (at 1946 prices). These consisted of claims relating to the monthly indemnities paid by Banca d'Italia (505 billion), unpaid supplies and services (130 billion), and removed industrial plants (55 billion). See the memorandum ‘Osservazioni sull’art. 67,’ in ASBI, Banca d'Italia, Studi, file no. 510, folder no. 1, subfolder no. 4.

²¹² See in particular ASBI, Banca d'Italia, Direttorio Einaudi, file no. 84, folder no. 5, ‘Proposta speciale del Dr. Menichella,’ 1 August 1946; Menichella (1946b); ASBI, Banca d'Italia, Studi, file no. 510, folder no. 1, subfolder no. 2.

²¹³ ASBI, Carte Baffi, Monte Oppio, file no. 48, folder no. 1, subfolder no. 1, August 1946, ‘Memorandum per il Ministero degli Affari Esteri sui Servizi resi e i danni sofferti dall’economia italiana.’ Baffi's estimate was partially

estimated that Italy had shouldered an expense of 132 billion lire which, expressed based on the 1946 price index, was equivalent “to 247 billion lire.”²¹⁴ Finally, examining the variations in the inflation differentials characterizing the different areas of the country, he argued that the inflationary impact generated by the am-lire had been significant, with negative consequences for production performance.

The drafters of the economic clauses of the Peace Treaty judged the calculations and arguments advanced by Banca d'Italia irrelevant, taking the view that the burden of all Allied expenses in Italy should remain entirely with the national government, as provided for by the armistice. The Treaty thus made no distinction between the events preceding and those following the armistice, even going so far as to charge Italy with the expenses sustained by the Allies after 25 April 1945. Such an approach disinclined the other principal victorious countries to follow Roosevelt's example with respect to the partial restitution of the am-lire in the form of US goods and services (see Section 7); and, more generally, it prevented the adoption of magnanimous attitudes toward Italy's situation. In addition, the Treaty tended to take on board the pressures of other victorious countries (such as Yugoslavia) that wanted prompt indemnities and heavier war reparations to be imposed on Italy. Those pressures entailed forced liquidations or expropriations of Italian assets abroad, especially industrial equipment and commercial establishments. By contrast, the Treaty contained no specific concession leading to recognition of Italian rights with respect to the materials and machinery removed by the Germans.²¹⁵ In the end, it introduced “punitive [...] unpleasant and humiliating” rules that, by modifying the practice established by previous treaties, denied “Italy's most elementary rights” and led to “the disavowal of its merits and its needs.”²¹⁶

Beyond the discussion on financial accounting, a memorandum produced by Banca d'Italia and adopted by the Italian delegation stressed with concern another negative effect attributable to the exhausting discussion of the Treaty's economic clauses: the deterioration of the hopes and

disaggregated, being determined by the cumulative value of three components: the supply of goods and services to the Allied armed forces, the services offered by the civil economy and the total issues of am-lire net of the counterpart funds. Similar estimates had also been produced in relation to the claims against Germany (see also footnote 211 above). According to Baffi's calculations, the total amount of those claims was about 730 billion lire net of the looting of the gold reserves.

²¹⁴ ASBI, Banca d'Italia, Studi, file no. 510, folder no. 1, subfolder no. 3, ‘Moneta di occupazione’. Only 10 billion am-lire had been put into circulation before 13 October 1943 (the date of Italy's declaration of war on Germany), most of them having been issued “during the armistice period.”

²¹⁵ In a note, Baffi estimated the value of the German removals, net of the gold reserves, at more than 50 billion lire (ASBI, Carte Baffi, Monte Oppio, file no. 48, folder no. 1, subfolder no. 1, August 1946, ‘Memoria per il Ministero degli Affari Esteri sulle prestazioni fornite e i danni subiti dall'economia italiana’). This estimate did not differ significantly from the one recalled above (see footnote 211).

²¹⁶ The quotation is drawn from the opening lines of a confidential memorandum transmitted by Menichella to the Director General of the Ministry of Foreign Affairs, Angelo Di Nola, on 3 August 1946, in ASBI, Banca d'Italia, Studi, file no. 510, folder no. 1, subfolder no. 3.

expectations of the Italian population. Up to that point, the prevailing view had been that “one day the money issued by the Allies would be withdrawn and burned and that therefore the high level of prices [...] would fall.” That view, however, was belied by the bad news coming from Paris. The Bank’s memorandum underlined “the gravely unfavorable psychological effect that the ruling of the Treaty will produce in most citizens who, seeing this confidence vanish, will judge that another of the bases that should have maintained Italy’s financial equilibrium has disappeared. The Italian people will never succeed in explaining to themselves why, at a time of co-belligerency, Italy had to pay part of the expenses incurred by the Allies when, thinking back to the other war, they might rather have expected that the wealthier co-belligerents would have helped the economically poorer one.”²¹⁷

Beginning in August 1946, the combination of bad news from Paris and the rapid resumption of inflation showed how well-founded Menichella and Baffi’s concerns were regarding the negative role of expectations. In a document prepared for De Gasperi, Baffi emphasized that there had been a flight from the lira by wealth holders beginning in April 1946, precisely in conjunction with the diffusion of the first indications concerning the huge amount of reparations to be imposed on Italy.²¹⁸ The sharp inflationary dynamic had been anticipated by a recovery in share prices (“which under normal circumstances would be good news”) and had then turned into “a dizzying rise” and later into panic during “the tragic week in which, with the presentation of the reparation claims at the Paris conference, the terrifying figure of 26 billion dollars was exceeded”.²¹⁹ Baffi’s conclusion, corroborated by a table showing the daily movements of the principal share values, was that “Treaty panic” had produced anomalous speculative movements, pushing agents toward a large accumulation of inventories and had triggered negative psychological reactions, with disastrous consequences for the labor market and the public accounts. As had happened to Germany with Versailles and the old Peace Treaty, the clauses of the new Treaty risked “annihilating Italian export capacity [...] thereby making more difficult the already grave task of gradually reaching a balance in the trade account through the gradual development of exports.”²²⁰

The Paris conference, and later the approval of the Treaty, came to an end without the critical points and exceptions raised by the Italian delegation having been taken seriously into consideration. The discouraged communication transmitted to Einaudi by Angelo di Nola, Director General for Economic Affairs at the Ministry of Foreign Affairs, was that the immense

²¹⁷ ASBI, Banca d’Italia, Direttorio Einaudi, file no. 84, folder no. 5, ‘Memorandum della Banca d’Italia e del MAE sulle clausole economiche del Trattato’ (unsigned but attributable to Donato Menichella), 1 August 1946.

²¹⁸ ASBI, Banca d’Italia, Studi, file no. 513, folder no. 1, Baffi to the Minister of Foreign Affairs, 16 September 1946.

²¹⁹ Ibid.

²²⁰ ASBI, Banca d’Italia, Direttorio Einaudi, file no. 84, folder no. 5, ‘Memorandum di Donato Menichella per la delegazione italiana a Parigi sull’oro,’ 3 August 1946; and ASBI, Banca d’Italia, Studi, file no. 513, folder no. 1, Baffi to the Minister of Foreign Affairs, 16 September 1946.

technical and diplomatic effort work done by the Italian delegation had only succeeded in one result: “not to make things worse”.²²¹ Only the US delegation had shown a minimally benevolent attitude toward Italy, though it had not gone so far as to oppose with sufficient energy the punitive demands advocated by Great Britain, France, Russia, and – with particular acrimony – the Balkan countries.

The difficult months between the spring and the autumn of 1946 were marked by one countervailing event: the positive recovery of a first part of the gold reserves. It was noted above that, after the armistice, the Germans had removed 94 tons of gold from the sacristy of Banca d'Italia and that, after various vicissitudes, they had largely deposited this stock in the municipality of Fortezza (Bolzano) before transferring a large quantity of it to Berlin (see above, footnote 125 and Section 5). After the liberation, the United States had only found 23 tons in the Fortezza deposits that were returned to via Nazionale; by contrast, there was no certain evidence of how much Italian gold had flowed into the pool created by the Allies in January 1946 and fed by the repeated recoveries made in German territory. The Italian position, determined personally by Menichella, was clear-cut: full restitution of the gold reserves found at Fortezza was demanded, together with Italy's admission to the pro-rata redistribution of the “gold pool,” on the basis of the criteria decided by the Tripartite Commission in Brussels to determine the share due to the various countries plundered by the Nazi army.²²²

The Italian request triggered a long diplomatic battle that once again pitted our country against France, Great Britain, and Yugoslavia.²²³ Specifically, the Yugoslav delegation had presented an amendment seeking the transfer of a share of Banca d'Italia's assets to the successor states in former Italian territories in order to cover the monetary circulation still present there; the possible recovery of part of the gold was a one-off opportunity for attaining that result.²²⁴ The Yugoslav proposal remained under discussion for about two months, during which the Italian economy was subjected to growing inflationary pressures and to a significant depreciation of the lira, which at that time was based on the coexistence of multiple exchange rates in informal markets. On 25 October 1946, the Deputy Governor of the Bank of England, Cameron Cobbold, informed Einaudi that the Yugoslav request had been rejected. Two weeks later, Italy's participation in the “gold pool” was officially accepted.

²²¹ ASBI, Banca d'Italia, Direttorio Einaudi, file no. 84, folder no. 5, ‘Relazione di Angelo Di Nola per il Governatore Einaudi sulle attività della delegazione italiana alla Conferenza di Parigi,’ 23 October 1946.

²²² ASBI, Banca d'Italia, Direttorio Einaudi, file no. 57, folder no. 1, subfolder no. 1, Menichella to Battensby, 14 October 1946.

²²³ ASBI, Banca d'Italia, Direttorio Einaudi, file no. 37, folder no. 1, Einaudi to the Minister of Foreign Affairs, 15 November 1946.

²²⁴ See the ‘Memorandum sull’emendamento jugoslavo relativo all’attribuzione agli stati successori di una quota dell’attivo della Banca d'Italia,’ ASBI, Banca d'Italia, Studi, file no. 510, folder no. 1, subfolder no. 3.

The communication to Einaudi was not by chance. The favorable outcome of the controversy was also due to the direct involvement of the Governor himself. From Rome, Einaudi had solicited the intervention of the Governor of the Bank of England, Lord Catto, and of the Chancellor of the Exchequer, Hugh Dalton – his old friend from visiting the London School of Economics in the early 1930s.²²⁵ The request for support formulated by Einaudi consisted in defending the canons of monetary orthodoxy so dear to Lombard Street. These canons would have been violated had the Yugoslav proposal been accepted to commit the meagre stock of gold reserves still held by Banca d'Italia and the possible additional stock resulting from the redistribution of the “gold pool” to the payment of war reparations by Italy. Addressing Lord Catto, Einaudi added that he was counting “on your sense of justice but also on the value which you attach to the links of friendship and cooperation existing among the central banks of all countries”. Finally, recalling the old relationship between Bonaldo Stringher and Montagu Norman (the celebrated Governor of the Bank of England in the interwar years), Einaudi concluded: “if inflation in Italy is to-day still kept under control, this depends mostly on psychological factors and mainly on the circumstances that our savers are still trusting the lira. But which consequences could involve the knowledge that the Italian currency is no more covered by a gold reserve, even if very small?”²²⁶

The recognition of Italy's requests was a sign that the urgency and importance of the arguments advanced by Einaudi had been shared. Paradoxically, as the Governor wrote to Di Nola, “the moment was favorable [...]; the present position of the lira makes more justified the request of the Italian government to obtain a decision on the gold question that contributes to guaranteeing the stability of our currency”.²²⁷ The initial favorable results achieved by diplomatic action in the economic and financial sphere were reinforced by developments after the signing of the Peace Treaty. The Allies decided to lift the seizure of financial assets registered in the names of German subjects and to return them to Banca d'Italia. Shortly thereafter, the United States and Canada made a first unilateral transfer amounting, in total, to 55 million dollars as the counterpart of the services rendered by Italy to the Allied army.²²⁸

It is important to note that the positive results eventually obtained by Italy in both the economic and diplomatic spheres were above all the fruit of bilateral agreements capable of circumventing the deadlocks produced by cross-vetoes in the complex negotiations over the Peace Treaty and by

²²⁵ ASBI, Banca d'Italia, Direttorio Einaudi, file no. 37, folder no. 1, Einaudi to Lord Catto, 4 September 1946.

²²⁶ ASBI, Banca d'Italia, Direttorio Einaudi, file no. 37, folder no. 1, Einaudi to Lord Catto, 4 September 1946. A similar letter had also been sent by Einaudi to the Governor of the Banque de France, Emmanuel Monick, and to Minister Dalton.

²²⁷ ASBI, Banca d'Italia, Direttorio Einaudi, file no. 37, folder no. 1, Lord Cobbold to Einaudi, 25 October 1946; and ASBI, Banca d'Italia, Direttorio Einaudi, file no. 37, folder no. 1, Einaudi to the Ministry of Foreign Affairs, 15 November 1946.

²²⁸ ASBI, Banca d'Italia, Baffi Papers, Research Department, file no. 50, folder no. 4, subfolder no. 3, Menichella to Cigliana, 18 October 1946.

the growing tensions among the principal victorious powers. To become more solid and to open up the medium- and long-term prospects, however, such agreements had to be supported by concrete signs of the country's greater integration into the new international economic order. In this regard, De Gasperi's visit to the United States (January 1947), the conclusion of the Lombardo mission on pre-war liabilities (August 1947), and, above all, Italy's entry into the Bretton Woods agreements (ratified in March 1947) were crucial steps.²²⁹

De Gasperi's mission was fruitful not only because it initiated the process of US aid and loans, but also (and above all) because it opened the negotiations for the restructuring of Italy's foreign debt, which made it possible to overcome the 1939 default on the "pre-war loans" and thus to remove the previous financial obstacles to Italy's insertion into the international context. The Lombardo-Lovett agreement accomplished this debt restructuring by settling the financial relations between Italy and the United States.²³⁰

The "settlement" of the pre-war loans involved a total value of more than 136 million dollars, represented by the 108 million securities outstanding abroad and by the amount of interest accrued and unpaid since 1939. The securities had originally been issued on Wall Street between 1925 and 1928 by as many as seventeen public and private operators. Besides the Kingdom of Italy and the cities of Rome and Milan, the issuers included banks (among them CREDIOP and ICIPU), electricity companies (including SIP, SME and Terni), and industrial firms (including Marelli, Breda and Isotta Fraschini).²³¹ The original maturity of the securities ranged between 1948 and 1956. In August 1947, after intense negotiations among the US government, Banca d'Italia, the two Beneduce institutions and a specially constituted Council of Foreign Bondholders, three new 30-year loans were issued with interest-rate terms highly advantageous to debtors, especially in the initial years of the new contracts. Specifically, the amount of the first security, "Republic of Italy 1-2-3%," issued by the Italian state,²³² was equal to the residual value of the original debt attributable to the Kingdom of Italy; this was the first operation for restructuring an external debt

²²⁹ We do not intend to examine these three episodes of major historical importance in detail, as it would require a more comprehensive analysis. Our objective is simply to show in brief that Italy's international position derived significant benefits from the events summarized below. Useful references are provided in what follows.

²³⁰ It should be recalled that Italy was still subject to the Trading with the Enemy Act and to the Johnson Act, which virtually prevented the granting of new loans to countries that, like Italy, were in default with respect to obligations contracted in previous financial operations.

²³¹ Once negotiations had begun (May 1945), the Parri government decided to group together the private operations and to have the Italian state assume financial coverage, transforming the residual debt chargeable to the various issuing entities into lire. See ASBI, Banca d'Italia, Direttorio Einaudi, file no. 82, folder no. 5.

²³² Specifically, the 1 per cent rate applied for the first three years; the 2 per cent rate for the following two years; and the 3 per cent rate from 1952 onward and for the entire remaining life of the debt.

concluded in the post-war period with respect to a sovereign state in default.²³³ The other two securities were issued, respectively, by CREDIOP and ICIPU. In addition to the residual debt attributable to the two institutions, their amount covered the residual debts of the municipalities (assigned to CREDIOP) and of the electricity and engineering firms (assigned to ICIPU).²³⁴ The two non-governmental issues benefited from a State guarantee on principal and interest and, for that reason, obtained the same contractual terms as the “Republic of Italy” security.²³⁵

Even more fruitful was the country’s entry into the Bretton Woods Agreements. This was the outcome of a prudent but farsighted strategy set out by the Ministry of Foreign Affairs and Banca d’Italia. It is recalled above that, in view of the conference that would create the new international monetary system (June 1944), the Bonomi government had advanced the request that Italy be allowed to send a representative as an observer and had requested technical support from the Bank. Within a few days, this Italian request was rejected. The lesson was learned by Einaudi as soon as he was elected Governor. In discussing the matter with Ernesto Rossi, who pressed for faster international integration for Italy and saw an opportunity in Bretton Woods, Einaudi argued that it was important not to “jump the gun” so as not to endanger the credibility of Banca d’Italia and of its delegates.²³⁶ The insertion of the Italian economy into the new international economic order had to follow a sequence: the “biggest issue” – namely participation in the Bretton Woods agreements – had to be approached as the final outcome of regained credibility and not as a prerequisite.²³⁷

The fact is that, when Italy reopened negotiations for entry into the Bretton Woods agreements (spring 1946), the Bank chose to maintain a rather low profile. By informing Corbino of the decision, the Governor committed the Research Department to expanding the relevant dossiers and preparing the decrees, but left the conduct of the formal passages to the diplomatic representation in Washington.²³⁸ It was therefore Alberto Tarchiani who resumed the negotiations by signing, in May 1946, the protocol of commitments required for Italian participation in the two

²³³ The “Republic of Italy” was for a long time a model that inspired the negotiations of other countries that found themselves in conditions of insolvency vis-à-vis the United States.

