IEA Foundations 2

THE EXPERIENCE OF FREE BANKING

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11 COMPETITIVE NOTE ISSUE IN ITALY, 1860–93

Alberto Mingardi

Introduction

Italy became a nation state in the 1860s. The country had been divided into smaller principalities and city states virtually since the fall of the Roman Empire. While the number of autonomous political units declined after the Renaissance, by the eve of unification the country was still divided into seven independent realms, one of which (the Regno Lombardo-Veneto) was part of the Austrian Empire. This history of pluralism has impacted the *Bel-paese* profoundly. In the case of banking, it created a long-lasting tension between vestiges of regional banking and a central government that aimed for a more centralised banking system.

Unifying the country was a challenge and, in some sense, a goal that was never fulfilled. Even today, sharp divergences in social capital, cultural norms, and administrative performances between different regions (most notably between the north and the south[1]) are understood to have their historical roots in the pre-unity states (see, most notably, Putnam et al. 1993). Such regional differences did not, however, encourage the adoption of a decentralised governance structure. Instead, the Piedmontese unifiers (Ziblatt 2008: 79)

> adopted a highly centralised political system in which (1) the formerly independent regional states had no formal representation in the new national government, (2) the independent regional state had no public finance discretion (i.e. no taxing and spending discretion), and (3) the independent regional states lost all administrative autonomy.

1 Thirty years after reunification, former East Germany GDP per capita was estimated to be 73 per cent of former West Germany, roughly compared with 45 per cent in 1990. GDP per capita in the south of Italy is, 160 years after unification, 50 per cent of GDP per capita in the north.

The new state could be seen as a larger version of the Kingdom of Sardinia, led by the House of Savoy, which in turn was built on the French model of a top-down administrative state. As soon as the Kingdom of Sardinia occupied Lombardy in 1859, a law was issued to extend the Piedmontese legal system to the Lombards, irrespective of the local, traditional institutions. Further annexations followed the same model. Zariski (1983: 18) suggests:

> [I]n mid-nineteenth-century Italy, a small national-minded elite had constructed a state long before a sense of nationhood had been widely diffused among the culturally backward masses, [and, hence,] even a moderate degree of decentralisation was seen as a possible source of dangerous centrifugal tendencies.'

The consequence writ large was a tension between the centralising tendency of politics and the law and resistance to centralisation by local culture and society. To some extent, banking and money after Italy's unification (Polsi 1992) reflected this same tension. The newly united Italy had a single currency (the Italian lira, created by a law of 1862) but saw the circulation of banknotes issued by five (then six, after the annexation of Rome) different issuers. The establishment of the Italian lira suggested a single unit of account, but also a regime of mostly fixed exchange rates among the notes issued by different issuers.

Thus, when Italy became a nation state it preserved for a while a plurality of banks of issuance. Though such an arrangement had its defenders and champions, it was not a matter of constitutional design, nor a deliberate political choice. It resulted from historical circumstances and political manoeuvring by different interest groups. But in a sense it was doomed to be replaced, regardless of its merit, because of the unification's ethos.

Before unification

The newly unified Italy was de facto a monetary union, which started in 1862 when a new coinage system based on the lira of the Kingdom of Sardinia superseded all the pre-existing coins and paper money.[2] This lira was made the legal tender of the Kingdom of Italy, its value fixed at 4.5 grams of

2 The country had '268 currency units in circulation, most of them of different titles' (De Mattia 1990: 14).

silver and 0.29 grams of gold. The new monetary provisions did not change existing arrangements with regard to the issue of paper money. Thus, the persistence of a plurality of note-issuing banks was at odds with the dominant centralising trends inherent in the unification process.

In his illuminating study of Italian and the German unification, Ziblatt (2008) considers Italy an example of *unification by conquest*. The country did not come together on the basis of a compact between the pre-existing states: instead, the Piedmontese seized the north militarily and then were prompted to move south and incorporate the Kingdom of the Two Sicilies after Giuseppe Garibaldi's (1807–82) successful expedition (the 'thousand').

The way in which the state was unified had important repercussions for its institutions. 'Piemontese officials found themselves adopting a centralising pattern of political authority during the critical years of 1859–65 … despite their own "liberal" commitment to decentralization' (Ziblatt 2008: 80). In contrast to Prussia, 'Piedmont was without regional governments in place and without the time to construct them' (Ziblatt 2008: 81). For Ziblatt, Italy did not take a federalist path because of the limited state capacity of the kingdoms other than Piedmont. They were poorly politically structured when it came to '(1) the development of constitutional rule, (2) the existence of parliamentary structure and (3) the development of administrative structures.' Hence they 'suffered from poorly developed institutional capacity to do the work of modern governments: to tax, conscript manpower, maintain civil order, and carry out political projects of social and economic reform' (Ziblatt 2008: 82–83). Weak states, Ziblatt maintains, made for poor bargainers.

The Italian territory was politically pluralistic and diversified and, on paper, an ideal ground for a *federalist* unification. Such was the 'utilitarian' and bottom-up model of unification that economist Francesco Ferrara (1810–1900) advocated in 1848. For Ferrara, 'What is true for men, is also true for peoples. A union is always a contract, in force whereof something is yielded, but always in view of an object one is aiming – or hoping – to achieve' (Ferrara 1848: 329). The Sicilian economist and patriot was convinced that 'unity, this everlasting vision of Italy's existence and independence, shall forever be a futile endeavor until the proper balance between the force that is to be concentrated, and that which it tends to dissipate' (Ferrara 1848: 321). Ferrara was not alone in pushing a federalist model for a united Italy. Yet things went differently as Piedmont, rather than pursuing a confederative covenant with the rest of the country, acquired militarily, first, the Austrian

dominions in the north, then the Kingdom of the Two Sicilies and, later in 1870, Rome. In 1860, Tuscany had joined after a plebiscite.

As we have seen, Ziblatt suggests that the conquered states were too weak to attempt to negotiate, instead of letting themselves be invaded.[3] In 1861, a few months before dying, Camillo Cavour (1810–61), the Piedmontese prime minister who led the unification of the country, entrusted his minister of interior affairs, Marco Minghetti (1818–86), to prepare a plan to reform Italy in a federalist direction. Minghetti's work aimed at developing regional levels of government but went nowhere.