²³⁴ Of the 136.3 million dollars represented by the new securities issued, the government debt amounted to 40.3 million, that of CREDIOP to 38 million, and that of ICIPU to 58 million.

²³⁵ The relevant documents on the Lombardo mission and the conditions of the new loans are in ASBI, Banca d’Italia, Direttorio Menichella, file no. 63, folder no. 2. For the historical reconstruction of the negotiations, see Asso and De Cecco, 1994, pp. 333-377; Campus, 2008.

²³⁶ Einaudi to Rossi, 22 October 1945, also published in Einaudi and Rossi, 1988, pp. 195-197. Rossi was then Under-Secretary for Reconstruction in the Parri government.

²³⁷ The order of priorities set out by Einaudi corresponded, to a large extent, to the path that was actually followed. It provided for the settlement of the Italian pre-war loans, the possibility of obtaining new loans and the reconstitution of Banca d’Italia’s representation in New York and that of other credit institutions.

²³⁸ ASBI, Banca d’Italia, Direttorio Introna, file no. 3.1, doc. no. 2, Einaudi to the Treasury Minister, 17 April 1946. See also above, section 5.

Bretton Woods institutions (the International Monetary Fund, IMF, and the International Bank for Reconstruction and Development, IBRD). After several months of meetings, the Italian application was officially accepted on 3 October 1946, with the allocation of a quota of 180 million dollars in both the IMF and the IBRD.²³⁹ Only at the final meetings did a Banca d'Italia delegate, Giorgio Cigliana, participate, flanking Tarchiani and his collaborators (Mario Di Stefano and Egidio Ortona).²⁴⁰ When the negotiation began to address crucial themes (such as the exchange rate between the dollar and the lira), Einaudi relied on Carli, entrusting him with an arduous task: to make Italy's adherence to the Bretton Woods agreements operational but, at the same time, to define a gradual path for implementing the institutions created by the agreement so as to avoid an excessively stringent application of the new rules to the existing exchange-rate system.²⁴¹

At that stage, the lira in Italy was characterized by a multiple exchange rate system that differentiated the terms of exchange with the other principal national currencies (especially with the dollar) depending on whether transactions took place on the official market, involved imports or exports of goods and services subject to the specific constraints imposed by the UIC, or were private transactions in informal sections of the market. The position of various leading figures of the IMF and particularly that of the Research Department (headed by Edward Bernstein) was that such a configuration was incompatible with the Bretton Woods agreements: although these agreements contained transitional provisions allowing a more gradual definition of exchange-rate systems with respect to the dollar, they were aimed at attaining single and stable exchange rates. The Italian position, supported above all by Menichella, was that Italy had adopted effective correctives to the variability of multiple exchange rates (specifically, monthly adjustments of the rates against European currencies based on the corresponding average of the dollar rates as determined on the official market and on the export market). Thanks to these correctives, the lira had reached an average exchange rate against the dollar close to the equilibrium rate, more stable than the rate against the other European currencies, and capable of acting as a gradual attractor for the official rate, thus unifying the Italian foreign exchange market.²⁴² In opposition to the IMF's position, Menichella argued that Italy could progress in its adaptation to the rules of Bretton

²³⁹ For a detailed examination of the complex steps that led to Italy's accession and to the fixing of the quotas (lower than expected) in the capital of the IMF and the IBRD, see Cesarano, 2000; Martinez Oliva, 2000.

²⁴⁰ ASBI, Banca d'Italia, Direttorio Introna, file no. 3, folder no. 1, subfolder no. 2, Einaudi to M. Di Stefano, 17 October 1946.

²⁴¹ Carli received the negotiating mandate in February 1947. He became fully operative during the summer of that year, however, when Einaudi had by then become Minister of the Budget in the fourth De Gasperi government while still formally holding the role of Governor.

²⁴² See Menichella, 1947b, pp. 236-237.

Woods without abandoning its own exchange rate system and without assuming any rigid commitment concerning the evolution of that system.²⁴³

The strategy pursued by Menichella had been outlined by Einaudi as early as the summer of 1945 in a meeting with the Parri government. The plan was that Italy had to be ready to assume the commitments and external constraints imposed by the international agreements and should therefore set itself the objective of restoring the convertibility of the lira, but on realistic bases, so as to be able to sustain the choices made over the following years. It was a “pragmatic and realistic” strategy, by no means easy to implement. In Einaudi’s words, restoring the convertibility of the lira and a sustainable exchange rate against the dollar amounted to “climbing the mountain” and, to reach the goal, it was advisable that the Italian economy followed “a winding road” capable of facilitating the ascent. Moreover, during the climb it had to avoid exposing itself to possible speculative attacks.²⁴⁴

Carli proved highly skillful in combining what at first seemed unmanageable demands imposed by Einaudi and Menichella.²⁴⁵ First of all, in his capacity as executive director for Italy, he obtained an appointment as a member of the IMF Executive Board. Soon afterwards, the IMF produced a new report, also shared by Bernstein, in which the harsh criticisms of the Italian exchange-rate regime contained in the original report drafted by the Research Department were softened. That new report still expressed the wish that Italy would abolish the system of multiple exchange rates as soon as possible in order to become fully compliant with the rules of Bretton Woods; at the same time, however, it recognized that this regime had been useful for managing Italy’s balance of payments and had been amended in the right directions, losing those discriminatory features vis-à-vis foreign trade that characterized other systems of multiple exchange rates. The conclusion was that Italy was not failing to honor the commitments assumed in terms of a gradual transition towards the new monetary system. Carli exploited those comments and succeeded in rendering Italy’s adherence to the Bretton Woods agreements operational at an

²⁴³ See, respectively, Menichella, 1947b, pp. 238-241 and Menichella, 1947c, pp. 243-244. The issue, however, also underwent an evolution and provoked controversy within Banca d’Italia itself. In the Annual Report for 1949 (Banca d’Italia, 1950), it was recognized that multiple exchange rates were incompatible with IMF guidelines insofar as they introduced discrimination in international trade, as was well exemplified by the “coexistence of free sterling quotations with the constant quotation of the dollar”. On examining the Baffi Archive, Visco (2010, pp. 66-69) underlined that Einaudi (by then President of the Republic) expressed doubts about the discriminatory nature of that arrangement and asked for clarification. Baffi’s reply, centered on the defense of market exchange rates against those “fixed by authority” and non-convertible, maintained that the latter left room for arbitrage and distortions in trade. Caffè criticized that reply because it underestimated the imbalances and bottlenecks of the fragile market mechanisms of the late 1940s.

²⁴⁴ On Einaudi’s exchange rate policy, see Asso, 1997. The various changes in the exchange rate regime implemented between 1945 and 1947, and the different dollar–lira quotations on the informal markets, are reconstructed in Asso, Biagioli, and Picozza, 1998; Martinez Oliva, 2000.

²⁴⁵ See Carli, 1947, pp. 444-447.

early stage relative to other countries (above all Germany and Japan); moreover, he managed to crystallize, for more than six months (that is, until the definitive implementation of the domestic stabilization policy: see the following Sections 9-12), a de facto protectionist and discriminatory regime that enabled Italy to preserve flexible and multiple exchange rates and to introduce selective incentives for exporters. Finally, following the instructions from Rome, Carli kept the statistics relating to the balance of payments and the gold reserves confidential and thereby avoided compromising the stability of the lira.

Thanks to these successes, Carli consolidated both his own reputation and that of Banca d'Italia and of Italy at international level. Proof of this is that, in the years that followed, Italy was not at all discriminated against in appointments to senior positions in the two new institutions. In addition to joining the IMF Executive Board, Carli received repeated offers for other lasting senior posts, which he declined because he preferred to concentrate his efforts on Italy and Europe.²⁴⁶

9. Postwar inflation: analysis of the causes and the obsolescence of the corrective instruments

The preceding Sections have shown that, at the beginning of the third year of Einaudi's governorship, the process of reconstructing Banca d'Italia had made considerable progress. In addition to having provided a substantial contribution to Italy's gradual integration into the new international order led by the countries that had emerged as winners from the war, the Bank had regained its monopoly over the issuance of legal tender and had strengthened those supervisory powers that – just a few months later – would be consolidated through the establishment of the CICR. In this context, Einaudi had relaxed some of the constraints that limited commercial banks loans. He had removed the requirement to transfer 75 per cent of the increase in bank deposits to Banca d'Italia or the Treasury (April 1945) and he had authorized selective openings of new banking branches. The problem of controlling inflation, however, remained unresolved.²⁴⁷ In 1944 and 1945, inflation had reached peak rates of 150 and 70 per cent per year respectively and, after a five-percentage-point decline in the cost of living between the last months of 1945 and June 1946, it flared up again in the following semester and for most of 1947, hovering around 60 per cent on an annual basis, with peaks above 100 per cent.

In the first months of 1946, due to the robust recovery of production activity and to the (already mentioned) success of the Liberation Loan, there were several reasons that were able to foster the illusion that the inflationary threat was receding.²⁴⁸

²⁴⁶ Carli was offered the directorship of the IMF's Department of Foreign Operations. See the correspondence with Andrew Overby and Emile Gutt of November 1949 in ASBI, Carli Papers, file no. 2, folder no. 5, subfolder no. 3.

²⁴⁷ Baffi, 1958, pp. 330-336; Gelsomino, 1998, pp. 263-268; Gaiotti, 2003, pp. 443-444.

²⁴⁸ Ricossa, 2003, p. 398.

First, it should be stressed that information on price movements (and on other economic indicators) was so fragmentary in those years that Baffi recommended using data for individual products, or for limited sectoral and territorial aggregates of products, rather than constructing synthetic indices.²⁴⁹ Drawing on Silvio Golzio's statistical investigations, focused primarily on the Piedmont region's economy, the governor himself tended to rely on empirical evidence relating both to the municipality of Turin and surrounding areas and to particular raw materials and branches of the engineering industry.²⁵⁰ Consequently, the objectives of monetary stability were not based on setting precise quantitative ceilings for annual inflation rates; rather, they aimed to prevent prices from undergoing uncontrolled changes over the medium to long term. Einaudi's assertion should be read in this light: at the end of 1945, it was not easy to identify "the average level that sums up the price situation" although it was possible to grasp "the general direction" of price dynamics. The wartime trend of the "price indices of individual products", Einaudi argued, could be represented as a marked and significant dispersion of the respective curves, destined to narrow "with the gradual return to normal conditions".²⁵¹

Second, factors still remained in the summer and autumn of 1946 that could explain the resurgence of inflation in Italy as a contingent and temporary phenomenon rather than a structural one. Partly in response to the news concerning the tax exemptions envisaged by the Reconstruction Loan (see above, Section 4), fears persisted regarding the implementation of the extraordinary fiscal measures proposed by Scoccimarro that made it advantageous to replace the holding of financial wealth with the accumulation of stocks of goods. Combined with international tensions in exchange rates and prices, and with domestic policy decisions (the tripling of the prices of agricultural products destined for state stockpiling: the so-called "ammassi"), these fears consolidated the expectation that speculative increases in demand and supply bottlenecks would

²⁴⁹ Baffi, 1948, p. 224. The Research Department in any case produced a rich body of empirical evidence centered on wholesale price indices drawn from ISTAT and on price dynamics for various products and branches of activity. Comparing price dynamics with wage dynamics also made it possible to provide graphical representations of changes in the cost of living and in purchasing power. On this point see: ASBI, Banca d'Italia, Studi, file no. 381, folder no. 28.

²⁵⁰ ASBI, Banca d'Italia, Direttorio Einaudi, file no. 14, folder no. 2, subfolder no. 3, D'Aroma to Golzio, 22 January 1947; ASBI, Banca d'Italia, Direttorio Einaudi, file no. 384, folder no. 1, subfolder no. 82, Golzio to Einaudi, 11 October 1946.

²⁵¹ Banca d'Italia, 1946b, p. 118. Einaudi added (*ibid.*, p. 120): "however much care may be taken in determining average prices, there will always be many reservations". Moreover, in those same years, wage series also displayed weaknesses. Proof of this is that, in the Annual Report for 1946 (see Banca d'Italia, 1947, pp. 100-105), the Governor had to resort to anecdotal information on wage trends because systematic data stopped at 1942 (see *ibid.*, p. 309, table XVI); and, in a memorandum of October 1946 devoted to estimating the proceeds of the Reconstruction Loan, the Research Department only specified wages for individual firms. On this point see: ASBI, Studi, file no. 379, folder no. 6; now in Ricossa and Tuccimei (eds.), 1992, p. 373; see also the previous footnote 249.

occur, with a consequent worsening of inflationary pressures.²⁵² This, in turn, reinforced the speculative hoarding of goods by entrepreneurs and merchants, especially of agricultural products, thus driving up consumer prices. In such a context, it was plausible to believe that measures curbing speculative behavior, together with a connected reversal of expectations, might spontaneously contain inflation.

Baffi himself – who, as will shortly be shown, was among the first to underscore the deeper causes of price increases in Italy during the period under examination – confirmed the plausibility of this sequence of events in a long, seemingly playful note (the narration of an alleged dream), sent to Antonino Occhiuto in January-February 1947.²⁵³

The dream took place in a restaurant with exceptional staff: the *maître* was the former Finance minister and a member of Parliament for the Italian Communist Party, namely the above-mentioned Scoccimarro; the waiters were the Finance minister Corbino and, later, also his successor Bertone; the cook was Einaudi. Starting with the image of a wall clock, Baffi set the beginning of the dream narrative in June 1946, that is, at the date when inflationary dynamics had reignited. First the farmers, and then entrepreneurs and merchants, disregarded the *maître*'s refined culinary advice and just ordered lasagna (in non-metaphorical terms, cash), which they hastened to eat (i.e. to spend) or to take away as leftovers (i.e. liquidity to be hoarded in view of forthcoming and imminent expenditure). All the diners paid for part of their consumption of lasagna with raw materials or foreign currency obtained through speculation. The cook was troubled by the *maître* and the waiters' complacency, as they merely relayed the orders from the various tables, thus forcing him to increase the production of lasagna out of all proportion. Yet being "obliged" to various customers, the cook could not refrain from satisfying all of the demand. This situation repeated itself until the last months of 1946, when urban workers also began to crowd into the restaurant; following – in this case – the *maître*'s advice, they joined the other customers, rapidly eating all the lasagna they could order thanks to their increased nominal wages.

The dream metaphor conveyed a clear message, made even more explicit by the author's various annotations. Baffi emphasized that the behavior of the diners, justified by pessimistic expectations about the resurfacing of inflationary tensions and by the threat of extraordinary fiscal measures, was bound to increase both the money supply in circulation and aggregate demand. These

²⁵² The stockpiling system introduced under fascism and reproduced in the immediate postwar period, entailed the accumulation of wheat and other basic agricultural goods through centralized purchases at fixed prices subsidized by public intervention, so as to keep down the administered price of bread and other staple foods. It is evident that increases in the purchase prices for stockpiling operations implied, everything else being equal, heavier burdens on the public budget.

²⁵³ ASBI, Carte Baffi Papers, Monte Oppio, file no. 18, folder no. 2, Baffi to Occhiuto, undated but presumably March 1947; also published in Ricossa and Tuccimei (eds.), 1992, pp. 410-413. Antonino Occhiuto, who would later become Deputy Director General of Banca d'Italia, worked closely with Baffi in the Research Department at that time.

increases were reinforced by the growth of bank credit and deficit-financed public expenditure, as well as by the injection of liquid reserves into market exchanges. Moreover, the increase in demand clashed with the constraints of aggregate supply, burdened by the speculative hoarding of part of the goods produced.²⁵⁴ The peak had been reached in the last months of 1946, when there were real wage increases.²⁵⁵ In the dream, the further rise in aggregate demand was thus connected with upward pressures on production costs.

In line with what Menichella argued, in January 1947, in his address to the assembly of the Italian Banking Association,²⁵⁶ one possible interpretation of Baffi's dream is that the wage increases of the last months of 1946 were the crucial factor in the transition from a contingent inflationary dynamic to a structural spiral that – to repeat Menichella's expression before the bankers – risked “being never-ending”. Moreover, in the Final Considerations for 1946, Einaudi acknowledged that prices had displayed a “strongly upward trend” during the months immediately preceding the wage increases; however, at the same time he maintained that the mere quantitative configuration of the market did not yet create “the premises for a long-lasting rise in prices”.²⁵⁷ If this reading were exhaustive, it would follow that Banca d'Italia had only had to face a high risk of uncontrolled price dynamics in the last months of 1946.

The crucial point is that Baffi's dream examined other possible determinants of Italian inflation that were also structural in nature: the greater availability of bank credit and the increase in deficit public spending had generated immediate increases in money's velocity of circulation. Baffi assumed that the renewed inflation in the second half of 1946 was also, and above all, due to at least one of these two ingredients, i.e. to the banking channel and/or to Treasury behavior. On this basis, he added that, by the end of 1945, there would already be sufficient empirical data to underline the temporary character of the fall in the cost of living during the last months of that year and the imminent high risk of structural (i.e. uncontrolled) price increases.²⁵⁸ It is important to note immediately that, aside from their different points of view (see below), both Einaudi and Baffi attached great importance to changes in money's velocity of circulation.

²⁵⁴ In describing the “dream”, Baffi confessed to Occhiuto that “that oracle of La Malfa” had already partly anticipated for him the distortions produced by the behavior of economic operators; the dream had, however, helped him to understand more clearly “the distribution of roles among maître, waiters, and cook.” See the references in the previous note and, in particular, Ricossa and Tuccimei (eds.), 1992, p. 411.

²⁵⁵ See also Baffi, 1958, pp. 348-350.

²⁵⁶ ASBI, Carte Menichella, file no. 63; now also in Ricossa and Tuccimei (eds.), 1992, p. 397. Hereafter cited as Menichella, 1947a.

²⁵⁷ Banca d'Italia, 1947, p. 111.

²⁵⁸ Baffi used an effective expression – “dead calm” – to indicate the transitory character of the decline in “free prices” during the first half of 1945 (see Baffi, 1986, p. 111).

In this respect, the evidence available on money in circulation was so clear as to leave little room for ambiguity. As Baffi and other scholars have pointed out,²⁵⁹ over the three years between the beginning of 1945 and the end of 1947, the velocity of money circulation increased by about two and a half times, while total deposits increased fourfold, expanding by almost 60 per cent in 1945 alone; moreover, during the two years 1944 and 1945, the amount of public debt increased by almost 660 billion lire; finally, Banca d'Italia's financing in favor of the Treasury accounted for almost two thirds of the money in circulation. Within the Bank, the shared recognition of the potential impact of these liquidity excesses on prices led different actors to attribute the major inflation risks to different sources.

Many commentators have observed that Einaudi focused on disequilibria in the public balance sheet and on the systematic pressure exerted by the Treasury on the Bank to cover a large share of the related deficits and maturing debt stock through the issuance of new money and increases in circulation. Consequently, and in keeping with the traditional interpretation later absorbed into Italian monetary historiography,²⁶⁰ the governor argued that the most effective way to counter inflation risks required draining liquidity from the monetary channel by reducing the disequilibria of the public balance sheet, or sterilizing part of the money in circulation.

Baffi's work, together with that of other economists in the Research Department, instead supported a more nuanced view. Baffi and his collaborators showed that it would have been inappropriate to place the entire burden of adjustment on the Treasury alone and – secondarily – on Banca d'Italia.²⁶¹ In the short term, public budget imbalances compelled the State to tackle substantial debt positions and probable increases in future indebtedness. At the end of 1946, savers and banks held roughly 200 billion lire in Treasury bills with short maturities and about 140 billion lire in short-term or demand deposits at Banca d'Italia. Moreover, the latter would not have been able to refuse possible requests from banks for immediate rediscounts amounting to tens of billions in connection with stockpiling operations. The implication was that, given the need for significant State support for the resumption of production activity and for containing social precarity, it would not have been possible in 1945 and 1946 to implement severe cuts in public expenditure or to envisage substantial increases in tax revenues.

This leads to an initial conclusion that, at least in part, brings Einaudi's and Baffi's analyses together: the inflationary upturn in the second half of 1946 and in the first months of 1947 was to

²⁵⁹ See Baffi, 1958, pp. 355-360; Baffi, 1953, p. 283; Gelsomino, 1998, pp. 263-270; Caracciolo and Gelsomino, 2003, pp. 383-387; Barucci, 2008, pp. 42-43 and 60-61. Baffi (1963, pp. 265-266) examines the specific trends in the various phases.

²⁶⁰ Spinelli and Fratianni, 1991, p. 11.

²⁶¹ See Mancini 1948a and 1948b. See also Baffi, 1948, pp. 213-214; Baffi, 1963, pp. 259-260.

be attributed to the increased demand for liquidity by market operators and to the associated increase in the velocity of circulation.²⁶² Baffi added two crucial insights to this picture. First, Italy's inflationary potential in that period derived above all from the expectations and behavior of market operators and would have been very high even without the Treasury's contribution. While he was ready to admit that the stock of public debt had been one of the factors triggering price dynamics since 1943, Baffi drew the implication from this first insight that excessively severe adjustments of the public deficit and the connected Treasury management risked worsening the ultimate cause of inflation, namely expectations. His second insight was that the importance of the increased velocity of circulation for inflationary dynamics also demanded a focus on – if not above all – the banking channel.

These analyses help us better understand why Einaudi attached such importance to national loans (the Reconstruction Loan as well as the Liberation Loan) as instruments for draining liquidity from circulation and thereby containing excessive price increases. Between the end of 1946 and the beginning of 1947, the possible outcome of such loans nourished the hope of taming inflationary excesses without resorting to severe restrictions on the banking channel.²⁶³ The fact that, shortly thereafter, the Reconstruction Loan proved ineffective for that purpose was crucial in making the importance of the banking channel clear and in reconstructing more fully the set of possible causes of inflationary excesses in the Italian economy.

In a note drafted at the end of 1944 and published more than three years later, Baffi made a clear statement: the excessive liquidity hoarded by the banking sector and by other intermediaries implied that “real” inflation was far lower than “potential” inflation. Therefore, “if the money flowing into the banks is put back into circulation, it will end up having its full effect on incomes and prices, which, by increasing the need for cash, will keep it permanently in active circulation”.²⁶⁴ Moreover, the data and analyses worked on by Banca d'Italia's Research Department during 1946 confirmed two important aspects that have already been mentioned: (i) the phenomenon of the increased velocity of circulation was of the utmost importance both in

²⁶² See also Menichella, 1956, pp. 660-662.

²⁶³ As early as the beginning of March 1945, the governor showed concern about the excesses of monetary circulation. In a conversation with Carli recalled in his *Diary* (Einaudi, 1993, p. 182), the need emerged to prevent government measures from increasing circulation and undermining “the success of government loans.” It should also be noted, however, that from the autumn of 1946 onward the governor adopted more cautious attitudes regarding the causes and evolution of inflation (Nerozzi, 2021, pp. 192-195). It should further be specified why Einaudi's position corresponds only partially to the analyses of Spinelli and Fratianni (1991, 2001), who apply the Friedmanite version of the quantity theory of money to the Italian case. Spinelli and Fratianni seek to prove that changes in the amount of money determine changes in prices and depend to a large extent on the Treasury channel. One implication of their analysis is that the banking channel should be relegated to the background. In what follows, we shall show that Einaudi's position cannot be fully assimilated to such an approach.

²⁶⁴ Baffi, 1948, pp. 209 and 211.

explaining the inflationary excesses of the recent past and in making the probability of strong price increases in the immediate future very high;²⁶⁵ and (ii) this phenomenon was due above all to the discontinuous but massive injections of means of payment into market transactions, stemming from the generous financing granted by highly liquid banks and from the behavior of holders of bank deposits.²⁶⁶ The decline in private hoarding had generated substantial outflows of bank deposits from the circuit overseen by Banca d'Italia and the Treasury; and these phenomena had also translated into a marked increase in lending and, at least in the short term, into excess demand compared with the aggregate supply of goods. Baffi and his team were therefore convinced that the price stagnation was transitory and that the inflationary process was being fueled above all by the banking channel.

As we shall try to argue in the next sections, it would not be exhaustive to draw definitive conclusions from the analysis conducted so far. Specifically, it would be hasty to maintain that Banca d'Italia had not undertaken significant monetary policy restrictions as early as the first half of 1945 or – more realistically – in the summer of 1946 because of two factors: the predictable predominance of the governor's point of view, and the impracticability of cutting public expenditure, given the priority of supporting economic recovery and containing social precarity. It should be stressed in this regard that, in the face of the actual inflationary resurgence of mid-1946, no representative of Banca d'Italia maintained that the phenomenon could be traced back to a single cause. The thesis that gradually acquired a wider consensus was that several factors were accumulating, even if the banking channel was becoming the dominant and the most disruptive one.²⁶⁷ At the beginning of the second half of 1946, however, the prevailing opinion remained that, alongside the banking channel, other factors also had to be taken into consideration.

²⁶⁵ This helps explain why Banca d'Italia regarded the velocity of money as sensitive information to be kept confidential. It is emblematic in this regard that, at the start of the stabilization policy (early September 1947), Menichella recommended not communicating to the press the monthly data on the growth rates of monetary circulation and on the inflationary dynamics of autumn 1946. He maintained that the data in question were "sensitive" and should not be "put within reach of all journalists" (FLE, ALE, folder 'Donato Menichella', Menichella to Einaudi, 6 September 1947).

²⁶⁶ See Mancini, 1948a and 1948b; see also Baffi, 1963, p. 268. The issue was also addressed by the Research Department in a draft of the Banca d'Italia's Annual Report for 1947, presumably written between January and February 1948 (see ASBI, Banca d'Italia, Studi, file no. 302, folder no. 4). That draft contains Menichella's marginal annotations; of particular interest is the handwritten note stating that "it must be said with figures, and let whoever wishes to understand, understand."

²⁶⁷ Baffi involved La Malfa in order to reach a common interpretation of the causes of the renewed inflation, one emphasizing the importance of the banking channel and expectations and one that would be convincing to the governor. In a letter of 4 March 1947, Baffi wrote to La Malfa: "the governor informs me that he has asked for your assistance in investigating, together with us, what facts lie behind the increase in circulation recorded between May 1946 and 20 January 1947 [...]; from the observation that in the Bank's balance sheet the issuance of notes has an almost complete counterpart in certain items of direct or indirect provision of notes to the Treasury (currency financing, stockpiling and the Allies), one cannot infer, in my view, that in the absence of those expenditures there

The public-budget channel was characterized by imbalances stemming from the distorted management of stockpiling operations, the difficulty in reabsorbing the am-lire, and the inability to control current expenditure.²⁶⁸ Considerable importance was also attached to international factors. We have already shown the existing links between the worsening of expectations – caused by the economic consequences of the Peace Treaty and, more generally, by Italy’s difficulties in the international context – and the increase in inflationary pressures (see Section 8). In addition, for a variety of reasons, the foreign trade channel heightened price instability. For example, this channel partly facilitated decentralized accumulations of stocks of other countries’ currencies and fueled repeated changes in the lira’s exchange rate against the most important international currencies. Lastly, pressure on prices was also due to imbalances between aggregate demand and aggregate supply, resulting from shortages of raw materials in international markets and the consequent bottlenecks in domestic production processes. This highly complex picture led Baffi to reiterate that it would have been “specious” to trace the Italian inflationary process back to a single factor, even though “from 1947 onward, the expansion of commercial credit, increasingly fueled by withdrawals from banks’ deposits with the issuing institute, became the predominant cause”.²⁶⁹ For his part, while always privileging the monetary channel for the transmission of inflation, Einaudi was aware of the growing importance of the banking channel.²⁷⁰

These considerations nonetheless leave open the reasons underlying the postponement of the monetary stabilization maneuver by Banca d’Italia, which was conceived at the end of 1946, proposed at the beginning of 1947, and only fully implemented in the second half of that year. As has already been noted in part regarding the establishment of the CICR (see Section 6), this tortuous process can be traced to a complex set of economic, political and institutional factors. Our thesis, which will be discussed more fully in the next section, is that the governor’s desire not to hinder the development of the real economy carried considerable weight. A significant role

would have been no increase in circulation. On this the governor seems to agree, and I think this is why he wishes to be informed by us about the nature and action of the other autonomous factors of inflation which have caused the market to retain the notes that flowed out through those channels” (ASBI, Banca d’Italia, Studi, file no. 384, folder no. 1, subfolder no. 56, Baffi to La Malfa, 4 March 1947).

²⁶⁸ See in particular Baffi, 1948, pp. 210-219; Baffi, 1963, pp. 266-268.

²⁶⁹ Baffi, 1963, p. 268. In another passage just before the one cited (*ibid.*, pp. 267-268), Baffi reconstructs both the factual situation and Einaudi’s view: “one may [...] affirm that, around the middle of 1946, the three principal factors for variation in the money supply [public budget, bank credit, foreign sector] entered into action simultaneously, and all initially exerted their effect in an expansionary direction [...]. Of the three causes of expansion in circulation, the use by banks of the excess liquidity accumulated during the war years appears to Einaudi as a fact that must be endured; it does not seem that he ever contemplated blocking deposits, especially those of the banks”.

²⁷⁰ This point is emphasized both by Menichella (1966, pp. 838-839) and by Baffi (1963, pp. 268 and 272). Our reading finds at least partial confirmation in Gelsomino’s thesis (1998, pp. 265-269). The latter differs, however, from Omiccioli’s interpretation (2000, pp. 41, 45-48, and 51), according to which Einaudi underestimated the inflationary impact of the banking channel, also because of the limitations of his theoretical framework (see below).

must, however, be given to the ineffectiveness of the policy tools then available to monetary authorities for restricting the injection of liquidity through the banking channel. It is important to clarify this latter aspect immediately, because it is preparatory to the more detailed description of Banca d'Italia's choices that we shall provide in the next section.

In principle, Banca d'Italia could have resorted as early as 1945 to regulations dating back to the first Banking Law of 1926, still in force, which allowed the supervisory authorities to impose binding maximum thresholds on the ratio between the total amount of deposits and the value of banks' capital. On the basis of those provisions, each bank would in fact have been obliged to freeze at Banca d'Italia – either in the form of compulsory deposits (subsequently also allocable at the Treasury) or of government securities – the equivalent of the stock of deposits recorded on the liabilities side of its balance sheet in excess of twenty times the value of its capital. However, various analyses produced by the Research Department and the Supervisory Department of the Banca d'Italia showed that a mechanical application of those old rules would have entailed excessive restrictions on the financing of the Italian economy.²⁷¹ In order to comply with the 1:20 ratio, many credit institutions would have been forced to demand the early repayment of substantial portions of the debts incurred by their borrowing firms, since the nominal value of their loans and deposits had been pushed up by inflation, whereas the increase in the value of capital in 1944 and 1945 had not kept pace with the growing dynamics of prices.²⁷²

As noted above (see Section 6), Italian banks strengthened their capital endowments in 1946. Moreover, in October 1945, the governor requested that the deposits-to-capital threshold be raised from 1:20 to 1:30, and his request had been accepted by Treasury Minister Corbino as early as February 1946.²⁷³ These limited adjustments were, however, not sufficient to enable application of the new threshold. Banca d'Italia's empirical findings showed that even a 1:30 ratio would have generated excessive imbalances in credit support to different categories of firms and to different territorial areas, causing macroeconomic instability and unsustainable difficulties for many banks. The composition of the balance sheets and the capital adequacy of different types of credit institutions – and of specific banks within the same type – were in fact so divergent that

²⁷¹ See ASBI, Banca d'Italia, Vigilanza sulle aziende di credito, file no. 231, folder no. 1, Memorandum for the Governor, 12 February 1947.

²⁷² In an initial version of the text to be included in the *Annual Report* for 1947, Baffi dwelt on the reasons that would have prevented the application of the 1926 rules. In a handwritten note in the margin of Baffi's observations, Menichella added that: "Governor Einaudi was the first to be aware that the application of the [old] rule [...] would in numerous cases have proved practically impossible" (ASBI, Banca d'Italia, Studi, file no. 320, folder no. 4, Draft by Baffi and Mancini of the Report for 1947, with Menichella's handwritten notes, undated but February-March 1948).

²⁷³ ASBI, Banca d'Italia, Vigilanza sulle aziende di credito, file no. 231, folder no. 1, Einaudi to the General Director of the Treasury, 17 October 1945.

application of the 1:30 ratio would have created impossible constraints in too many cases and would therefore have encouraged forms of non-compliance and indiscipline.

These observations were confirmed by the protests sent by various banking associations to Banca d'Italia and to the Treasury as early as January 1946.²⁷⁴ They acquired fresh momentum between the second half of 1946 and the beginning of 1947 in response to the threatened application of the 1:30 ratio, which appeared justified by the persistent expansion of credit and by the urgency of an anti-inflation intervention.²⁷⁵ These concerns of the banking community were endorsed at an early stage by a letter from the Treasury Ministry (20 August 1946), which informed Banca d'Italia that the major banks (especially those of national interest) would have encountered unmanageable difficulties in complying with the 1:30 ratio. Corbino rather clumsily proposed applying a 1:40 ratio "only to them", with an increase in the returns paid on restricted assets.²⁷⁶

The positions taken by the Treasury and the banks proved superfluous, because the new supervisory stance was moving in different directions. Four months passed (until December 1946) before Banca d'Italia replied to the Treasury and acknowledged that, in effect, the application of the 1:30 ratio would have caused sizeable uncovered positions for the three banks of national interest (17 billion lire for Comit, 12 billion for Banco di Roma, and 7 billion for Credit), to the point of requiring adjustments to the fiduciary funds (i.e. total deposits) that would have had to rise as high as 75.4 per cent in the case of Banco di Roma.²⁷⁷ Balance sheet disequilibria would then have extended to other types of banks as well, albeit with marked variations, making it plain that not even further and generalized increases beyond the 1:30 ratio would have solved the problem. These considerations justified Banca d'Italia's refusal of the Treasury's requests: the reply letter rejected any proposal to differentiate the rules by type of bank. The most significant

²⁷⁴ ASBI, Banca d'Italia, Vigilanza sulle aziende di credito, file no. 231, folder no. 1, Visentini to Einaudi, 12 January 1946. At the time, Bruno Visentini was President of Banca Popolare di Treviso.