In the realm of monetary policy, the fact that Italy was unified by conquest meant that it did not follow the same, gradual path toward unification that Germany followed. The Germans formed a *Zollverein*, a customs union, beginning 1834, but also a *Münzverein* among the states that participated in the customs union beginning in 1838, which in practice meant a fixed exchange rate between the common thaler of the northern states with the southern gulden and a silver standard. The Italian peninsula had neither, with the partial exception of the Lombardo Veneto region, which briefly joined the German *Münzverein*, in 1857, as part of the Habsburg Empire.

Sixty years earlier, Lombardy and Veneto had been occupied by the French. Napoleon brought political innovations and circulation of different monies that could 'ultimately refer to … a single currency, the bi-metallic Franc Germinal, corresponding to 5 grams of silver of millesimal fineness 9 hundred, pegged to gold in the ratio of 15.5 to 1' (Einaudi 2011: 172). The franc germinal was a legacy of the French revolution (Redish 1995) that was extended to the countries Napoleon conquered. Since these included basically the whole peninsula, with the exception of Rome, 'French monetary policy in the monarchic age (1805–14) brought about a de facto currency union for Italy (with the exception of Sicily and Sardinia)' (Einaudi 2011: 172). Hence a number of monetary and coinage reforms took place after the Restoration, though the circulation of Napoleonic coinage did not stop immediately everywhere. The French influence nudged the Italian states towards a *mostly* bimetallic standard. In the Kingdom of the Two Sicilies, for instance, '98% of circulating cash was silver' (Einaudi 2011: 184). By introducing the lira the Italian government aimed to deal with some of problems related to bimetallism and in particular

3 Many have pointed to the 'expedition of the thousand' led by Garibaldi as the fait accompli which twisted the arm of the Piedmontese. Others suggest that the most influential of the theorists which shaped the future of Italy was actually Giuseppe Mazzini (1805–72), whose influence outweighed his federalist competitors. Such a fascinating subject is well beyond the scope of this chapter.

the relative scarcity of silver: in August 1862 a monetary reform 'introduced the 5 lire (5 gram, 90 per cent fine) silver coin with unlimited legal tender and free coinage, but it also provided for coinage of tokens (83.5 per cent fine) for denotations less than 5 francs' (Redish 1995: 733).

Before unification, mints were (Einaudi 2011: 189)

> in the main operated directly by the government, albeit not in every state … mints were occasionally contracted out – for more or less brief periods – to private operators, a practice which yielded lower costs, but its small scale and sporadic nature made it unviable. The smaller the state, the less likely appeared the success of an outsourcing approach.

In the thirty years after unification, most mints were phased out, beginning first with Parma, Genoa, Bologna and Florence in 1861, later Venice, Turin and Naples in 1870, and eventually Milan in 1892. The only mint kept in operation was the one in Rome but new coinage became rare and the country moved to a system based on banknotes.

Note-issuing banks

Italian states before the union can be divided into three groups: those kingdoms (Piedmont, Tuscany, Rome plus the Lombardo-Veneto, as part of the Austrian empire) which 'have a proper issuing bank, that is a bank authorised to issue bearer paper money as legal tender'; those kingdoms where 'banks issue registered, transferable notes, albeit subject to circulation trust and thus not deemed to be legal tender,' and those where we only have 'the circulation of metallic money' (Fratianni and Spinelli 2001: 130). It needs to be remembered, however, that (Gianfreda and Janson 2001: 31)

> the circulation of paper money was still very slim and the demand for barter still very frequent. The public showed a marked preference for metallic money for payments. This was due in part to the agricultural nature of the economy … not even the State Treasury accepted payments in paper notes, with a few exceptions regulated by specific conventions.

Piedmont. The most significant of the note-issuing banks both before and after Italy became a unitary state was the Banca Nazionale degli Stati Sardi. In the territory of the Kingdom of Sardinia, two banks entitled both to provide

commercial credit and to issue banknotes were established: the Bank of Genoa in 1844 and the Bank of Turin in 1849. Though private entities, both banks were sponsored by the Piedmontese Treasury 'to favour the development of trade and the wealth of the country' (Di Nardi 1953: 4). These banks operated as commercial banks and were allowed to issue notes payable on demand in cash to the bearer for denominations of 1,000 and 5,000 lire, with smaller-value bills of 250 lire allowed but only up to 1/15 of the total of issuance. Banks were required to hold reserves of at least one-third of the total amount of circulating notes and current accounts (Di Nardi 1953: 10).

The two banks were merged in December 1849 to form the Piedmontese Banca Nazionale after banknotes had been made inconvertible during the turmoil and wars in 1848. In 1850, Piedmont adopted a scheme based on a single issuing bank, prohibiting the establishment of any 'circulation bank' (or note issue bank) without prior authorisation by the government and placing a cap on the circulation of banknotes (Di Nardi 1953: 11). Further privileges were approved in the 1850s, which culminated in 1859 with the temporary enactment of a regime of *corso forzoso*, literally 'forced circulation', i.e. suspending the convertibility of the bank's notes as to allow for an exceptional loan financing the Piedmontese state, then at war with Austria. That same year (Fratianni and Spinelli 2001: 124),

> the principle was established that banknotes issued to meet the financial requirements of the State – the so-called 'notes issued on behalf of the State' – were exempted from the regulation of circulating money. That is to say, the [issuing] bank was not subject to the legal requirements of the reserve/circulation ratio whenever its notes were issued to fund a deficit of the State budget.

The history of the bank is intertwined with the history of the Piedmontese state: it financed the government's military campaigns after 1849 and was rewarded accordingly. 'In the era of annexations, the Banca Nazionale progressively broadened the scope of its own operations by incorporating in part the smaller, pre-existing banks' (Corbino 1962: 21). In 1859, the bank had branches in seven cities; by the end of 1861 it had branches in 20 cities, and by 1866 it had branches in 51 cities (Di Nardi 1953: 47). The expansion of the Bank was sponsored by the government, which hoped to 'to arrive – by means of a spontaneous process of incorporation – … to endow the country with a sole and mighty issuing bank' (Di Nardi 1953: 47).

Tuscany. In Tuscany the Banca Nazionale Toscana had resulted from a merger between the banks of Florence and Livorno in 1857. Tuscany arrived at unification, then, with a de facto monetary monopoly but exercised by a bank whose market occurred in 1859, a year not particularly propitious in view of the political turmoil in the Grand Duchy. Its currency was convertible. The bank followed a 'very straightforward policy in its investments' among which 'the highest preference was accorded to discounting promissory notes' and 'the employment of public funds was not an habitual custom of the bank' (Di Nardi 1953: 91).