²⁷⁵ In January 1947, Stefano Siglienti (then President of the Italian Banking Association) argued that the application of the new rule (the 1:30 ratio) at the end of 1946 could only be temporary and partial, since its systematic implementation would have required a freezing of liquidity amounting to 185 billion lire (that is, one third of the entire assets under administration), doing serious harm to the financing of the real economy. Siglienti therefore advised Banca d'Italia to proceed with "tolerance" or to raise the ratio to at least 1:50, possibly by ensuring even less restrictive constraints for the major banks (ASBI, Banca d'Italia, Vigilanza sulle aziende di credito, file no. 231, folder no. 1, Siglienti to the Treasury and to Banca d'Italia, 15 January 1947).

²⁷⁶ ASBI, Banca d'Italia, Vigilanza sulle aziende di credito, file no. 231, folder no. 1, Corbino to Einaudi, 20 August 1946. Corbino justified the preferential treatment for the major banks on the grounds that they 'undoubtedly offer superior guarantees'. Corbino proposed, in addition to extending the ratio, the possibility of 'counting extraordinary reserves as part of capital'. Both requests provoked Einaudi's skepticism, who then put a series of question marks in the margin of Corbino's letter.

²⁷⁷ ASBI, Banca d'Italia, Vigilanza sulle aziende di credito, file no. 231, folder no. 1, Einaudi to Corbino, December 1946; ASBI, Banca d'Italia, Vigilanza sulle aziende di credito, file no. 231, folder no. 1, Einaudi to all branches, 25 February 1946.

aspect of that letter, however, was another one: for the first time, Banca d'Italia hinted at the need for radical amendments to the rules in force. The proposal to replace the old rules with an innovative use of bank reserves laid solid foundations for the policy instruments that would characterize the stabilization policy of 1947 (see the following Section 11).

10. Laying the groundwork for stabilization

The complexity of the determinants of Italian inflation, the abrupt inflationary resurgence after a phase of apparent stability, and the obsolescence of the tools available for intervention through the banking channel all supported the central bank's choice of a wait-and-see stance; conversely, the picture outlined above does not support the thesis that excessive price increases only became structural in the last months of 1946. It is therefore necessary to disentangle these different signals to arrive at a credible explanation of why, between December 1946 and January 1947, Banca d'Italia laid the foundations for the stabilization policy that would only be fully implemented in September 1947 through the introduction of new monetary policy instruments.

An initial element to be considered emerges from the empirical evidence gathered by the Bank's Research Department. As already noted, especially since October 1946 onwards, the data showed the progressive predominance of the banking channel in shaping Italian inflationary dynamics.²⁷⁸ At that stage, banks were in fact carrying out substantial reductions in their hoarded liquidity in order to expand lending. They used the unrestricted share of the deposits they held with Banca d'Italia and the Ministry of the Treasury for this purpose.²⁷⁹ In addition to increasing the quantity of money in circulation, this rendered ineffective the traditional anti-inflationary instruments available to the Bank with regard to the monetary channel, namely the use of more restrictive price and quantity conditions in rediscounts and advances.²⁸⁰ These factors led Baffi, his collaborators in the Research Department, and the Governor's advisers (particularly La Malfa) to step up their pressure on Einaudi, Menichella, and the senior officials of the Bank's main departments so that there would be full awareness of the limits of the old set of monetary policy instruments and of the need to equip the Bank with new forms of intervention, especially with regard to the banking channel.

In the very short term, these efforts did not appear to meet with success. The Governor alluded to the possibility of credit-driven inflation in two speeches before the Constituent Assembly.²⁸¹ The

²⁷⁸ See Baffi, 1963, already cited, p. 268. See also Mancini 1948b, pp. 157-159.

²⁷⁹ The problem was exacerbated by the fact that just under two thirds of the increase in lending was attributable to the banks of national interest and the ordinary credit banks, whereas the public-law credit institutions were more moderate in their behavior, and the saving banks and cooperative banks appeared extraneous to the trend.

²⁸⁰ See also Baffi, 1961, p. 416; Menichella, 1966, p. 838; Gelsomino, 1998, p. 270.

²⁸¹ Einaudi, 1946; 1947c.

reference to this possible cause was, however, ambiguous, since it remained subordinate to the thesis that the dominant inflationary factor should lie in public deficits and – above all – to the thesis that bank lending should not be curtailed, because it served as an essential driver of reconstruction and economic recovery.²⁸² The proof lies in the fact that, during the preparatory work for the “Concluding Remarks” on 1946, the Governor decided to excise a passage from a note by Baffi which underscored the inflationary risks of excessive expansion of bank credit.²⁸³ Moreover, in the definitive version of those Remarks, Einaudi reiterated that the inflationary threat could not be countered without drastic adjustments to the public deficit and a reduction in its monetary financing: “until provision has been made to cover all public expenditures, including those that appear to be investment operations, without recourse to banknotes, we shall not have banished the specter of inflation”.²⁸⁴

Moreover, in the same speech,²⁸⁵ Einaudi also referred to what we believe to have been not merely another possible explanatory element of the stabilization initiatives undertaken by Banca d’Italia in the meantime, but the key factor that helps to explain both the timing of the new policy and Einaudi’s degree of involvement: the partial failure of the Reconstruction Loan.

As noted above (see Section 4), the Reconstruction Loan had produced proceeds of 231 billion lire at the beginning of January 1947. Yet more than half of that amount had been covered by the liquidation of bank deposits, blocked securities, and other financial items that were already out of circulation. Consequently, the loan had not brought about any significant reabsorption of the excess liquidity in circulation. As Einaudi admitted, the cash proceeds had to be reduced to the more modest figure of 102 billion lire. Moreover, in introducing a long list of previous public commitments and rhetorical questions intended to show that Banca d’Italia had been compelled to cover a substantial share of public deficits through monetization, Einaudi emphasized that – between the end of May 1946 and mid-January 1947 – monetary circulation in Italy had increased by approximately 104 billion lire. The implication was obvious: the Reconstruction Loan had failed to reduce the excess liquidity that had accumulated in late spring 1946, triggering the renewed inflation. At best, the Reconstruction Loan had been capable of preventing upward pressures on price levels, and the resulting push towards further increases in circulation, from feeding a vicious spiral that Banca d’Italia would have found very difficult to keep under control.

²⁸² Einaudi (1947c, pp. 470-472) stated that the possible inflationary impact of credit growth exceeding that of paper money was “a very delicate problem” on which he preferred to refrain from taking either a favorable or an adverse position.

²⁸³ ASBI, Banca d’Italia, Vigilanza sulle aziende di credito, file no. 255, folder no. 2, subfolder no. 4, ‘Memoria per la relazione del Governatore (1946)’, undated but presumably written in January-February 1947.

²⁸⁴ Banca d’Italia, 1947, p. 239; see also Omiccioli, 2000, pp. 55-56.

²⁸⁵ Banca d’Italia, 1947, pp. 222-225 and 241.

In light of our preceding analysis of the Reconstruction Loan, this interpretation makes it very important to determine where responsibility lay in the design and launch of the loan in question. As noted above, in the first months after his appointment as Director General, Menichella devoted serious efforts to representing Italy at the most sensitive international negotiating tables.²⁸⁶ Thanks to the successes he achieved in that crucial role, Menichella was chosen by President De Gasperi to serve as Treasury Minister in September 1946, replacing Corbino who had resigned from office. Despite the appeal he received from Einaudi himself to take on the new position, Menichella declined the proposal.²⁸⁷ With the Governor's fully convinced approval, however, he did agree to take part in the informal meetings of a "Committee of Ministers" charged with defining the government's lines of economic policy.

According to Carli, in carrying out that task, Menichella became the principal architect of the Reconstruction Loan and fully involved his home institution in the project.²⁸⁸ The leaders of Banca d'Italia were aware that the outcome of the loan would be decisive in the fight against inflation, but also that the initiative ran a high risk of proving ineffective. It is therefore reasonable to suppose that Menichella shared with the Governor the responsibility for the design of essential clauses of the loan; nor is it surprising that even some important though detailed aspects concerning the terms offered to subscribers (such as the size of the premiums and their frequency) were defined by senior officials of Banca d'Italia.²⁸⁹ The contribution of the Treasury minister at that time (Giovanni Battista Bertone) was instead quite minimal, and his role was confined to that of signatory and mere executor.²⁹⁰

Despite Banca d'Italia's apparently extensive involvement, the weaknesses and distortions in the design of the Reconstruction Loan were profound and evident. As already noted above (see Section 4), these aspects were expressed in the criticisms voiced by members or external advisors

²⁸⁶ It should be noted that it was precisely these international commitments that prevented Menichella from playing an active role in the preparation of the Concluding Remarks for 1946 (Baffi 1986). Consequently, the new Director General remained in the background in the debate on the causes of Italian inflation.

²⁸⁷ The Governor was so determined to press the Director General to accept the government appointment that he took steps to ensure that, once the ministerial mandate ended, Menichella would be guaranteed immediate reinstatement to his previous position at Banca d'Italia through a new *ad hoc* legislative measure. See AFLE, FLE, Corrispondenza 'Donato Menichella', main file 1, Einaudi to Menichella, 14 September 1946.

²⁸⁸ Carli, 1993, p. 48; see also Omiccioli, 2000, p. 54.

²⁸⁹ ASBI, Baffi Papers, Monte Oppio, file no.39, folder no.6, November 1949.

²⁹⁰ *Ibidem*. In a long interview for *Settimana Incom*, Minister Bertone presented the setting and main conditions of the loan in such an uncertain and inadequate manner as to make plain both the marginality of his contribution and the insufficiency of his technical knowledge for assessing the conditions under which the new security was issued. See the interview with Bertone produced by the Istituto Luce and available at: <http://faregliitaliani.archivioluce.com/FareItaliani/1945-1/la-nascita-della-repubblica/1946/Il-ministro-del-Tesoro-Bertone-avvia-il-Prestito-della-ricostruzione-legato-alla-strategia-di-rilancio-delleconomia-del-governo-insieme-allimpo.html#contMediaspace>. We thank Massimo Omiccioli for drawing this interview to our attention.

of Banca d'Italia's Research Department well before the new public bonds were issued.²⁹¹ The controversial aspects of the loan were stigmatized by Baffi himself, who spoke in this regard of vexatious clauses that were difficult to understand and impossible to justify, while suspending judgment on the degree of involvement of Menichella and Einaudi.²⁹² It should be added that the documentation used for the Bank's Annual Report for 1951 later revealed a clear awareness of the "profound injustice" committed against those savers who had subscribed to the Reconstruction Loan and who had thus suffered substantial losses in the real value of their wealth.²⁹³

The failure of this loan to counter inflationary excesses, together with the connected penalization of wealth holders, offers a credible and by no means obvious answer to the question with which this section opened: why did Banca d'Italia launch the monetary stabilization policy in the first months of 1947 rather than in the first months of 1945 or – more realistically – in the second half of 1946? That failure also explains why Einaudi, who was still giving predominant weight to the monetary channel as the cause of inflationary excesses in late spring 1947, became an active participant, as Minister of the Budget, in a stabilization policy centered on the banking channel.²⁹⁴

Starting with the Annual Report for 1945 – and even more clearly in the two aforementioned speeches before the Constituent Assembly – the Governor made it plain that his priority was to strengthen production growth even at the cost of underestimating excesses in price dynamics.²⁹⁵ In the Report it was argued that, in order to overcome such excesses, the Italian population had to "look reality in the face". The relatively modest war damage suffered by the industrial apparatus, together with Italy's inclusion in the first international aid programs, were "promising signs" of a great opportunity: overcoming production bottlenecks in order to strengthen growth potential. The reality that had to be looked "in the face" consisted in exploiting these opportunities. In this regard, it was necessary to draw on the substantial liquid reserves held above all by the banking sector,

²⁹¹ As Baffi recalls (1986, p. 113), the most critical were Steve and Coppola D'Anna. The latter went so far as to ask Baffi (1946, pp. 354-356) to convey his caustic observations to the Governor and the Director General.

²⁹² Baffi writes (1986, p. 114): "To what extent Einaudi and Menichella advocated the formula adopted, or merely submitted to it, is not clear to me [...]; at the sitting of the Constituent Assembly on 18 September De Gasperi thanked him [Menichella] for the work he had carried out in that forum".

²⁹³ See ASBI, Banca d'Italia, Segreteria particolare, file no.435, folder no.1, where an undated note is preserved, but one presumably preparatory to the Annual Report for 1951, cited also by Leonardi, 2008, p. 632, n. 120.

²⁹⁴ This apparent contradiction is also underscored by Omiccioli (2000, pp. 51-52), who resolves it by arguing that: (i) Menichella relied on an explanation of inflation that was very different from Einaudi's; (ii) the substantive authorship of the stabilization policy should be attributed to the Director General of Banca d'Italia rather than to the Governor (see *ibid.*, pp. 53-57). Omiccioli's thesis is shared, and more strongly expressed, by Gigliobianco, 2006, pp. 235-237. This interpretation does not appear convincing to us because it would imply that Einaudi stepped back precisely when his patient weaving of the country's economic reconstruction was beginning to bear tangible, though problematic, fruits.

²⁹⁵ Banca d'Italia, 1946b, pp. 160-161.

to employ those reserves for production purposes, and to trust in the efficacy of banks' own allocative choices in supporting the country's economic development. These elements would benefit Italy's recovery far more than public intervention, however inevitable, could do.

The importance of developments in the real economy, and the role assigned to bank credit as a decisive factor in Italian economic growth, help explain why, between 1945 and the end of 1946, Einaudi regarded the traditional monetary channel as the fundamental cause of excessive inflation rates. Only by privileging that channel did it make sense to safeguard growth and proceed gradually – rather than through immediate and radical restrictive intervention – to contain price increases that were settling above 100 per cent on an annual basis. On the one hand, although it had not been deeply damaged by wartime events, Italy's production apparatus was structurally fragile and would not have been capable of expanding in the face of drastic cuts in bank lending; on the other hand, the widespread poverty of the Italian population made the economic and social costs of abrupt cuts in public expenditure utterly intolerable. Budget adjustments spread over time could instead be compatible with persistent economic growth, provided that they were combined with the institutional adjustments expected over the medium term: the progressive abolition of politically fixed prices for essential goods, the gradual attenuation of the distortions associated with stockpiling operations, the reform of the wage-indexation mechanism, and a reduction in the across-the-board state subsidies granted to facilitate an initial phase of reconstruction for industrial plants.

As mentioned in the previous Section,²⁹⁶ there were specific indicators that supported Einaudi's propensity to proceed gradually with adjustments concerning the monetary channel. In the period 1945-46, the inertia of public interventions would in fact have rendered attempts to reduce expenditure in the short term little more than wishful thinking. In those years, the tripling of the prices of agricultural products delivered to public stockpiles by the government was decided upon, with the aim of supporting production in the sector but with the immediate impact of increasing public expenditure and triggering inflationary expectations. The consequences were aggravated by simultaneous increases in international prices, which led to further State subsidies in order to keep down the price of bread. Inflationary expectations were then fueled by the widespread waves of pessimism that reached particularly high peaks in conjunction with the news emerging from the Paris Conference regarding the punitive clauses that the Peace Treaty threatened to impose on the Italian economy. This gave rise to the already mentioned increases in stocks of raw materials and the related speculative rises in the stock market, which, combined with tensions in the labor

²⁹⁶ See also Gelsomino, 1998, pp. 264-268.

market, aggravated supply-side bottlenecks.²⁹⁷ Finally, the mooted introduction of a wealth tax on all forms of wealth prompted increases in current expenditure.

In addition to being worrying, the picture described above strengthened the thesis that the most effective way to reabsorb inflationary dynamics linked to the monetary channel was to achieve high rates of economic growth. Accordingly, although the governor was aware of other possible determinants of price dynamics – if only because of the evidence produced by internal research at Banca d'Italia – Einaudi accepted the risk of favoring the partial view of an inflation driven by the monetary channel in order not to hinder the ongoing strengthening of production processes.²⁹⁸ It should also be added that the Governor did not only attribute negative effects to a moderate inflationary dynamic, which was instead seen as a potential stimulus to the growth of the real economy and to the support of accumulation processes. Moreover, increases in the price level contributed substantially to the absorption of the very causes of inflation by reducing the weight of public debt relative to the nominal level of the income produced.²⁹⁹ However, applying these considerations to the disruptive inflationary dynamics that struck the Italian economy in those years would be to give a distorted view. What has been said does not therefore support the extreme thesis that the Governor deliberately accommodated the inflationary explosion to restore the public balance sheet.³⁰⁰

Our considerations provide a plausible explanation of why Einaudi did not wish to impose binding constraints on the activity of the banking sector in 1945. Moreover, these same arguments offer an equally plausible justification of why, in the second half of 1946, the Governor decided to alter his strategy. The onset of a new inflationary process, threatening to be both severe and persistent, notwithstanding Italian economic growth that exceeded even the most optimistic forecasts,

²⁹⁷ On the daily correlation between information coming from Paris and the movement of stock-exchange values, see ASBI, Banca d'Italia, Studi, file no.513, folder no.1, Baffi to the ministry of Foreign Affairs, 16 September 1946.

²⁹⁸ As Barucci recalls (2008, pp. 24-27), drawing on a speech delivered by De Gasperi to the Senate at the end of November 1949, Einaudi was, in various capacities, a protagonist of the three phases of economic policy that characterized Italy during the reconstruction period: economic recovery, which included the fight against poverty and the modernization of infrastructure; the struggle against inflation and monetary stability; and productive efficiency and international openness. The temporal sequence of the three phases confirms that Governor Einaudi gave priority to economic growth.

²⁹⁹ As Omiccioli points out (2000, p. 40), Einaudi (1943) had already written during his exile that, in Italy, the likely resumption of inflation would not be a great evil; if inflation were controlled, it would help to spread sentiments of confidence and promote a more resolute mobilization of unused resources: “a few billion more banknotes could, if used to create credit in a climate of confidence, promote employment and the combination of idle production elements, and create income and wealth”.

³⁰⁰ Such an interpretation is supported by Spinelli and Fratianni, 1991, p. 468. As Omiccioli recalls (2000, pp. 38-39), this point of view is also put forward by Masera (1984, p. 175) and hinted at by Carli (1993, pp. 15-16). Carli's position is, however, more nuanced: it insists on the link between inflation and growth, interpreting Einaudi's choices in a way that is compatible with the analysis proposed here. The fundamental difference is that Carli opts for a political choice (“Einaudi knew he was playing with fire”), whereas we privilege economic motivations.

convinced Einaudi that it had already become necessary to counter price increases in the short term. In our view, the growing importance that the leadership of Banca d'Italia attached to the outcome of the Reconstruction Loan, designed in the first months of 1946, must be explained in this light. If that loan had been successful in absorbing the excessive liquidity in circulation (as had occurred, at least temporarily, fifteen months earlier thanks to the Liberation Loan), Einaudi would have been able to reiterate his strategy: entrusting inflation containment to gradual restrictions in the monetary channel, while refraining from intervening in the dynamics of bank lending that supported economic recovery. As has been shown, however, the Reconstruction Loan was unable to perform this fundamental task.

This outcome caused the Governor grave concern, as he confessed in his Diary.³⁰¹ It became evident that, after subscribing to the loan, large and – above all – small wealth holders would soon understand its implications: the loss of much of the purchasing capacity they had hoped to accumulate through their past savings. Moreover, the sense of an outright deception would spread, given the government's virtually certain decision to implement a greatly watered-down form of wealth tax that, in its original configuration, had been advanced to justify the loan's frustratingly low nominal returns. The result was that, between the end of 1946 and the beginning of 1947, Einaudi became convinced that the growth prospects of the Italian economy would be threatened more by a reversal in the expectations of wealth holders than by slower growth rates in bank lending in support of the aggregate supply. Indeed, even if accompanied by higher income growth, a worsening of inflationary dynamics would have weakened Italians' "sentiments of confidence" and would inexorably have led them to distrust the opportunities that had opened.

This explains why, during the first half of 1947, Einaudi came to realize that it was no longer sufficient to act through the monetary channel alone, and that it had become necessary to follow the advice of the Research Department and design effective tools to control the dynamics of bank lending. As argued in the conclusions of the previous section, the difficulty lies in the fact that the central bank could not use the rigid quantitative constraints in the deposits-to-capital ratio inherited from the past without creating serious distortions in the functioning of the banking sector and, presumably, encouraging indiscipline with respect to supervisory rules. New monetary policy tools therefore had to be devised. Before providing some details on the initiatives undertaken in that respect (see the following Section 11), it should nevertheless be recalled that reconstructing the genesis of the policy changes remains controversial. A widespread thesis holds that the stabilization intervention was launched too late,³⁰² and some commentators believe that this delay

³⁰¹ Einaudi, 1993. See especially the annotations entered in the days following Christmas 1946.

³⁰² See Barucci, 2008; Omiccioli, 2000.

should ultimately be attributed to the fact that Einaudi adhered strictly to an overly elementary conception of the quantity theory of money.³⁰³

The last statement rests on two points. The first is that Einaudi only included cash in the money supply (M), rather than – as Fisher had already indicated in 1911 – the sum of cash and bank deposits. Consequently, the Governor assumed a sufficiently stable velocity of circulation that was such as to ensure a causal nexus between changes in cash and changes in the general price level, for any given use of the production resources available.³⁰⁴ The second point is that, if referred to a real economic system, this causal nexus would define a quantitative equilibrium between the dynamics of the money stock and the dynamics of prices and incomes at every moment in time; consequently, the Italian inflationary process in the final years of the war and the immediate postwar period would have served to eliminate the temporary disequilibrium that had occurred between past changes in the money stock and the corresponding changes in real incomes.

There are of course statements by Einaudi that appear to point in that direction. In addition to his speech before the Constituent Assembly in the first half of 1947,³⁰⁵ it is useful to recall a detailed and highly personal communication addressed in April 1946 to Biagio Di Venuti, the financial attaché at the United States Embassy in Rome. In that letter, Einaudi argued that the Italian economy was by then reaching “a new position of equilibrium”. This was the result of a dynamic period, “for the most part completed”, of “transition from the old level of prices and incomes to a level close to that which may be regarded as being in equilibrium with the present volume of transactions (that is, essentially, of national income) and of the money stock”.³⁰⁶ In the absence of abnormal increases in monetary circulation, it could be held that such an evolution would entail moderate price increases capable of fulfilling and maintaining equilibrium conditions in subsequent years. From this standpoint, it was easy to justify the new inflationary wave that occurred in the second half of 1946 and the first half of 1947: the need to implement a further adjustment to the price level because of the strong and dramatic explosion of monetary circulation.

The position attributed to the Governor is unfounded: it proves too much if M is understood to be cash alone and is instead at risk of misunderstanding Einaudi’s conception of money if M is

³⁰³ Casarosa, 2009.

³⁰⁴ It should be recalled that the “equation of exchange” is $MV \equiv PQ$, where the other three variables denote, respectively, the velocity of circulation, the general price level, and the level of real output.

³⁰⁵ See footnote 281 above.

³⁰⁶ Einaudi’s long letter to Di Venuti of 13 April 1946, also quoted by Omiccioli (2000, p. 44), is published in Ricossa and Tuccimei (eds.), 1992, pp. 310-317. Attached to this letter, the Governor sent Di Venuti no fewer than four proof copies of the Annual Report for 1945, which had been presented on 31 March 1946.

understood to be cash and bank deposits³⁰⁷. Let us assume that cash alone could account for the whole money supply. It would follow that any exogenous change in *M*, exceeding exogenous variations in the level of activity, would generate disequilibrium that could only be compensated through price adjustments; by definition, therefore, any inflationary process ought not to be countered, because it would serve to restore equilibrium and would mechanically exhaust itself once it had performed its task. This paradoxical conclusion is, however, bound to collapse if the quantity theory of money is reduced to an identity (that is, to the equation of exchange) devoid of causal links. Indeed, if *M* includes both cash and bank deposits, the causal links between *M* and the general price level are cancelled out by the endogeneity of the money supply and by the consequent instability of the velocity of monetary circulation.³⁰⁸ Disequilibrium then becomes surmountable not only through price adjustments but also through changes in three different variables: containment of the excessive increase in the quantity of money, a reduction in the velocity of circulation and increases in output. Any central bank is able to influence the first two variables directly, and the third indirectly.

Given the foregoing considerations, the validity of our interpretation only requires us to show that Einaudi did not make the mistake of reducing *M* to cash alone. The Governor attached such marked importance to banks' creation of means of payment to support accumulation and economic growth that he went so far as to state that, if investments only depended "on acts of saving of a portion of the incomes brought to the banks, recovery and reconstruction would be too slow".³⁰⁹ He thus recognized that investments were financed also, and above all, by bank lending: if allocated and used efficiently, the latter stimulated the economic process and – at the aggregate level – fed the savings and the deposit collection of the banks themselves. We may add the passage from a letter that Einaudi, by then President of the Republic, wrote some years later to Menichella. His successor had just turned down an appointment as a member of the Accademia dei Lincei, claiming he had insufficient theoretical competence to take a seat in that prestigious body.³¹⁰ In a passage in his letter, Einaudi remarked ironically that an eminent economist and member of the Accademia dei Lincei (Luigi Luzzatti) had been unable, in a previous meeting, to grasp the links between the increase in banking means of payment (rather than in cash alone) and the course of inflation. Einaudi commented: "I kept quiet out of deference; but Rodolfo Benini, who is young, demolished him in a few words".

³⁰⁷ For a comparison between Fisher and Einaudi on the quantity theory of money, that tends to exclude for both any mechanical proportionality between changes in *M* and those in *P*, see also Ciocca 2022, p. 44.

³⁰⁸ On this point, see Schumpeter, 1917-'18.

³⁰⁹ Einaudi, 1946, pp. 413-415. This is the celebrated passage in which Einaudi recalls the correspondence between David Ricardo and his friend James Pennington. See also Baffi, 1963, p. 272.

³¹⁰ FLE, ALE, Corrispondenza 'Donato Menichella', main file 3, Einaudi to Menichella, 30 July 1951.

The preceding considerations also make it possible to refute another interpretation of the determinants of the 1947 monetary policy,³¹¹ namely that Einaudi decided to launch the new instrument with the aim not so much of countering inflation as of protecting savings held in the form of bank deposits, which were allegedly becoming excessively risky. It is true that, at the end of 1946, the deposits-to-lending ratio was approaching a critical value (the latter being a threshold between 65 per cent and 70 per cent, according to the international consensus of the time), and that – by the end of July 1947 – this ratio was higher than the upper limit of that threshold (72 per cent). Yet the Governor tended to read the behavior of that ratio as an indicator of the economic phase through which the country was passing,³¹² and this confirms that the differences between his position and that of the Research Department concerning the causes of inflation were due not so much to conflicting theoretical views as to the different weight assigned to developments in the real economy. Moreover, Einaudi held that the protection of savings and the struggle against inflation were closely connected objectives.³¹³

11. The contents of stabilization

The further specification at the end of the previous Section completes the framework for the steps taken by Banca d'Italia towards the introduction of new instruments to counter excessively high inflation rates.³¹⁴ The initiative took shape in two acts. In mid-February 1947, Einaudi informed

³¹¹ Casarosa, 2009.

³¹² This clarifies why it would be improper to apply the Einaudian concept of the “critical point” or “critical moment” to the crossing of that threshold. As Einaudi explained in the Concluding Remarks of March 1947 (Banca d'Italia 1947, p. 249) and – above all – in a subsequent article (Einaudi 1947b, pp. 551-552), in his analysis the “critical point” indicated situations of disequilibrium that risked becoming irreversible. On the trend of the lending-to-deposit ratio in the period under examination, see also Ricossa, 2003, p. 401.

³¹³ See, for example, Einaudi 1945, pp. 120-121.

³¹⁴ It should be noted at the outset that our analysis tends to underestimate the weight of domestic political constraints in shaping Banca d'Italia's monetary policy. According to various commentators (above all Barucci, 2008), a crucial reason that led Einaudi to postpone the stabilization policy until August 1947 was the fragility of the political framework, emblematically represented by the third De Gasperi government. As should already be clear from the previous sections, we do not deny that domestic political constraints played a significant role in the reorganization of Banca d'Italia during the immediate postwar period. We believe, however, that the Governor pursued his monetary policy strategy with a considerable degree of freedom from governmental constraints. Unlike Carli (Banca d'Italia, 1974, p. 426), Einaudi would not have regarded it as a “seditious act” to force political constraints to safeguard economic growth and the stability of postwar Italy. Rather, his monetary policy choices were conditioned by the international context. As Harper (1986, pp. 111-116) stresses, during Menichella's official trip to the United States alongside De Gasperi, US economic experts pressed for measures to reduce inflation rates as a precondition for Italy's access to future international aid. It is also highly probable that analogous indications emerged from Einaudi's exchanges with Niemeyer and Jacobsson, two leading officials of the Bank for International Settlements (Baffi, 1985, pp. 13-15). Jacobsson came to Italy at the beginning of 1947 to discuss the Eximbank loan with Einaudi and to meet other representatives of Banca d'Italia and of the political world. The reservations expressed by the senior BIS official in the first, informal draft of his report on the Italian economic situation (January 1947) were also attributable to the difficult management of the inflation problem. By contrast, the more positive final version of the report, produced with Baffi's decisive contribution in the summer of 1947, was also influenced by the imminent stabilization policy.

the new minister of Finance and the Treasury (Campilli) that a proposal had been prepared along the lines already anticipated to the Ministry the previous December (see above, Section 9), and that this proposal would require regulatory intervention. In those same days, Einaudi sent Campilli a formal memorandum on the “modification of the rules governing the relationship between capital and the fiduciary mass in credit institutions”, in which the possible monetary policy turning point was justified and its content defined in such detail that a draft for the necessary Decree of the Minister of Finance was attached.³¹⁵ In that memorandum, after reiterating the ineffectiveness of further changes to the existing – but far too often disregarded – ceilings on the ratio between deposits and bank capital, the Governor underscored the crucial aspect of the proposed change.³¹⁶ He recalled that recent theoretical studies recommended endowing central banks with tools for the “expansion or contraction of the volume of credit”, intended to safeguard not so much the interest of “individual depositors” as that of the wider “body of citizens, all of whom have an interest in monetary stability”.³¹⁷

The new tools for monetary stability were to be applied within a “flexible” system based on two elements. First, each bank would enjoy full freedom in allocating loans up to ten times its capital; second, it would be obliged to set aside the excess of its fiduciary mass above that limit on the basis of variable rates. The latter rates should be set by the central bank “in relation to the development of the credit situation”.³¹⁸ A flexible compulsory reserve was thus introduced as a factor of direct control over bank financing to the economy and of indirect control over the

The “Jacobsson reports” are held in ASBI, Carte Baffi, Governatore Onorario, file no. 51, folder no. 17. On their different drafts, see also Piccone (2017, pp. XVII-XX) in the introduction to the new edition of Baffi (1985).

³¹⁵ ASBI, Banca d’Italia, Vigilanza sulle aziende di credito, file no.231, Einaudi to Campilli, 15 February 1947; now also in Ricossa and Tuccimei (eds.), 1992, pp. 414-417.

³¹⁶ It should also be noted that on 29 January 1947 Einaudi had informed Minister Bertone of the decision to give “immediate effect” to the enforcement of the 1:30 ratio between capital and deposits in order to confront a grave deterioration in economic equilibria (see ASBI, Banca d’Italia, Vigilanza sulle aziende di credito, file no. 231, folder no. 1). Moreover, a few days earlier, Menichella (1947a) had threatened the Italian banking sector with the application of that ratio or the introduction of other stringent quantitative constraints if banks did not adopt less speculative behavior. It will shortly become clear (see below) that both statements amounted to an extreme and possible threat and not to the revaluation of a constraint by then judged obsolete. As has been repeatedly emphasized, Banca d’Italia possessed empirical evidence concerning the distortionary consequences that would follow from use of the 1:30 ratio. The impacts on the fiduciary masses that individual banks would have to block would have been very different. In Banca d’Italia’s calculations, the incidence ranged from a minimum below 7 per cent to a maximum above 75 per cent. Moreover, the imposition of that ratio would have induced banks to resort to opportunistic and risky choices (revaluation of real-estate assets) as an alternative to drastic loan cuts. See, in particular, the calculations reported in ASBI, Banca d’Italia, Vigilanza sulle aziende di credito, file no. 16, folder no. 4, ‘Relazione sull’attività svolta dal servizio nell’anno 1946’, 18 February 1947.

³¹⁷ ASBI, Banca d’Italia, Vigilanza sulle aziende di credito, file no.231, Einaudi to Campilli, 15 February 1947; now also in Ricossa and Tuccimei (eds.), 1992, p. 415.

³¹⁸ *Ibidem*.

monetary base.³¹⁹ In addition to providing the Minister with compelling evidence of the progress that would follow from the introduction of this new rule, the Governor envisaged that price-level stabilization would require a rate of 40 per cent on “the portion of deposits exceeding ten times the capital”, during that economic phase.³²⁰ He then expressed the hope that the counterpart of that rate might be covered not only by new public securities (ordinary and extraordinary) to be deposited with Banca d’Italia, but also by the “amounts deposited in current accounts with the Treasury” and with the Bank itself.³²¹

As we shall show below when we go back to Baffi’s observations in a preparatory note for the Bank’s Report for 1948, cited earlier, and to the empirical evidence provided by Gaiotti and other scholars,³²² the quantitative specifications and qualitative details anticipated by the Governor in his memorandum to Campilli were the result of accurate calculations carried out by Banca d’Italia’s Research Department, also on the basis of evidence concerning the actual conditions of the banking sector’s balance sheets. In many respects, it is therefore not surprising that the subsequent implementation of monetary policy choices relied heavily on this body of data. The explicit objective was to prepare a stabilization policy capable of countering the inflationary process without causing excessive restrictions on the financing of the Italian economy, which would have compromised its prospects and pace of growth.