This bank was joined by the Banca Toscana di Credito per le Industrie e i Commerci d'Italia, established in 1860 but only operational after 1863. The bank issued fiduciary bills ('bearer cash vouchers, convertible on demand into specie'). The bylaws set the maximum limit of the circulation of cash vouchers at three times its capital but no 'minimum ratio between the reserve in specie on hand and the circulating vouchers' (Fratianni and Spinelli 2001: 129).

Lombardy and Venice. Even at that time, Lombardy was the most dynamic territory, economically speaking, in the Italian peninsula. A wise observer noted that the Milanese territory suffered under Spanish rule but, once integrated into the Austrian Empire, it blossomed as a consequence of the fiscal and legal reforms (Cattaneo 1844: xciv–xcv). It did not have its own bank of issuance, however, as it was part of the Habsburg empire, where money creation was entrusted to a monopoly, the Bank of Vienna. But starting in 1853 the Italian Habsburg territories had their own issuer, the Stabilimento mercantile di Venezia, which was the only exception to the Viennese monopoly throughout the empire and which issued fiduciary bearer notes. Its notes had no legal tender status. It was incorporated into the Piedmontese Banca Nazionale in 1866. A similar institute (which issued only fiduciary bills with no legal tender status) was the Banca degli Stati Parmensi, in the Duchy of Parma, Piacenza and Guastalla, incorporated in 1858 and later merged also into the Piedmontese Banca Nazionale.

Naples and Sicily. The Kingdom of the Two Sicilies, under the rule of the Bourbons, had two public banks: the Banco di Napoli and the Banco di Sicilia. The Banco di Napoli emerged out of ancient institutions, the 'monti di pietà' 'beneficent institutions' [basically pawnshops] established in Naples in the sixteenth century to counter usury for the benefit of poorer citizens (Di Nardi 1953: 112). At the end of the eighteenth century seven such banks

were operating but their creditworthiness was severely harmed by the abuses engendered by the interference of the Bourbon court in the management of their operations. These banks did not issue banknotes per se but did issue *fedi di credito*, mandates guaranteed by certified deposits (*madre-fedi*), which played the same role as banknotes.[4] King Ferdinando IV (1751–1825) then arranged for a merger into a single bank, which only made matters worse. As Di Nardi (1953: 113) observed: 'this forced amalgamation enabled the Bourbon government to further exploit … the resources of the banks, which caused a [further] steady deterioration of their reputation'. The Banco di Sicilia, another government bank, was established in 1843 but did not issue notes until 1858.

The Papal States. Rome had a Banca Romana, established in 1850 out of the ashes of a preceding bank which had operated under the same name. The first Banca Romana went through a severe crisis in 1848, which coincided with the formation of the short-lived Roman republic, which increased the circulation and adopted a regime of *corso forzoso*. After the pope regained control of Rome, banknotes issued by the Republic were recognised as legitimate and the inconvertibility was confirmed for a year – though it also became apparent that the bank needed a more solid foundation. The bank was then recapitalised and granted a monopoly over the note issue under the standard Italian stipulation that the note circulation was not to exceed three times the specie reserves on hand. Yet the new bank didn't perform much better than the old one. Fratianni and Spinelli (2001: 128) scathingly commented that 'its entire existence was characterized by erratic and occasional illicit operations'. During the 1860s, the bank was frequently on the brink of collapse but kept alive, even after the unification, for political reasons (Polsi 1993: 57). Rome was annexed by the Kingdom of Italy only in 1870; therefore the bank suffered when, in 1866, the circulation of metal coins was limited in the Kingdom, thereby causing specie to be exported from the Papal States to the rest of Italy.

The bank had branches in the cities of Ancona and Bologna, both under papal rule. The Bologna branch was incorporated in 1855 into a private and autonomous entity, the Banca delle Quattro Legazioni. After the unification with the rest of Italy, it merged with the Piedmontese Banca Nazionale.

4 In essence, it was a deposit receipt which, however, in addition to certifying the existence of the money in the bank's coffers, also allowed for its reimbursement, either to the owner or to others.

Upon unification, in July 1861, the Piedmontese lira was made legal tender in all the territories of the newly formed state. One year later, in August 1862, Piedmontese bimetallism was adopted across the new state. Except for the Piedmontese Banca Nazionale, each of the above-mentioned banks operated primarily in their respective areas, with circulation limited in the region not so much by legal limitations as by the relative simplicity and backwardness of the payments system of the time. Yet, between 1866 and 1893, Italy had 'six issuing banks, each printing paper lire: there thus existed de facto six different currencies, namely six types of the same unit of account – the lira – which as such were exchanged at parity' (Ripa di Meana and Sarcinelli 1992: 82).

Free banking on a commodity standard, 1860–66

I have so far described the banks of issue that were established in the pre-unity states and survived into the Kingdom of Italy. The resulting situation was described by Ripa di Meana and Sarcinelli as 'a regime of competing currencies at a … fixed exchange rate,'[5] i.e. free banking on a commodity standard. The amount of banknotes in circulation remained stable, with the exception of that the Piedmontese Banca Nazionale, whose circulation grew with the Kingdom's own territorial expansion.

Between 1860 and 1866, banknotes were required by law to be convertible on demand. The commodity standard was bimetallic. Hence, the issuance of banknotes showed 'a tendency towards stability' and 'disciplined behavior by note issuing banks' (Gianfreda and Janson 2001: 33, 34). This arrangement suggests a relative neutrality of government institutions vis-à-vis issuers, though the Piedmontese Banca Nazionale enjoyed a stronger link with political power. Such conditions were not to remain for long, however.

In their work Gianfreda and Janson (2001: 25) distinguish between four different periods, each defined by their regulations governing note issuance: convertibility (1861–65), the *corso forzoso* (1866–73), the consortium regime (1873–89) and the short-lived return to convertibility (1881–93). The broad conclusion of their work is that convertibility restrained note issue and inconvertibility encouraged it (Gianfreda and Janson 2001: 58–59).

Political choices then had a profound impact on the banks' performance, which thus needs to be evaluated in the context of laws written precisely for

5 This is the reason why new scholarship over plurality of issuance flourished when discussions over the adoption of the euro took place throughout Europe around 30 years ago. See, for example, Sannucci (1989) and associated comments by Charles Goodhart and Gianni Toniolo.

the purpose of political interference. The regime of *corso forzoso*, as we'll see, was conceived to benefit the Piedmontese Banca Nazionale, whose banknote circulation quadrupled between 1865 and 1868 and then more than doubled between 1868 and 1873 (Gianfreda and Jansons 2001: 39–40). This growth in circulation was related to its extending credit to the government to finance government spending. Smaller institutions had no such privileged position and their issuance of banknotes could not grow as fast.

Broadly speaking, we should remember that the main drive to increase issuance were the trends of a national economy that, up the second half of the 1880s, seemed to be on a trajectory of growth, and galvanised by the recent unification. In a context marked by a weak and young financial sector (though some 300 financial institutions were established in the fifteen years after unification), this added further to the pressure on the banks of issuance. Hence, the history of the Italian banks of issuance is deeply intertwined with political events. It not by chance that Italian economists became increasingly concerned about the problem of protecting the independence of banks from political power (Realfonzo and Ricci 2003: 45–48).

Arguments over free banking and the *corso forzoso*

Italy, unified by conquest, structured its public administration in a highly centralist, top-down fashion. The fact that Italy arrived late to the monopoly of issuance is then somewhat surprising. Some have pointed to an alleged hegemony of libertarian economists (see Cardarelli 1990). Such economists knew of Scottish free banking, which came to be seen as a model (Polsi 1993: 48).[6] Other commentators emphasise the opposition of regional interests (Sannucci 1989), in particular, the fact that the so-called Historical Left had a stronger constituency outside Piedmont (De Mattia 1990: 8) than within it. The role of chance should not be so easily discounted either, as political events belong to 'the aimless and contingent movement of actual history' (Greenfeld 2018)

The most important of Italian nineteenth-century economists, Francesco Ferrara, was a champion of free banking and so were 'most of well-known Italian economists of the period' (Realfonzo and Ricci 2000: 28). 'The defenders of free banking denied that any aspect of banking activity warranted an

6 Not surprisingly, Ferrara complains that Scottish free banking 'is an evolution of modern banking, that other countries did not follow' (Ferrara 1856: 185).

exception to laissez-faire or what Ferrara termed "the freedom principle"' (Realfonzo and Ricci 2000: 29). Ferrara's magnum opus consists of a series of long 'Introductions', which he prefaced to the translations of foreign essays in political economy that appeared in the *Biblioteca dell'economista*, a collection of works published in Turin that was intended to represent the gold standard of professional knowledge. In a long essay prefacing, among others, articles by Michel Chevalier (1806–79), Charles Coquelin (1802–52), John Ramsay McCulloch (1789–1864) and Henry Carey (1793–1879), Ferrara had reviewed the history of monetary thought and commented that, as most thinkers were fine with government monopoly of money, 'much faith is required in the principle of liberty, to make so bold an assertion that the issuing of money is not, in itself, an anomaly in the system of non-intervention by the government' (Ferrara 1856: 132). Yet Ferrara clearly possessed such faith, mentioning approvingly *Les soirées de la rue Saint-Lazare* by Gustave de Molinari (1819–1912).[7] In *Della moneta e dei suoi surrogati*, Ferrara (1856: 6) began his sketch of a history of money by pointing out that

> no sooner was the need conceived and the system adopted of dividing metals into pieces, each stamped with a mark that certified its weight and quality, that the first of those abuses emerged that mark the distinguishing features of the history of money: the monopoly of public power. Men needed an easily recognizable and authentic seal, and the governments took up the duty of providing it, but they also concluded that to them alone the Gods had bequeathed the right to produce the things to be stamped with this seal.

Coinage was a matter in which sovereigns plundered their people, producing many an evil: adulteration of money brought about by rises in prices, which in turn led governments to implement price controls (Ferrara 1856: 48–50).

Ferrara was hardly a friend of inconvertible banknotes and distinguished between two possible origins of paper money: 'the one expressly created by the government, as was the case of siege money in antiquity; the other directly derived by the paper money issued by banks, namely paper that was, by its very nature, convertible, but that became, by the force of temporary urgent [state] needs, forced and inconvertible' (Ferrara 1856: 211). Ferrara (1866b: 298–99) argued that, with the *corso forzoso*,

7 Not surprisingly, Ferrara complains that Scottish free banking 'is an evolution of modern banking, that other countries did not follow' (Ferrara 1856: 185).

> the government, in decreeing the forced circulation of paper that cannot sustain its integral value perpetrates an act that amounts in truth to the most extravagant and ruthless socialism … It worries the employee, the widow, and the minor, it impoverishes the receiver of fixed annuities, and it safeguards and advances the profits of the retailer, of the debtor, of the taxpayer.

The *corso forzoso* and its unintended consequences

In 1866, the Italian government resorted to its 'famous' (Allen 2009: 89) *corso forzoso*, a measure prompted by the fiscal exigencies of the Austro-Prussian War of that year. The suspension of convertibility was to last until 1881. Even before then, it was already apparent that the domestic public credit was depleting and that the confidence of foreign investors was waning. By 1866 a budget deficit of some 3,000 million lire was expected, and there were looming fiscal problems, as increasing taxes appeared impossible, given recent tax hikes. When the war broke out, Italy was bound by treaty to participate on the Prussian side, and the country's fiscal problems now became acute.

The idea then began to circulate that the Italian government was on the verge of making banknotes inconvertible. There were bank runs and a sense of emergency. The government then obtained a loan of 250 million lire[8] from the (Piedmontese) Banca Nazionale, at the modest interest rate of 1.50 per cent and sought to end the public sense of uncertainty in the public, by declaring the forced circulation of notes. As George Selgin (1988a: 10) put it:

> [A]s an alternative to retrenchment the Italian government sought further help from the note-issue banks. It secured this help by allowing the notes of the Bank of the Kingdom issued in connection with loans to the state to pass as inconvertible (force[d]) currency, while at the same time awarding limited legal tender status to the other issuing banks.

Banks were not allowed to issue banknotes in excess of three times the amount of reserves, the latter consisting of gold for the Banca Nazionale, and in one-third gold and two-thirds Banca Nazionale's bills for the other banks. The circulation of the Banca Nazionale's notes on behalf of the

8 At the end of 1865, 'circulating notes and the total monetary base of the country respectively amounted to 128 and 1,711 million lire' (Fratianni and Spinelli 2001: 157).

government was not subject to any reserve requirement. As Gianfreda and Janson (2001: 37) observed:

> By the measures of 1866 a pyramidal scheme was established whereby the notes of [the Banca Nazionale] were endowed with a higher state as legal tender and constituted a de facto monetary base. The circulation of bank-issued notes thus ceased to be an independent endeavour, as changes in [the amount of notes issued by the Banca Nazionale] affected the liquidity of the other banks.