The policy proposed by Banca d’Italia was ambitious and not easy to implement. Menichella summarized this very effectively by recalling the judgment of the earlier-mentioned BIS official,

³¹⁹ In a lecture delivered at the Society of Political Economy in Zurich, Menichella (1956, pp. 662-664) stressed that in 1947 the choice was novel in character. Albareto and Trapanese (1999, pp. 80-84) share the point, but with two qualifications: (i) the Banking Law of 1926 already provided for possible recourse to compulsory reserves, albeit as a rigid instrument intended to safeguard banks’ solvency; and (ii) the Banking Law of 1936 admitted flexibility in the reserve requirement and thus foreshadowed its possible use as an instrument of monetary policy. Albareto and Trapanese nevertheless stress that, until the postwar years, the 1:20 capital/deposits ratio had not been binding and had not required specific interventions; consequently, at the beginning of 1947, the use of bank reserves for monetary policy purposes did indeed have a novel character.

³²⁰ The quotation is taken from the already mentioned memorandum sent by Einaudi to Campilli, 15 February 1947. According to Banca d’Italia’s empirical assessments relative to the old 1:30 ratio, application of the new flexible-reserve method (under the hypothesis of a severe discretionary rate of 50 per cent) would have reduced the variance in the adjustments required of the various banks to less than one fifth. The new method would also have eliminated at the root the incentive for the opportunistic banking behavior noted above (see footnote 316). See again: ASBI, Banca d’Italia, Vigilanza sulle aziende di credito, file no.16, folder no.4, ‘Relazione sull’attività svolta dal servizio nell’anno 1946’, 18 February 1947.

³²¹ The quotations are again taken from Einaudi’s long letter to Campilli (ASBI, Banca d’Italia, Vigilanza sulle aziende di credito, file no. 231, Einaudi to Campilli, 15 February 1947; now also in Ricossa and Tuccimei (eds.), 1992, pp. 414-417 and especially p. 417.

³²² Gaiotti, 2003. See also Gelsomino, 1998; Ricossa, 2003, pp. 403-405. Above all, see the indications contained in the December 1946 letter in which the central bank replied to the Treasury Ministry after four months (see ASBI, Banca d’Italia, Vigilanza sulle Aziende di credito, file no. 231, folder no. 1, pp. 62-69. That letter has already been examined in Section 9.

Per Jacobsson, who was visiting Italy at the time.³²³ Jacobsson expressed optimism about the initiative's "successful outcome". Citing Napoleon, he stated that any "economic strategy" ultimately amounted to a simple art that lay "in the execution" and rested upon "conviction, force of character and courage" – precisely the qualities that, by unanimous recognition, Einaudi possessed. Moreover, the success of stabilization also owed much to what economic-policy theory today would define as an "announcement effect".³²⁴ From the beginning of 1947, indeed, both the Governor and – above all – the Director General signaled to the banking sector that Banca d'Italia would no longer tolerate those excesses in the supply of credit which, in the preceding months, had fueled borrowers' accumulation of speculative stocks. As already noted above (see footnote 316), the speech delivered by Menichella to the Italian Banking Association in mid-January 1947 was crucial in this regard.³²⁵

Having just returned from his mission to the United States alongside President Alcide De Gasperi, the Bank's Director General began his address by examining the many constraints and unmissable opportunities offered by the international environment, before stressing that the resulting "possibilities to develop the Italian economy" were only attainable on condition that "monetary stability" be achieved. On this point Menichella's thesis was very clear: banks would have to "maintain, in the granting of finance, a line of conduct" that ceased to encourage "phenomena of excessive stock formation".³²⁶ If this did not occur, the defense of the national interest would oblige Banca d'Italia to abandon its criteria of "non-particular severity" hitherto adopted towards supervised institutions, resorting instead to "unprecedented means in our country, such as obliging banks to freeze a portion of their resources".³²⁷ The threat was thus formulated in clear and explicit terms: in the absence of self-restraint by the banks, those responsible for monetary policy and

³²³ See Menichella, 1966, pp. 837-841 and, on Per Jacobsson, the previous notes 12, 72 and 314.

³²⁴ See, for example, Sargent, 1987.

³²⁵ In addition to Menichella (1947a, pp. 220-221), see Einaudi's journalistic article (1947a, p. 432), published at the end of March of the same year. Einaudi himself returned to the issue in June and October 1947 (1947c and 1947d).

³²⁶ Menichella, 1947a, p. 220.

³²⁷ *Ibidem*. As already stated, Banca d'Italia was fully aware that a generalized enforcement of the 1:30 rule would have been distortionary (to the point that Menichella and Baffi informally indicated a 1:100 rule) (see ASBI, Banca d'Italia, Studi, file no. 302, folder no. 4, 'Bozza' per la Relazione del 1947, presumably attributable to Baffi and Mancini, with handwritten notes by Menichella, undated but traceable to January-March 1948). Yet in the first quarter of 1947, in view of the insufficient adoption by banks of more cautious lending in an increasingly unsustainable situation, the Supervisory Department pressed the Governor to implement drastic restrictive measures (see ASBI, Banca d'Italia, 'Appunto preparatorio della Relazione sul 1946'). The unusually explicit and informal language used by the Supervisory Department showed the degree of concern and nervousness that existed within Banca d'Italia as it waited to acquire effective instruments of monetary policy. Only the fear of blocking growth led the Governor to resist those pressures.

supervision would not wait for the introduction of systematic instruments but would resort to the rules already in force, despite their well-known distortionary impact.

It should be stressed that, in the two years following the end of the Second World War, the signal sent by Menichella at the beginning of 1947 was not an isolated instance of pressure exerted by Banca d'Italia to curb the banking sector's expansionary policy and stifle firms' speculative impulses. The list of previous, authoritative recommendations pointing in the same direction would be a long one,³²⁸ yet those earlier attempts had amounted to empty threats without significant effects. Menichella's speech, however, inaugurated the season of effective moral suasion towards Italian banks that the central bank would go on to exercise throughout the 1950s and beyond.

According to Baffi (1963), this result stemmed from the unusual nature of the message: for the first time, the Bank's top management had justified the threat of rigorously applying the old rule (a maximum 1:30 capital-to-deposit ratio for each bank) or of other exceptional intervention on the grounds of macroeconomic control, to be implemented through regulation of the total volume of bank lending. It is highly likely that the top managers of Italian banks were informed of the new monetary policy positions that the central bank had drawn up to achieve that result by means of flexible management of compulsory reserves;³²⁹ and it is equally likely that those bank managers perceived the institutional difficulties involved in rapidly acquiring those instruments and the consequent internal pressures within the Bank for the adoption of emergency measures. Moreover, the banking world was fully aware of the rising dynamics of inflation rates. It therefore deemed "credible" that, in the absence of a convincing response from Italian banks, Menichella's threat would translate into extraordinary initiatives by Banca d'Italia. Even with a limited time frame, such initiatives would have had very negative effects on bank balance sheets and on subsequent relations between lenders and borrowers. The fact remains that, during the first half of 1947 – that is, when the process leading to the establishment of the CICR had not yet been completed and there was still no certainty as to how to implement the maneuver – bank lending in Italy, in real terms, underwent a significant reduction.

The considerations set out above have at least three implications.

³²⁸ It is enough to recall that Governor Einaudi issued various circular letters (such as the one at the beginning of 1946) that took on an increasingly urgent tone as inflation worsened.

³²⁹ It is inconceivable that the leaders of the banks and of their associations were unaware of the contents of the December 1946 letter sent by Banca d'Italia to the Treasury in response to the request to relax the rules governing the ratio between deposits and capital. As recalled in the previous sections (see in particular Section 9), Banca d'Italia anticipated in that letter the broad lines that would later inspire the intervention draft of January 1947 and the policy initiative of the following summer. Moreover, in his speech at the ABI in mid-January 1947, Menichella made a concise but unmistakable reference to the monetary policy objectives pursued by the central bank.

First, they strengthen the thesis (stated above) that the principal reason for postponing the monetary policy until the beginning of 1947 lay neither in a lack of empirical evidence concerning the structural nature of price increases in 1945 and in the second part of 1946, nor in differing interpretations of the causes of inflation. Although these aspects were present, they were dominated by the Governor's choice not to prematurely weaken support for a rapid but still fragile economic recovery. It should be added that interventions in the banking channel became urgent in 1947 because of other exogenous factors and were gradually complemented by control over imbalances originating in the monetary channel.³³⁰

Second, once the need for a stabilization intervention had been accepted, Banca d'Italia made the implementation of the policy conditional upon the creation of an effective monetary tool, namely the flexible compulsory reserve. The quantitative calibration of the initiative itself required the banks to adopt the new rules within a short and definite time frame. This also explains the insistence with which the Governor urged the Treasury Minister to issue the decree and to grant banks a binding time limit for compliance with its provisions (three months at most).

Finally, the decision to launch the monetary initiative at the beginning of 1947 coincided with the substantial failure of the Reconstruction Loan to drain off the excess liquidity in circulation. The persistence of inflationary tensions risked worsening the expectations of households and firms, thereby casting heavy negative shadows over the possible consolidation of the macroeconomic recovery.

At the beginning of 1947, Banca d'Italia's top managers were therefore convinced of the urgent need for the new regulatory framework outlined in the letter sent in January to the Treasury Minister and preparatory to the introduction of effective monetary policy instruments. Contrary to their hopes for timely legislative procedures, the process proved long and tortuous. As already noted (see Section 2), due perhaps to the fragility of the general political context and the vulnerability of his personal position owing to the legal proceedings against him, Minister Campilli was slow to react to the Governor's requests that the government swiftly approve the reform of compulsory reserves.³³¹ The Minister actually only endorsed the contents of that reform

³³⁰ As emphasized by Menichella (1956, p. 662) and Baffi (1958, pp. 353-354), Banca d'Italia's official reserves were being exhausted in that period and the country faced a high risk of a foreign-exchange crisis (see also Gelsomino, 1998, p. 276). Toniolo (2022, p. 705) examines the dynamics of those reserves between the Armistice and the end of the war.

³³¹ In February 1947 the minister was involved in a delicate stock-manipulation affair and subjected to a commission of inquiry that did not clear him of the accusations until April of the same year (see Barucci, 2008, pp. 125-129). Combined with the weakness of the government (the third led by De Gasperi), this perhaps explains why Campilli did not resort to Article 32 of the Banking Law, which would have allowed him to make the new reserve requirement operative immediately. The Minister built institutional cover for himself that delayed introduction of the instrument by five months (see Ricossa, 1992, pp. 50-52).

in April. Above all, he decided to postpone presentation of the relevant decree until the establishment of the CICR which, moreover, was itself subjected to a cumbersome procedure involving the Constituent Assembly.

Campilli's choices made multiple formal steps necessary and triggered polemical reactions and political tensions.³³² The situation was resolved thanks to a combination of favorable factors. In May 1947, the new and stronger fourth De Gasperi government was formed; as already recalled, it gave Einaudi the roles of Deputy President of the Council and leading economic Minister. Moreover, in his capacity as chairman of the standing committee for the examination of bills in the Constituent Assembly, Ugo La Malfa worked to prevent the CICR dossier from remaining bogged down in the Assembly's complex proceedings. Finally, there were growing signs of imminent international aid in favor of Italy, but only if inflation were first brought under control.³³³

The result was that the CICR was finally established in July 1947. Speaking on 4 August at the first meeting of the new body on behalf of Banca d'Italia, Menichella set out the details of the monetary stabilization maneuver.³³⁴ The new regulatory framework, which reproduced the salient features of the scheme prepared by the central bank in February 1947, entered into force on 30 September of that year. The most important difference between the approved rules and the earlier proposal concerned the halving of the reserve ratio to be applied to the stock of deposits exceeding ten times bank capital: at the time of entry into force, the relevant rate was set at 20 per cent, with the additional provision that it could not exceed 15 per cent of each bank's fiduciary mass. It must, however, be borne in mind that, with regard to the increases in net deposit flows occurring after 1 October 1947, the rate sketched by Einaudi six months earlier – namely 40 per cent – was reintroduced, albeit capped at a maximum threshold equal to 25 per cent of the total fiduciary mass. It was also decided that banks could comply with the related reserve requirements by depositing various types of public securities or by making interest-bearing deposits in tied accounts held with Banca d'Italia or the Treasury. The policy intervention was completed in the first ten days of September by a rise in the official discount rate from 4 per cent to 5.5 per cent.³³⁵

As we shall specify in the next section, stabilization was so successful that it exceeded even the most optimistic forecasts of those responsible for monetary policy. The rate of price increase immediately declined and then even turned negative; moreover, these rapid adjustments were not

³³² Representatives of the left-wing parties had expressed a clear preference for fiscal policy rather than monetary policy. See Daneo, 1975; Giovagnoli, 1982.

³³³ See also footnote 314 above.

³³⁴ See Menichella (1947d). It should be recalled that, from the end of May, the Director General was also acting as Governor.

³³⁵ Gaiotti, 2003, p. 448; Ricossa, 2003, p. 405.

based on a severe credit squeeze or on a drastic fall in public expenditure flows. The previously strong dynamic of bank financing merely came to a halt, without moving onto a downward trajectory; public deficits even increased over the year. These outcomes, already surprising in themselves, appear even harder to explain in light of the institutional obstacles that had delayed implementation of the measure by about six months. Given the dramatic inflationary dynamics that had characterized the Italian economy between the end of 1946 and the first part of 1947, it was highly probable that the marked time lag in the monetary policy intervention would jeopardize the adjustment process, and it was even more probable that the passage of time and changing real conditions would make the careful quantitative calibration of compulsory reserves carried out by the Bank's Research Department outdated.

The factual evidence instead pointed to an apparently paradoxical result: the delay in implementation helped to strengthen the positive effects of the policy. The moral suasion exerted on the Italian banking sector, successfully initiated by Menichella through his mid-January speech at the ABI Annual Assembly, had more time to exert its impact and to reduce bank support for the accumulation of speculative stocks. The delay thus allowed *ex ante* one of the causes of inflation to be defused. The formation of the fourth De Gasperi government, which had excluded the left-wing parties from the new coalition and had placed Einaudi at the head of the economic ministries, sent analogous anti-inflationary signals: the composition of the new government marked a retreat of the party of public spending and accommodating social policies, opening up credible space for effective anti-inflationary economic policies. The outcome was that most economic operators did not seek to extract distorted benefits or adopt passive and "wait-and-see" attitudes in response to a prolonged situation in which the central bank lacked effective instruments of monetary control and was encountering difficulties in introducing new ones (see also footnotes 327 and 329 above). Rather, economic agents seemed to convince themselves that Banca d'Italia was successfully preparing to eliminate inflationary excesses, to such an extent that it became advantageous for individual actors to anticipate the trend. Consequently, expectations and individual choices, or those of specific categories of operators, played an important role in defusing inflationary factors.

That result was reinforced by two further elements. First, the delays in implementation gave economic operators time to assess the positive stabilizing significance of Italy's early inclusion in the Bretton Woods agreements. The perception that the country was becoming integrated into the new international context was confirmed by the loan that Eximbank granted to Italy as a corollary of De Gasperi's first official visit to the United States (January 1947). Second, the postponement of stabilization until late summer 1947 gave Einaudi the time to mature the conviction that it would have been unsafe to continue relying upon abundant bank financing. Unless the fight against inflation were given priority, economic operators' expectations might deteriorate and

compromise Italy's future growth. This view created complete harmony between Einaudi as active minister of the Budget and Einaudi as Governor (though on leave) because it was in line with Banca d'Italia's own assessments. The outcome was that the government embraced the central bank's initiative without too many reservations.³³⁶

The foregoing considerations make it clear that the monetary policy decisions of summer 1947, centered on the new compulsory reserve system, placed a flexible instrument at the Bank's disposal. This instrument was capable of bringing the injection of money and credit under control and of varying their amount in accordance with the cyclical phase at any given time.³³⁷ In the specific scenario, the problem was to counter an inflationary process that risked slipping beyond the control of the monetary authorities and that – given the high liquidity of banks – could not be reduced merely by tightening the rediscount conditions. The expectation of a new compulsory reserve system proved effective in determining a drastic reduction in the velocity of circulation of money and in containing the rates of increase for bank lending.³³⁸ As mentioned in the preceding section, this led to a rapid fall in the inflation rate, which even crossed into negative territory.

In order to clarify the latter assertions and to provide an adequate evaluation of the results achieved by means of the stabilization policy (see the next section), it is still necessary to specify some direct effects of the time lag with which the monetary policy changes were introduced and some of the indirect consequences of this delay. As we know, this intervention was deferred for more than six months and instead of becoming operational at the end of February 1947, as Banca d'Italia had wished, it was implemented on the eve of the following autumn. We have also seen that this deferment contributed to the weakening of various inflationary factors that were weighing on the Italian economy in that period and that were chiefly traceable to excess credit and speculative stockpiling of goods. The intensification of the moral suasion exercised by the central bank on the banking sector, the credibility regarding the containment of public expenditure enjoyed by the fourth De Gasperi government, and the first international loans granted to Italy reduced macroeconomic instability by improving production prospects and limiting the speculative demand for and supply of bank financing.