The dissenting voice of Ferrara (1866a,b) immediately pointed out that the *corso forzoso* mainly benefited the Banca Nazionale, and a better way of dealing with the problem might have been 'the deliberate creation of government paper which, endowed with the status of legal tender, and issued in case of need, would have been placed into the general circulation, getting mingled with the existing money [in circulation]' (Ferrara 1866b: 310–11).

A subsequent Parliamentary commission was to prove Ferrara right and ascertained that the bank run had affected only four non-issuance banks, 'each bound to the Banca Nazionale by several interests. Whereas these few banks experienced an extraordinary withdrawal of deposits, the Italian banks as a whole and the Banca Nazionale experienced instead a greater inflow of deposits' (Di Nardi 1953: 123). The commission concluded that the *corso forzoso* had not been needed, from either economic, financial or political perspectives. Yet such *ex post* condemnation could hardly reverse history. Contemporaries may have been more indulgent with the government and then-minister Antonio Scialoja (1817–77), in consideration of the looming threat of war. Di Nardi (1953: 126) tends to consider the 1866 *corso forzoso* as 'one of those typical cases whereby the suspension of the note's convertibility is enacted during a severe banking crisis, with the aim of bailing out the banks threatened by their depositors' panic'.

Its consequences were to be momentous. The *corso forzoso* was 'a traumatic event in a country so little accustomed to paper money,' as Kindleberger 1984: 140) later remarked. Before 1866, there was a strong preference for metallic over paper money: the 'average life' of a Banca Nationale banknote's circulation, before being redeemed, was 121 days in 1860, 75 days in 1862 and 65 days in 1864 (Fratianni and Spinelli 2001: 150).

Corso forzoso also marked a permanent turn of the tide: the return to convertibility, decreed in 1881 and put into practice in 1883, was to be

short-lived. By 1887, de facto, the lira was again inconvertible. The long-term effect was the displacement of specie with paper: inconvertible legal tender banknotes now accounted for 36 per cent of the total circulating money and, in the course of a few years, was to exceed the metallic. Coinage represented 70 per cent of the monetary base in 1861, 33 per cent in 1872, 43 per cent in 1883, 32 per cent in 1900, 20 per cent in 1913 and 6 per cent in 1918 (Einaudi 2011: 193).

The *corso forzoso* also had awkward international consequences. In 1865 Italy had just joined the Latin Monetary Union, whose members were committed to a bimetallic standard. And yet with the *corso forzoso* (Martello 1884: 5):

> Italy was part of an immense monetary state of 75 million inhabitants, for whom the two metals were supposed to have the same legal tender as means of payment. At the time, however, neither gold nor silver were circulating in Italy. The bimetallic standard was [thus] not in force in that country, despite [Italy] being bound to it by an international agreement.

When an economy moves from specie money to inconvertible banknotes, one would expect a dual system of prices to develop: higher for those who pay with paper, lower for those who pay with metal. The law that established the *corso forzoso,* however, 'decreed' that one golden lira was to have the same purchasing power as a paper one. The law created an incentive to hoard precious metals and pay in paper notes.

But, since the country was part of the Monetary Latin Union, owners of metallic money could export it.[9] So silver and gold coins were exported, where they would be purchased according to the commercial value of their metallic content or hoarded. Gold moved internationally and (Di Nardi 1953: 130):[10]

9 'The only limits foreseen in the UML concerned the respect of the uniformity of weight and title of the monetary pieces of all the member States and the quotas of metallic money issues. There were no rules for paper currency, neither with respect to the quantity of issue, nor with respect to its convertibility, leaving a free hand to the single States: this will be one of the reasons that will undermine the functioning of the Union and Italy, as we said, will be held responsible for the introduction of forced circulation' (Filocamo 2016: 337). Attempts were made to pass a law to prohibit the export of coins (De Viti de Marco 1893: 188).

10 In a 2 October 1892 letter to Maffeo Pantaleoni (1857–1924), Vilfredo Pareto (1848–1923) commented that 'France and Switzerland … should complain about Italy that has been forced to make a forced loan, exporting its silver coins' (Pareto 1960: 296).

> in the members of the Latin Monetary Union, France, Switzerland, and Belgium, in particular, silver 'divisionary' [small-denomination] coins[11] that had the status of legal tender under the monetary convention of 1865, were also exported. Even bronze coins, whose intrinsic value was barely a third of their nominal one, were exported into France and into the Swiss border cantons.

In the short term, then, the most immediate result of *corso forzoso* was a reduction of means of payment available in Italy. The 'continuing scarcity of [small-denomination] coins' was to last for years,[12] and this problem was resolved, to the extent that one can say it was ever resolved, by bottom-up, spontaneous, individual actions rather than by top-down fixing.

The most spectacular unintended consequence of the *corso forzoso* was thus the emergence of paper money deemed to be 'abusive,' 'small denomination notes, issued by cooperative banks, municipal governments, commercial companies, mere retailers and, eventually, hairdressers' (Ferrara 1868: 452). The fact that smaller coins, including copper ones, were exported led to (Di Nardi 1953: 135)

> the custom, by provincial and municipal governments, chambers of commerce, religious philanthropic institutions, commercial companies, and even private shopkeepers, of issuing on their own behalf small denomination vouchers, occasionally even mere pieces of common paper with an annotation of the bearer's credit.

In Florence 'shopkeepers and entrepreneurs agreed to mutually accept the bonds they issued, that they later exchanged settling any difference' (Di Nardi 1953: 136). The chamber of commerce in Biella (Di Nardi 1953: 137)

> decreed that its members should refrain from accepting the notes issued by private individuals or businesses, and only receive the notes of General Association of Biella's workers. At the same time, the Chamber required this Association to hold in its treasury the equivalent amount of the circulating

11 In 1862, Italy adopted a 'biglione' coin, a coin with 835 grams of silver whose value was legally set to be on par with the traditional 900 grams silver franc (Martello (1884: 10) remarked 'the anguished Hamlet's dilemma of to be or not to be was eventually solved by the monetary logic of diplomacy: not to be and to be').

12 The expression is borrowed from a 1 August 1894 article by Vilfredo Pareto (1965: 137).

> notes, in legal tender, Treasury bonds, public funds assessed at their current stock exchange rate, and promissory notes with a three-month term.

This was a period of monetary experiments. At a certain point the 'association of Milan's shopkeepers' started to issue 'bonds or notes of one lira … in consideration of deposits made in banknotes, that is, in legal tender': a solution that 'spontaneously emerged from a need of the market and was voluntarily and freely adopted' and yet it upset 'our rulers, dismayed that anything, even trivial, be done without the intervention of their superior insights' (De Viti de Marco 1893: 191).