These factors seem capable of at least partly explaining why, in September 1947, the monetary authorities decided to reduce the rate applied to the stock of deposits exceeding ten times bank

³³⁶ For the official Cabinet view of the stabilization policy, see Minister Einaudi's report to the Council of Ministers of 8 September 1947 and the memorandum of the Italian government on anti-inflationary measures of 18 September of the same year. Both documents are now reproduced in Ricossa and Tuccimei (eds.), 1992, pp. 470-478.

³³⁷ Gaiotti, 2003, pp. 448-457.

³³⁸ Gelsomino, 1998, p. 275.

capital relative to the original proposal advanced by Einaudi the previous February. It nonetheless remains difficult to answer two further and more compelling questions: why the rate was actually halved, when its reduction was decided; and, preliminary to that, how it proved possible, after so many months, to use the complex quantitative calculation of the flexible compulsory reserve coefficients which, as we noted in the preceding section, enabled the maneuver to reduce the velocity of monetary circulation without compromising bank support for the real economy in the autumn of 1947.

According to Baffi, the parameters of the new monetary instrument were decided “experimentally”, in the sense that – as was explained in the Draft for the Report on 1947 – “research was done on the rate that banks would be able to manage with the liquid resources held by them with Banca d’Italia and the Treasury, without having to resort to disinvestment”.³³⁹ This calculation was carried out at the end of 1946 on the basis of solid empirical evidence, deriving from comparison with the different components of the Italian banking sector. The specific objective was to ensure that most banks would be in a position to comply with the renewed rules without having to liquidate their claims on the real economy prematurely. According to the evaluations expressed by Baffi himself in the draft under examination, the application of that complex calibration in September 1947, together with the related halving of the rate relative to the forecast formulated by Einaudi more than six months earlier, was fully successful. This found quantitative confirmation in the report by Banca d’Italia’s Supervisory Department for 1947: the new rules involved a little more than 112 billion lire as compulsory reserves, against a stock of just under 115 billion lire that was held by the banks in the form of immediately available balances with the central bank and the Treasury and in the form of securities usable as a reserve.³⁴⁰

12. The impact of stabilization

The observations set out in the preceding section explain why the Italian banking sector was able to adjust to the new rules very rapidly. Given that savings banks, cooperative banks, and rural and artisan credit funds were exempted from application of the rule, almost 65 per cent of the other banks satisfied the compulsory reserve coefficients within the three months prescribed. Apart

³³⁹ See the already cited ASBI, Banca d’Italia, Studi, file no. 302, folder no. 4, ‘Bozza’ per la Relazione del 1947, presumably attributable to Baffi and Mancini, with handwritten notes by Menichella, undated but traceable to January-March 1948. It is interesting to note that, in one of the marginal notes, Menichella signaled to Baffi the inappropriateness of providing such a detailed account in the Concluding Remarks. The fact remains that the passage was deleted.

³⁴⁰ See the draft preserved in ASBI, Banca d’Italia, Vigilanza sulle aziende di credito, file no.16, folder no. 1, Relazione esercizio 1947, undated but traceable to February 1948. See also Ricossa, 2003, p. 413.

from Monte dei Paschi di Siena (with a shortfall of around 1.7 billion lire), the non-compliance of the remaining 35 per cent of banks was negligible.³⁴¹

Our thesis is that the success of the policy, almost surprising in its quantitative effects, should be ascribed to two fundamental factors already perceived by Baffi and reiterated by subsequent scholarship: the crucial role played by the expectations of the banking sector and – secondarily – of other economic operators; and the pressure exerted by the central bank in shaping those expectations.³⁴² As Baffi recalls in the document quoted above,³⁴³ Banca d'Italia translated its objective of preventing the policy from leading a reduction in lending as part of a commitment vis-à-vis the banking sector, embodied in an official statement that “set down such assurances”. This suggests that the central bank did not merely calculate, with extreme care, the appropriate flexible reserve coefficients at one point in time (the end of 1946) but proceeded to a systematic and active monitoring of the evolving situation over the following months. While waiting to effectively implement the new monetary policy, the Bank exerted pressure on commercial banks so that they would heed the exhortations to moderation in lending that came from Einaudi and Menichella, thereby avoiding support for speculation. At the same time, the Bank transmitted repeated and explicit informal reassurances to supervised institutions concerning the content of its subsequent policy decisions and exploited the resulting climate of cooperation in order to systematically verify the effects of its moves on the evolution of bank balances.

This result may be read as translating into practice a concept that economic theory would only formalize some forty years later: that of self-fulfilling expectations (or prophecies).³⁴⁴ It should also be noted that those prophecies stemmed less from market signals than from the complex actions undertaken by Banca d'Italia to convince banks and their main business associations that stabilization would not diminish the sector's importance in supporting the real economy.

In our analysis, the fundamental role of expectations in the banking sector in marking the success of the stabilization policy dovetails with the role of savers' expectations in prompting Banca d'Italia to launch that policy right at the beginning of 1947. In the previous sections, we argued that the Bank's leadership chose to intervene in the banking channel following the disappointing results achieved by the Reconstruction Loan. Because wealth holders had invested substantially in that Loan, the aim was to prevent the resulting deterioration of their expectations from hampering growth while at the same time not managing to bring inflation under control. In our

³⁴¹ In addition to the preparatory draft for the Annual Report on 1947 cited in the previous footnote 327, see Albareto and Trapanese, 1999, pp. 82-84; Asso and Nerozzi, 2016, pp. 90 ff.

³⁴² See Baffi, 1965, p. 408. Among more recent contributions, see Gaiotti, 2003; Omiccioli, 2000; Ciocca, 2022.

³⁴³ ASBI, Banca d'Italia, Studi, file no. 302, folder no. 4, 'Bozza' per la Relazione del 1947, presumably attributable to Baffi and Mancini, with handwritten notes by Menichella, undated but traceable to January-March 1948.

³⁴⁴ See, for example, Azariadis and Guesnerie, 1986; Woodford, 1990.

interpretation, expectations were thus also crucial to launching the stabilization initiative: the monetary authorities decided to take that initiative in order to reduce the risk that too large a share of savers and economic operators would form negative expectations. The conclusion is that the expectations of banks and of the various market actors performed a fundamental function both upstream and downstream of the stabilization process: upstream, because they prompted its launch; downstream, because they ensured its success. Moreover, Banca d'Italia guided the formation of these expectations through systematic interventions that shaped the policy initiative and determined the details of its implementation.

It has already been noted that the resulting positive outcome was reinforced by various exogenous factors.³⁴⁵ Of particular significance were the first international aid measures and the announcements of imminent US programs. In 1945 and 1946, Italy had been admitted to two UNRRA initiatives aimed at alleviating the hardships of the populations of the countries most severely affected by the war.³⁴⁶ In January 1947, Italy then succeeded in obtaining the oft-mentioned Eximbank loan to finance imports of US goods and services. Notwithstanding the modest amount of the loan (100 million dollars intended to finance an IMI special operation) and the political pressures clearly exerted by De Gasperi and his collaborators during their mission in the United States, this was an important result because it signaled that the Italian financial and production sectors were strengthening, and that the country deserved support for its potential international role and not merely for humanitarian reasons.³⁴⁷ Jointly with the launch of the stabilization policy, these exogenous factors strengthened the improvement in the expectations of market operators. The list of “good news” was completed by the informal mentions and later by the official announcement of the launch of a substantial multi-year US aid program – the Marshall Plan – which would also have considerable implications for Italy as of the beginning of 1948. The condition was that Italy should be able to use the Eximbank loan effectively and stabilize its financial situation.³⁴⁸

³⁴⁵ It should be recalled in this regard that, in those months, Minister Campilli implemented the much-feared wealth tax but in a much-softened form, applying a presumptive rather than an analytical calculation to the most liquid components of wealth. Besides being connected to the failure to carry out a currency conversion, this choice met with Governor Einaudi's full approval (see, on this point, the previous footnote 101), also because it improved the expectations of holders of financial wealth.

³⁴⁶ See above, footnote 209. As emerges from an article in the *New York Times* (16 January 1947), reproduced in Ricossa and Tuccimei (eds.) (1992), De Gasperi also obtained US commitments not to demand payment for goods and services transferred to Italy by the occupation army before Italy's inclusion in the UNRRA and to transfer 50 million dollars to Italy as compensation for the services and supplies it had furnished to the occupation troops.

³⁴⁷ Menichella, 1947a, p. 395.

³⁴⁸ See, for example, the letter of 16 April 1947 sent by the representative of the Ufficio Italiano dei Cambi in the United States (Giorgio Cigliana Piazza) to Luigi Einaudi and now published in Ricossa and Tuccimei (eds.) (1992). See especially p. 426.

The international exogenous factors recalled here convinced the Italian authorities to relax the exchange rate policy and to support domestic industrial production also through trade with the rest of Europe and with the United States. This strengthened the fourth De Gasperi government and combined favorably with the stabilizing effects of the maneuver.³⁴⁹ Given the concurrent progress in defining and using the new monetary policy tools, the messages of alarm about the difficulties facing Italy that came from various Italian representatives in the United States were overshadowed by the optimism voiced by Vittorio Valletta on behalf of FIAT, also speaking from the United States.³⁵⁰ These considerations assign great importance to international and institutional variables. They do not, however, justify the extreme thesis whereby, in the course of 1947, the Italian inflationary process was chiefly brought under control by the announcements concerning the imminent launch of the Marshall Plan and by a political arrangement that kept the left-wing parties out of government and was, as such, more reassuring for the United States.³⁵¹ Our thesis is more structured: we simply recognize that these exogenous factors also contributed to improving market expectations, thereby confirming the crucial role of these expectations in explaining both the launch and the success of the monetary policy.

It took over half a century for the role of expectations in the success of the stabilization policy to be fully recognized.³⁵² One of the most important outcomes that followed this early recognition was a robust empirical confirmation that stabilization did not produce a credit squeeze in the strict sense. The monetary policy decisions of late summer 1947 cannot be labelled as a restrictive and recessionary intervention, even though they contributed profoundly to changing the “rules of the game”. This radical change ushered in a new regime and was made possible by an improvement in the expectations of the various market operators that took concrete shape as new “behavioral functions”.³⁵³ Thus, the central bank succeeded in strengthening its credibility and equipping itself

³⁴⁹ The easing of the constraints induced by impending international aid on Italy’s scarcity of foreign-exchange reserves led the Italian government to facilitate imports of production inputs by using foreign-currency resources that had been hoarded in more or less legal ways without complying with exchange regulations. The reference is to the “franco valuta” imports.

³⁵⁰ The issue is recalled by Cigliana Piazza in the letter to Einaudi of 16 April 1947 cited in the previous footnote 348. See especially p. 425.

³⁵¹ See on this point Casella and Eichengreen, 1991.

³⁵² Much of the credit should be given to the oft-cited work of Gaiotti (2003). His analysis provides descriptive and econometric evidence capable of confirming and looking in depth at Baffi’s intuitions and of specifying the impact of the maneuver on credit variables. It thus emerges that stabilization did not bring about a significant fall in bank lending.

³⁵³ See again Gaiotti, 2003, pp. 468-483; see also Ciocca, 2022, pp. 50-51. The reading proposed in the text contrasts with interpretations developed by other scholars in the 1960s and 1970s. Some of them reconstructed a detailed picture of the monetary and banking variables in play in order to conclude that the intervention had been excessively restrictive (see in particular De Cecco, 1968). Daneo (1975) advanced a similar thesis, while giving greater weight to political-institutional variables. Aside from these differences, it should be observed that both authors agree with Gaiotti in regarding the stabilization maneuver as a watershed in Italian economic development. Moreover and above

with a more adequate set of monetary policy tools, while the banking sector reduced its liquidity holdings and increased its demand for securities without compromising support for production activity; at the same time, firms significantly slowed or reduced speculative stockpiling of raw materials and intermediate goods.

Our conclusion is that the role played by expectations was twofold. The stabilization policy was designed at the end of 1946 and proposed at the beginning of 1947 because Banca d'Italia perceived a worrying deterioration in the expectations of economic agents regarding future inflationary dynamics. The same policy was notably successful in bringing the inflationary process back under control without compromising the medium- to long-term growth of the Italian economy because, partly on account of Banca d'Italia's influence and moral suasion, it improved the expectations of economic agents concerning the prospects for stability and growth in Italy.

In his first *Concluding Remarks*, for 1947, and in other public statements and speeches before the Bank's Board of Directors ("Consiglio Superiore"), Menichella emphasized his full satisfaction on this point. He stated that, from the final months of 1947, it had become clear that the stabilization policy would not induce commercial banks to significantly contract their lending, despite a larger-than-expected increase in the amount of liquidity set aside by these same banks. The intervention on compulsory reserves would merely provoke a significant decrease in the growth rate of lending.³⁵⁴ In his notes to the preparatory draft of the *Report for 1947*, Menichella was even more explicit: "in the first three months of the new rules on bank reserves [...] the volume of lending remained almost stable, whereas an appreciable margin of liquidity was reconstituted".³⁵⁵ Moreover, Menichella noted that banks had resumed holding a greater amount of cash with Banca d'Italia and the Treasury than that required by the compulsory reserve rules: these were additional amounts beyond "the sums that the new rules call upon them to set aside (around 44 billion in excess)". It should be added that the decrease in the growth rate of bank lending had already been reabsorbed in 1948 (with an increase of 234 billion lire). When Baffi delivered his *Remarks* ten years later, they were complementary to those of Menichella.³⁵⁶

all, it should be noted that some of the criticisms levelled at the measure found an effective response in a memorandum dated September 1947 and drafted – in all likelihood – by Baffi for Menichella. In particular, that memorandum responds to four recurring objections (cf. APPB, Carte Baffi Fregene, fold. non numerato, BXII, varie).

³⁵⁴ See Banca d'Italia, 1948, pp. 159-162. This point is reiterated in Menichella, 1956, pp. 662-664.

³⁵⁵ ASBI, Banca d'Italia, Studi, file no. 302, folder no. 4, "Bozza" per la Relazione del 1947, presumably attributable to Baffi and Mancini, with handwritten notes by Menichella, undated but traceable to January-March 1948.

³⁵⁶ Baffi, 1958, pp. 358-360.

There are more data to confirm that the application of the new reserve requirements did not produce monetary restrictions and yet brought inflation back under control.³⁵⁷ After the stabilization policy, the monetary base recorded growth rates higher than those of national income. The 1947-‘48 fiscal year was characterized by larger increases in the public deficit than the previous year. Furthermore, in the second half of 1947, monetization by Banca d’Italia of the resulting public deficit intensified; and, as a consequence, at the end of 1947 (see below) it became necessary to raise the maximum threshold of ordinary advances that could be requested by the Treasury from 1 to 100 billion lire and to consolidate extraordinary advances that had no ceiling.³⁵⁸ Yet price dynamics came to an immediate halt.³⁵⁹ The price level went from annual increases of around 60 per cent to a negative variation of 3 per cent as early as October 1947; in 1948, the inflation rate stood at negative annual average values; during the 1950s, with the exception of the Korean War (1951), it fluctuated within a narrow interval of between 1 per cent and 5 per cent.

The identity that defines the “equation of exchange” (see also footnote 304, above) helps justify the compatibility of these data. The improvement in inflation expectations, linked to Banca d’Italia’s moral suasion and to the new monetary policy, convinced banks to progressively reduce their previous indiscriminate expansion of loans and – above all – signaled to other economic operators that bank interest would no longer coincide with that expansion precisely because of the decline in expected inflation rates. This produced a sharp fall in the velocity of circulation of money, which took the form of a reduction in pressure on prices. The reaction of firms reinforced the trend: it became advantageous to place the stocks of goods accumulated in previous months on the market in order to cash in on the gains from speculation on the inflationary dynamic, hitherto increasing but now perceived as diminishing in light of the new expectations. A virtuous spiral was thus set in motion, reinforced by positive exogenous factors: not only the international

³⁵⁷ On this point see the memoranda of Banca d’Italia prepared for the Interministerial Committee for Reconstruction (with annotations and documents drafted by Baffi) and now republished in Ricossa and Tuccimei (eds.), 1992, pp. 516-537. See also Gelsomino, 1998; Omiccioli, 2000; Gaiotti, 2003; Ciocca, 2022.

³⁵⁸ See Mancini, 1948b, pp. 156-157. It should, however, be noted that the reference is to the nominal dynamics of extraordinary advances over a broader span of time, from the years immediately preceding the outbreak of war (1938) to 1947. Starting from 2 billion lire, they reached 79 billion in 1943 (an increase of 61 per cent over the previous year) and more than 340 billion by the end of 1945; then, after a substantial invariance in 1946, 1947 saw further increases that led to the consolidation just mentioned.

³⁵⁹ The assertion that the monetary maneuver did not entail restriction may appear to overlook the fact that, in September 1947, the discount rate was raised by no fewer than 150 basis points. However, as Mancini emphasizes (1948b, p. 158), in the period under examination (1946 and most of 1947), the financial sector enjoyed excess liquidity and therefore had no need to resort systematically to rediscount operations at the central bank. The only exception consisted of those non-bank financial entities that had to rediscount the effects of stockpiling operations without being able to collect deposits. These were not, however, operations with a significant macroeconomic impact. It is therefore appropriate to focus analysis of the maneuver on the effects induced by the new compulsory reserve coefficient.

ones already recalled, but also domestic variables, such as good agricultural harvests, increases in international trade and so forth. In this framework, the banking sector continued to hold high liquidity. As Menichella pointed out, this liquidity was partly allocated to public securities and partly to deposits with the central bank. This explains why it became possible, at least for a while, to finance growing imbalances in the public budget (also through monetization of the related deficit) without serious repercussions for price dynamics.

Although it inevitably entailed short-term imbalances, the maneuver strengthened the trends of the Italian economy over a longer horizon and softened the climate of social conflict that had exploded in the autumn of 1947, especially in the north of the country. In July 1948, Menichella reconvened Banca d'Italia's Board of Directors ("Consiglio Superiore") after more than five years of absence. At its December meeting, the new Governor emphasized that, in the first year that the new monetary policy was applied, there had been marked increases in the propensity to save and a related broadening of the group of wealth holders, albeit on a modest scale.³⁶⁰ This had enabled the banking sector to intermediate a significant share of that wealth and to channel it towards productive investment, overcoming pre-existing monopolistic strongholds and distortions in the allocation of financial flows. According to Menichella, these trends were destined to strengthen, thanks to a persistent increase in bank lending, which had by then reached an incidence of 77 per cent of deposits even in the presence of a parallel increase in the issuance of bonds and shares.

It would, however, be inappropriate to conclude that the stabilization policy had no negative consequences for the performance of the real economy and the functioning of the financial markets. The impact, however, was far smaller in scale and duration than might have been feared.³⁶¹ At the beginning of 1948, industrial production fell by about 15 per cent relative to the peak reached in October 1947. Although this fall was reabsorbed from the middle of that same year onwards, it caused an increase in the unemployment rate, which rose from 8.5 to 9.4 per cent. The maximum level of unemployment (almost two and a half million unemployed) was reached in April 1948.³⁶² On the financial side, the thin Italian equity market recorded a marked fall. Moreover, as already noted, imbalances emerged for specific types of banks. In the final months of 1947, numerous small private banks and a few large State owned banks reported inadequate reserves for complying with the new reserve coefficients. Consequently, these banks were

³⁶⁰ Menichella's address to the Board of Directors ("Consiglio Superiore"), session of 20 December 1948 (ASBI, Banca d'Italia, Verbal del Consiglio Superiore, reg. n. 593).

³⁶¹ Gaiotti, 2003, pp. 449-457; Ricossa, 2003, pp. 406-407.

³⁶² See, in particular, the detailed 'Appunto' on unemployment prepared by the Research Department at the end of 1948 and most likely attributable to Antonino Occhiuto. In that memorandum, the analysis of unemployment was based on international comparisons and on numerous disaggregation by sectors and by types of potential workers, using statistical series of different origins. The memorandum is preserved in ASBI, Banca d'Italia, Studi, file no. 382, folder no. 14.

compelled to liquidate part of their lending. This strengthened the savings banks that, as already recalled, had been exempted from the measure. This development was viewed favorably by Menichella.³⁶³

The problematic aspects just mentioned were contingent and did not affect the positive effects of the stabilization policy. Before drawing a definitive assessment, however, there are still two points to be examined.

The more important point, which has already been mentioned, concerns the option that allowed banks to comply with the new reserve obligations through the purchase of various types of public securities, including medium- and long-term Treasury bills. This option, also mentioned in Banca d'Italia's *Annual Reports* for 1947 and 1948, may explain why the Italian banking sector did not reduce the total amount of loans and the coexistence of seemingly contradictory macroeconomic data. A well-founded criticism levelled against the use of this mechanism was that it fostered a potential "vicious circle" between the creation of bank reserves and the coverage of growing public deficits, because it allowed credit institutions to increase their reserves through the granting of long-term (and therefore illiquid) finance to the State.³⁶⁴

Baffi acknowledged the significance of the problem raised, but he emphasized that the intervention had been gradual and had introduced temporary solutions justified by the emergency.³⁶⁵ It was particularly necessary to bear in mind that the Italian economy was characterized by a large amount of public securities, that the adjustment of the public balance sheet required slower timing than monetary adjustment and that Italian banks would not have been able to cope with outflows of funds which, moreover, would have hampered the reduction in the velocity of circulation. In support of his position, Baffi stressed that the problem in question had been resolved in 1953 by limiting the components of compulsory bank reserves to deposits with the central bank and ordinary Treasury bills that, being short-term, had a high degree of liquidity.³⁶⁶ Thus, Baffi made a well-calibrated reply to a criticism that, though formulated as a

³⁶³ Menichella emphasized his positive interpretation of the phenomenon in some subsequent interventions. Specifically, the new Governor stressed how the strengthening of savings banks was an essential step in intercepting the financial wealth accumulated by the agricultural sector and in mobilizing it for industrial purposes or for the modernization of agriculture (Menichella, 1956). This aspect, which became even more important during Menichella's governorship, presents complexities that cannot be addressed in this work.

³⁶⁴ See Lutz and Lutz, 1950. See also Banca d'Italia, 1948 and 1949.

³⁶⁵ See Baffi, 1958.

³⁶⁶ By decision of the CICR of 10 January 1953, it was established that the sums to be tied up had to consist exclusively of ordinary Treasury bills to be deposited with Banca d'Italia, and of cash to be paid into a special interest-bearing current account with the same institute.

technical matter, effectively called into question one of the cornerstones of the entire stabilization policy, namely the principal instrument for absorbing liquidity in circulation.

The second of the two points still being discussed concerns the disputes that preceded or followed the implementation of the monetary policy intervention in late September 1947. Despite the limited negative impacts recalled above, that intervention was fiercely criticized by important public and private bankers and industrial managers (among them, Raffaele Mattioli, Cesare Merzagora, and Oscar Sinigaglia). Here we shall confine ourselves to the ensuing debate between Banca d'Italia and bankers.

At the first meeting of the CICR (5 August 1947), Menichella set out the contents of the new monetary policy and obtained the institutions' approval to proceed. This result triggered sparking discontent in the banking sector. Accordingly, on 20 August, Menichella summoned the president of ABI and forty of the most representative Italian bankers in order to illustrate the details of the imminent policy change.³⁶⁷ After a debate that was at times heated, Menichella believed that the representatives of the banking sector had been persuaded to the point of being ready to cooperate for the success of the stabilization maneuver. Two days later, Banca d'Italia issued a circular stating that the new rules had been "recognized as applicable" without there being any need, "in the great majority of cases, to resort to restrictions on existing credit facilities". The reaction of the banking world, however, became more marked. One week after that meeting, Mattioli sent Menichella a letter arguing that the decisions anticipated by Banca d'Italia would place the substantial costs of stabilization on the banking sector and, consequently, on the real economy, instead of imposing corrections on the true culprit of inflation: the public budget. Menichella's reply was sharp. Besides reminding Mattioli of the important role played by banks in the creation of means of payment, the Governor accused the Comit top manager of neglecting the crucial problem that had characterized Italian inflationary dynamics over the previous year: excesses in the granting of loans by the banking sector.³⁶⁸

The tensions that had appeared even before the inaugural meeting of the CICR caused the political world to seek compromises. Thus, despite Menichella's vigorous resistance, one of the decisions taken at that meeting was to launch programs for the granting of subsidized credit in favor of the mechanical sector (the abovementioned revolving fund assigned to the FIM) and in support of small firms under IRI control. The latter was largely financed through rediscounts at Banca d'Italia. Moreover, as already noted (see footnote 349), all firms obtained concessions with regard

³⁶⁷ The summary of the meeting is taken from Calabresi, 1986, pp. 240-241.

³⁶⁸ ASBI, Banca d'Italia, Direttorio Menichella, file no. 97.1, folder no. 17, Mattioli to Menichella, 23 August 1947, and Menichella's reply of 8 September 1947. Both letters have been republished in Ricossa and Tuccimei (eds.), 1992, pp. 465-469 and 479-481.

to “franco valuta” imports. These new opportunities served to correct any restrictive impacts of the stabilization policy and contributed to public-budget deficits.³⁶⁹

With regard to these imbalances, it should be recalled that various ministers (particularly Fanfani and Togni) showed a strong propensity to expand public expenditure and to increase recourse to advances from Banca d'Italia. Public deficits widened further in the months following monetary stabilization, causing serious worries for Banca d'Italia. The Governor held that the results achieved through the monetary policy measure would only become lasting once the dynamics of the public budget had been brought under control. In this regard, the 1948-49 and 1949-50 fiscal years provided some positive but contingent signals because they were linked to international aids. It should, however, be remembered that, on the strength of his position of pre-eminence among the economic ministers, Einaudi secured the adoption of a Decree Law (24 December 1947) that introduced two binding constraints on public expenditure. First, that decree eliminated the government's discretionary power in requesting extraordinary advances from Banca d'Italia, establishing a statutory maximum threshold that could only be exceeded on the basis of specific laws and for set amounts. Second, it made withdrawals from the current account held by the Ministry of the Treasury with Banca d'Italia conditional upon compliance with maximum imbalance thresholds.

At first sight, Einaudi's initiative was not highly successful. As early as April 1948, the constraint it introduced (50 billion lire) had already become unsustainable and had been exceeded by more than 60 per cent. It was therefore inevitable that the threshold was changed from an absolute value into a percentage ceiling, fixing the maximum imbalance at 15 per cent relative to the original expenditure forecasts and the subsequent budget variations. Combined with other factors, this mitigation of the decree slowed but did not stop the process of rebalancing the public budget, which remained an objective pursued tenaciously by Einaudi.³⁷⁰

13. Conclusions

By the end of the 1940s, the gradual correction of the most serious economic imbalances marked the conclusion of the reconstruction phase that had begun at the end of the Second World War.

³⁶⁹ See Mancini, 1948a, p. 17. It should be noted that, in drafting an analysis of the Italian situation for the US government, Hirschman (1948) expressed approval of the compromise reached. He argued that, after having undergone a period of “violent” inflation, combining an economic policy with deflationary tendencies and incentives in specific sectors was a logical policy. Moreover, in view of the positive results achieved by the maneuver, Mattioli also adopted a more conciliatory stance. In the Report delivered at Banca Commerciale in 1948, he merely asked that the use of compulsory reserve rates should not become an expedient for further restrictions.

³⁷⁰ On this point, we can simply refer to the letter Einaudi wrote to De Gasperi on 29 April 1948 in order to set out the conditions under which he would continue in his governmental commitment (see FLE, I.2, ‘De Gasperi’). The letter is now republished in Ricossa and Tuccimei (eds.), 1992, pp. 538-542.

Significant problems within the Italian production and financial system nevertheless remained unresolved, and they would shape Italy's subsequent domestic and international development. Banca d'Italia was, however, ready to contribute to overcoming these problems by playing a crucial role in the country's economic policy choices. During Einaudi's governorship, the Bank had in fact undergone a profound reorganization and had recovered its pre-eminent supervisory functions in the financial sector; moreover, the stabilization package had equipped the central bank with new and effective instruments for controlling credit activity and the money supply. Flexibility in setting compulsory reserve requirements constituted a "credible threat" (to use the current terminology of contract theory) for supervised institutions, lowering the need for *ex post* interventions. This consolidated the moral suasion approach that, for better or for worse, would long define the role of Banca d'Italia as the "bank of banks". Through its control of banking policy, the Bank would not merely go on to shape monetary policy but, for a considerable period, would also make a substantial contribution to fiscal policy and industrial policy.

The analysis developed in this study has sought to explain the significant and lasting effects that Luigi Einaudi's governorship exerted on the subsequent organization of Banca d'Italia and on its renewed functions. Baffi maintained that, from the moment of his arrival at Via Nazionale, Einaudi had worked, with the significant contribution of Introna, to put an end to the period of "eclipse" and progressive marginalization experienced by Italy's central bank between 1930 and 1943, i.e. between the death of Bonaldo Stringher and the dramatic end to Vincenzo Azzolini's governorship. Although he only served for a limited number of years, the new Governor succeeded in bringing about significant internal changes within Banca d'Italia that determined, in various ways, both the evolution in the set-up of functions and services and the gradual specification of objectives and instruments. This explains why Einaudi laid the foundations that enabled Banca d'Italia to influence the long-term trajectory of the Italian economy and, to some extent, of Italian society. The outcomes of Einaudi's governorship help to lend analytical substance to a claim that has instead often been treated as a mere piece of rhetoric: namely, that the history of Banca d'Italia is closely linked to several crucial passages and transformations in the economic and social history of our country.

According to Baffi, achieving these results was not a linear process. Managing such an ambitious plan had in fact overexposed Banca d'Italia, whose considerable involvement in the main international missions was not offset by adequate reforms of its governance. The people who were most involved, and who were destined to later occupy senior positions, needed to be ready to assume increasing responsibilities to deal with the broad range of open questions in order of priority. Instead, renewing the top tiers of the Bank's most important departments and strengthening a number of crucial staff functions required a phase of reorganization before it could yield any positive results. By highlighting – in a manner that is, in our view, all too severe – alleged deficiencies in the Research Department that he directed, Baffi inferred that, compared

with the admittedly dramatic situation of the winter of 1944-45, the Bank's operational capacity had been limited by the demands of internal reorganization in the years between 1945 and 1948. This explains Banca d'Italia's inability to provide the Governor with timely and accurate analyses and with a more structured set of instruments to intervene in the significant problems faced and particularly in the inflationary processes of 1945 and 1946-47.

In the preceding sections, we dwelt at length on the difficulties encountered in the reorganization of Italy's central bank. We have, however, also argued that, within the limits permitted by the "toolkit" available eighty years ago, the Supervisory Department and the Research Department provided the Bank's leadership with valuable and accurate analyses of recent changes in the banking sector and the inflationary processes under way. We simply need to recall, in this regard, that even before the end of the war, Baffi and his closest collaborators emphasized that one of the determinants of the excessive dynamics of prices in Italy was the banking channel. This allowed Baffi (and other members of the Research Department, such as Mancini and Occhiuto) to find the possible roots of inflation in the complex interaction between the monetary channel and the banking channel and to attribute the acceleration in price dynamics, in the second half of 1946, to the predominance of the latter channel.

These observations explain why it would be inappropriate, in our view, to attribute the long delay in launching and implementing the stabilization package to shortcomings in interpreting the inflationary phenomenon. Alternatively, many scholars have explained the delay by reference to the constraints imposed by the weak political-institutional framework that preceded the formation of the fourth De Gasperi government. Within that framework, governments of heterogeneous composition shied away from options that might conflict with the short-term interests of firms, workers and a population exhausted by wartime events. Hence, it was only with the exclusion of the left-wing and progressive parties from government that an anti-inflationary monetary policy was belatedly implemented. Our analysis has not confirmed this interpretation either. As has often been acknowledged, there is no doubt that political and institutional factors delayed the implementation of the stabilization package that Banca d'Italia had prepared as early as December 1946 and then set out in detail during the first two months of 1947. We are nevertheless convinced that the Bank's choices between 1945 and December 1946 were only minimally conditioned by domestic political constraints. The stabilization package was designed and urged forward after Einaudi became convinced that the failure of the Reconstruction Loan to drain liquidity from the money supply would determine a negative evolution of the expectations of the principal market actors. Hence, the Italian economy would suffer the least damage from a severe struggle against inflation, even at the cost of a more moderate dynamic in financial support for growth.

We do not claim that the reconstruction of the Italian economy and, within it, the stabilization package were carried out in the most efficient manner and at the most appropriate possible

moment. On the contrary, we consider it highly probable that the positive elements present in those processes were accompanied by the reoccurrence of structural factors of weakness that would subsequently weigh upon the Italian economy and society over the long term. The present study has not, however, addressed issues of such complexity. We have confined ourselves to advancing two theses. The first is that, while recognizing the multiplicity and complexity of the factors that influenced the content and timing of the stabilization package, the decisive aspect was the decision to intervene through the banking channel because of the difficulty of draining liquidity through the monetary channel. The second thesis is that the package was calibrated in such a way as to safeguard the growth of the real economy (which, though not destroyed by the war, was structurally fragile), to such an extent that it cannot properly be described as a tightening of monetary policy. The fact remains that, as other authors (especially Eugenio Gaiotti) have also emphasized, the stabilization package was a watershed moment that began a decade of price stability and enabled the Italian economy to earn a place for itself in international markets.

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ASBINT – Archivio Storico di Banca Intesa, Milano – Carte Mattioli.

ASBR – Archivio Storico del Banco di Roma, Roma – Carte Guarneri.

ASPR – Archivio Storico della Presidenza della Repubblica, Roma – Archivio Cesare Merzagora.

BEA – Bank of England Archives, Overseas Department.

MBCA – Mediobanca Corporate Archive, Archivio Storico di Mediobanca, Milano.

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