This 'abusive' circulation, by and large the result of shops and businesses supplying credit for their customers, reached 18 million lire by the end of 1868 (Di Nardi 1953: 136). It was mostly genuine 'fiat' money, accepted because the issuer was trusted. Martello (1877: 10) points out that this circulation was fought by the national government with all its might:

> by means of mere administrative circulars [the government] brazenly attempted to indiscriminately abolish the notes of 86 so-called banche popolari [cooperative banks] and 138 Società di credito ordinario [credit unions].

It is estimated that there were some 1,000 issuers of small-denomination money in the country (Bruni 2011: 13n). Italians are known for *l'arte di arrangiarsi*, the art of making do. Their reaction to the shortage of small notes was a glorious example of this particular gift of theirs. The government may have deemed those promissory notes to be unlawful, but they were an important part of people's daily lives. Nowadays, a quick search on eBay presents prospective buyers with a number of 1860s banknotes, issued not by an authorised bank but by 'Popular Workers' banks *soi-disant,* local business confederations, local municipalities and commercial banks. This phenomenon helped people by familiarising them with the use of banknotes even for small transactions.

Di Nardi recognises this situation as a form of genuine 'liberty of issuance' which 'emerged from a need spontaneously engendered by a scarcity of small-denomination coins, but continued to exist even when its originating cause was ceased' (1953: 137). It is typically remarked that a good chunk of those 'spontaneous' means of payment had an unsteady, if not fraudulent, nature. One may be tempted to say that moving into the uncharted water of paper money, Italy had the worst of two worlds: it experienced the conflicts

of interest typical of 'managed' capitalism and the hazards commonly associated with unfettered competition. Yet the latter, which are hard to quantify, were a by-product of the citizens' responses to the problems caused by the former.

The end of competition

In surveying the international experience of free banking, Kevin Dowd has pointed out that the free banking episodes involved 'at least a certain amount of bank freedom, multiple note issuers, and the absence of any government-sponsored "lender of last resort" ' (1992b: 2). The plurality of issuers in the newly united Italy somewhat fits this description – but only up to a point. There was no institutionalised lender of last resort, but, as already pointed out, the Banca Nazionale clearly enjoyed a special relationship with the government. The newly unified country had a high-spending state by the standards of the period, with public expenditure approaching 20 per cent of GDP, and the government had become used to bank credit.

It has already been mentioned that banknote circulation in Italy was by and large a regional phenomenon. This created a widespread suspicion that the status quo was meant to preserve and strengthen the Banca Nazionale, whose banknotes – as a consequence of its rapid expansion – were the only ones which enjoyed a wide circulation in the country. This outcome had been the goal of those who hoped for a rapid monetary unification of the country, but was opposed by both the free traders and those lawmakers who were associated with the interests of other regions than Piedmont, and therefore other banks. These groups were not irrelevant: Parliament repeatedly stopped the merger between the Piedmontese and the Tuscan bank and rejected all measures that would have endowed the Banca Nazionale with the role of government treasurer (Di Nardi 1953: 196). Still, the Bank cultivated its special relationship with political power by providing loans to the government that in turn enabled the Bank to increase its issuance (Gentier et al. 2011: 7). The Bank played a decisive role in the process of securitisation that followed the state seizure of Church properties (Tedoldi and Volpi 2021: 35–36). So, in a sense, the need for resources on the part of the government made it the more reliant on the Bank, which was to remain a necessary ally when, after 1876, public spending was on a rising trend.

Corso forzoso thus helped the bank in broadening its circulation (Gentier et al. 2011: 4):

> protected by the suspension of convertibility the [BN] expanded its note circulation close to the limit written in its statute – the reserves in specie fell to as low as 33% of its private circulation – the notes issued against government loans being free of reserve requirements.

The *corso forzoso* increased demand for the bank's notes, which were used in interbank clearings. While the other banks had to cope with convertibility of their notes into those of the Banca Nazionale, the latter was totally free from any conversion obligation. Gianfreda and Janson note that, during the *corso forzoso*, the circulation of other banks' banknotes increased too, but with more difficulties, as their cost to issue included the need to purchase the Banca Nazionale's notes, required for the clearing of accounts (Gianfreda and Janson 2001: 40). To contemporaries, converting the notes of other banks into Banca Nazionale's banknotes was an expensive process (Martello 1877), whereas some scholars thought that, during the *corso forzoso*, it worked rather well and helped interregional transactions (De Mattia 1990: 17).

This growing circulation begun to feed public worries and many a politician in 1870 campaigned for government banknotes being 'marked by a suitable stamp.' In 1870, a law proposal presented by then Minister of Finance Quintino Sella (1827–84) would have introduced uniform rules for new bank issuances while assuring freedom of entry in that market (Cardarelli 1990: 139–41): the bill didn't pass. The 1872–73 crisis also triggered a concern for more extensive regulation of issuance, which eventually came with the Minghetti–Finali law approved on 30 April 1874.

The key provision of the Minghetti–Finali law was an explicit limitation of freedom of entry: issuance was limited to the six banks that had issued banknotes so far and, insofar as banknotes were to be inconvertible, no other economic actors should issue them.[13] Di Nardi (1953: 199) reads the law as ending that uncertainty, which

> had caused the so-called abusive issue by public and private bodies, embracing the principle that the issue of paper money is an inalienable right of the State, which it can delegate to others, but always as the explicit manifestation of its will.

13 Anyway, a special opportunity was conceded to the Istituti di Credito Agrario, which could issue 'vouchers' that were de facto banknotes.

In contemporary jargon, we can say that the law established a regulated oligopoly. The six issuance banks also established a consortium, whose function was to provide up to 1 billion lire in banknotes to the state for the purpose of monetising the national debt. These 'consortium' banknotes were to be inconvertible, whereas the 'ordinary' banknotes issued by the different banks on their own behalf were legal tender and in principle convertible. In a sense, this arrangement placed the *corso forzoso* on a level playing field, purportedly aiming to reduce the privileges of the Banca Nazionale relative to other note-issuing banks. The consortium's banknotes included smaller-denomination notes (0.50, 1, 2, 5, 10, 20, 100 and 250 lire) and printed on white paper, whereas the banks' higher-denomination notes (50, 100, 200, 500 and 1000 lire), the first were printed on white paper, the latter on coloured paper.

By law, note circulation could not exceed three times capital and reserves, but the state could authorise extraordinary overruns of these limits. Moreover, a tax was imposed on banknotes not covered by a metallic reserve. All in all, between 1873 and 1880 the circulation of monetary means was 'limited and regular [and] the wholesale price index decreased to 19.3 in 1880 from 21.7 in 1973' (Fratianni and Spinelli 2001: 170). Circulation indeed stayed within the legal limits. Yet, if Minghetti's aim was 'the equalization of all banks, insofar as the status of legal tender was to be accorded to each and every one,'[14] it did nothing in practice to downgrade the privileges of the Banca Nazionale: 'In case the right of issue is exclusively accorded to a few selected banks,' noted Martello (1877: 19), 'whose size is not roughly the same [the result would benefit] the one bank which, being accorded a huge expansion of its market, shall tend to increasingly encroach the others' markets'. As Gianfreda and Janson (2001: 46–48) noted, the limits to circulation had set in stone the status quo of the relationships between the various banks.

In 1876 the Italian government coalition changed, moving from the so-called Right to the so-called Left. In a country where the franchise was limited to roughly 2 per cent of the population, Right and Left embodied nuances of political sensibilities, well within the boundaries of the same ruling class. Yet among the Left parliamentarians, there were stronger sympathies for plurality of issuance. In particular, in March 1877 the then Minister of Agriculture and Industry, Salvatore Majorana Calatabiano (1825–97),

14 The legal equalisation of banks, insofar all six were equally granted the status of legal tender in the Italian Kingdom.

together with Prime Minister Agostino Depretis (1813–87), proposed a law to abolish the *corso forzoso*. At the time, the law didn't pass. It marked, however, the first of many such an initiative by Majorana (see Cardarelli 2007), who was seen as a champion of a 'regulated free banking' (Cardarelli 2007: 306)[15] and who aimed at increasing the number of competitors in the field. In June 1878, Majorana presented another proposal, aimed at setting the scene for the government to authorise new issuers. The proposed law contemplated a provision 'in force thereof any issuing institution was entitled to appoint its own delegate to the administrative body of the other banks' (Cardarelli 2007: 306n), a curious measure that ostensibly aimed at entrusting each bank with a certain degree of surveillance on the others, to build trust and avoid irregularities.

The banks of issuance 'stood united in the defense of their common interests' (Cardarelli 2007: 307) and yet still the proposal was stillborn. Majorana returned to a ministerial position at the end of 1878 and gave it another go. The new bill would have limited the circulation by the existing banks of issuance and opened up the market: he also aimed to abolish both forced circulation and legal tender, since 'banks should accustom themselves to face the market without a safety net' (Cardarelli 2007: 323).

The political difficulties experienced by Minghetti's proposals nudged the Left governments and, in particular, Finance Minister Agostino Magliani (1824–91)[16] to give priority to the abolition of the forced currency regime.[17] A law to do so was then approved on 7 April 1881 that stipulated that notes were to become convertible again beginning 1 April 1883: this time lag allowed for the provision of a foreign loan of 644 million lire ('close to 7 per cent of the Italian GDP at the time' (Fratianni and Spinelli 2001: 173) to allow banks to rebuild their specie reserves.

As Pani and von Allmen (2017: 3) observed:

> The resumption of convertibility, at a time of ample international liquidity, triggered a sustained inflow of short-term capital in various forms,

15 Can free banking be 'regulated'? Free market economists such as Martello (1877) answered in the negative.

16 Formerly known as an advocate of free market economics, Magliani was later to be associated with 'finanza allegra' (promoting increases in public spending during a fiscal deficit) and protectionism.

17 As the news became credible, expectations impacted the markets as 'our exchanges were the scene of a sudden financial panic engendered by the expected, fast fall of premiums' (Di Nardi 1953: 255) and demand for metal coins went up in the light of the need for the Treasury and banks of issuances to acquire as much gold and silver as possible before the reestablishment of convertibility.

> including the placement of Italian stocks and bonds and the discount of bills and commercial paper in Paris and other foreign financial centers. Net capital flows … turned positive at about 2–2½ per cent of GDP between 1883 and 1890 … Prompted by these inflows, between 1883 and 1889 credit grew by 11 per cent a year on average, to 34 per cent of GDP.

The government repeatedly amended the new regime over the next few years. In 1883, it required the banks to keep two-thirds of their reserves in gold, to prevent exports of the country's gold stock. Limits to issuance were partly lifted, if new banknotes issuance was covered 100 per cent with reserves. The 1881 law gave back to banks the freedom to set their discount rate, but in 1885 the setting of the discount rate was returned to the Treasury.

Economic crisis and scandal

In the second half of the 1880s the country went through a profound economic crisis. Increasing net capital inflows brought an appreciation of assets. This went together with broader, international phenomena: the betterment in transportation brought a sharp decline in the prices of grains worldwide, which triggered an agricultural crisis[18] and brought many calls for protection, to which the government acquiesced by raising tariffs in 1887. Beginning in 1885, government deficits were growing and financed with foreign borrowing.

It is worth recalling that the Italy was just developing its own financial system: 'In 1890, as the crisis of Banca Romana was building up, the Italian financial system (credit and insurance) contributed to less than 1 percent of GDP' (Pani and von Allmen 2017: 6).

There had been attempts to promote agricultural credit institutions (in 1866 and 1869), but these met with limited success. It was only in the 1870s that non-issuing banks began to be established, such as Credito Mobiliare and Banca Generale, with nationwide coverage and international contacts.

18 In the wine industry, Italian companies experienced a rapid surge in demand after downy mildew took hold in France. Agriculturists increased production, with vineyards increasing from 2 to 3 million hectares in the country. Protectionism didn't help them, however: 'the almost total stoppage of Italian exports to France, as a consequence of the commercial war that began in March 1888, caused an overproduction crisis, only partially mitigated by the destruction caused by [crop] parasites and by the inadequate harvest of 1889' (Corbino 1962: 46).

The strong expansion of cities, and especially Rome, led to a real-estate boom. Overexpansion of credit brought a speculative bubble and increases in non-performing loans followed by bank failures. In 1889 the government urged the issuing banks – first of all the Banca Nazionale – to assist banks that had been heavily in financing of the real-estate sector. The banks of issuance themselves then rapidly accumulated bad loans, as they were the necessary anchor of more fragile intermediaries.

With the exception of the Banca Toscana di Credito, the increase of circulation began to be significant after 1885–86 (Di Nardi 1953: 350). At the same time, however, there was a 'noticeable shortening of the notes' duration in circulation.' This was particularly evident for the Banca Romana, whose banknotes 'remained in circulation for slightly over a month, whereas the average term of its uses was far longer. From these figures it could be inferred that the bank was overloaded in fixed assets in comparison to others and that its fiduciary circulation had grown to a truly excessive level' (Di Nardi 1953: 351–52).

Gianfreda and Janson (2001: 55) note that 'it would appear that the issuing banks had not issued an excessive amount of notes in relation to their reserves' but, after 1887, banks had hefty liabilities while they were not limited in issuing new notes, because of the suspension of convertibility. Yet, in the case of the Banca Romana *illegal* activities had also been going on. Notes had been issued beyond the legal limit, unauthorised overdrafts on bank accounts had been allowed 'off the books' and the bank had even forged its own banknotes.

In 1889, Minister of Agriculture and Industry Luigi Miceli (1824–1906) arranged for an inspection of the six issuing banks, appointing as inspector to the Banca di Roma Giuseppe Giacomo Alvisi (1825–92) a senator from Veneto. Alvisi chose as an aide Gustavo Biagini, a Treasury official who worked out that the bank had an unauthorised excess circulation of 25 million lire and a cash shortage of 9 million disguised through an illegal, off-the-book production of banknotes.

Since 1881 the governor of the bank had been Bernardo Tanlongo (1820–96), a quintessential political animal: 'he entertains a close relationship with the Vatican and the Jesuits, he also established a no less strong relationship with Freemasons, he managed the agricultural estates of King Victor Emmanuel II near Rome and, it would appear, had also loaned him money at usurious rates … moreover, he entertains a cordial relationship with Umberto and Margherita [at the time the King and Queen of Italy]' and

with most of Italy's political class (Bertoni 2018: 80). Tanlongo's clout may explain why the government decided to keep a lid on Alvisi's report and at the end of 1889 to renew all six banks' privilege of issuance, with no action being taken against the Banca Romana. In 1891, Alvisi retired to private life but before leaving politics brought the documents concerning Banca Romana to an economist from Veneto, Leone Wollemborg (1859–1932), who had established Italy's first rural credit union in 1883.

In June 1892, Wollemborg in turn entrusted the documents to Maffeo Pantaleoni, a free market economist. Pantaleoni explored ways to make it public. He discussed the matter with other Italian libertarian economists, including his friend Vilfredo Pareto (1960: 235–36), and, eventually, Napoleone Colajanni (1847–1921), a professor of statistics and a radical MP, and Ludovico Gavazzi (1857–1944), a businessman and conservative MP, who became crucial political allies.

The grave irregularities committed by Banca Romana, until then kept secret by the government, exploded into a public scandal in December 1892. The previous month, Prime Minister Giovanni Giolitti (1842–1928) proposed to raise Tanlongo to the Senate and appointed him (in his role as President of the Chamber of Commerce of Rome) to the committee that was in charge of monitoring the public debt. While the Chamber was discussing a new bill prolonging the privilege of issuance for another six years, Colajanni took the floor and denounced the bank's irregularities.

The genie was soon out of the bottle and Giolitti was forced to appoint a commission of experts to investigate the note-issuing banks. The report of the committee confirmed that the Banca Romana was in dire straits: its note circulation was 137 million lire instead of the 75 million lire permitted by law, it had had a cash shortfall of 28.6 million lire and many non-performing loans due to speculation in building; moreover, 40 million lire were discovered in a duplicated series of notes that had been printed in Britain but not issued, owing to the honesty of minor officials of the bank. Tanlongo and several of his managers were arrested. Tanlongo accused Giolitti of taking bribes himself. The problem of the illegally circulating banknotes was solved with a dollop of political magic: the Giolitti government simply 'legalised' them.

The scandal that then erupted was unprecedented. In the next few months, the prime minister resigned (though this was only a temporary lapse in his phenomenal career) and one murder occurred. The committee also uncovered irregularities in the management of other banks, in

particular the Banca Nazionale and the two southern ones[19]; some changes in their governance were in order. Two other men were killed in a train compartment; one was Emanuele Notarbartolo (1834–93), a prudent former director of the Banco di Sicilia whom some feared might come back to its helm as a consequence of recently discovered felonies perpetrated by his successor. The killers were *mafiosi*.

The political aftermath of the scandal led to the end of Italy's experience with plurality of issuance. The scandal shook confidence and created a window of opportunity for centralisation, which was ably exploited by its advocates. The public sentiment at the time was summarised by Pareto: 'if you want to avoid trouble, create a single bank!'[20] Pareto's assessment was pessimistic: 'It is unlikely the monitoring by the government, which has shown to be utterly ineffective in the past, will prevent such evil in the future,' he drily warned on 1 April 1893 (Pareto 1965: 87).

But this position was a minority one, and free market economists found themselves in a paradoxical position: they wanted to clean up the mess, but their commitment to doing so was rewarded by sowing the seeds of a future monopoly. Eventually, the Bank of Italy was created by Law 449 of 19 August 1893. The Bank of Italy emerged from the merger of the Banca Nazionale with the two Tuscan banks of issue. The Banca Romana was to be liquidated, and its assets and liabilities transferred to the Bank of Italy, which would, in return, receive implicit subsidies in the form of a monopoly of issue for 20 years, a rebate on the circulation tax (from 1.44 to 1 per cent), and the benefit of legal tender for its notes for 15 years. The two southern note-issuing banks were still authorised to issue banknotes, but under strict limits. When the Bank of Italy was established, its capital was 18 per cent of all the Italian joint-stock companies, banks and industrial and commercial firms. The Bank's relative size explains both its influence on the economy and the importance of even small changes in its discount rate (Fazio 1994: 145). Changes in the discount rate (which were to be the same for all three banks) were to be approved by the government, banks had to comply with capital ratios requirements, and government supervision was reinforced by

19 'Paper circulation was contained within the legal limits only in the cases of the Banca Nazionale and the two Tuscan banks' (Fratianni and Spinelli 2001: 186).

20 Pareto to Maffeo Pantaleoni, 20 December 1892. In the same letter, Pareto (1960: 330) reinforced his commitment to competition: 'May just a handful of us remain, if [the monopoly] must [come about], but let us keep the integrity of [our] liberal doctrines. If we yield, we become as opportunist as others are.'

tightening penalties and controls. Responsibility for their supervision was shared between the Minister of Agriculture and the Minister of the Treasury. The new law also formally provided for the restoration of convertibility but deferred its implementation to a royal decree that was never issued.[21] 'The excessive issues by the Banca Romana,' commented Pareto, was made possible only because it was allowed not to convert its banknotes into specie and 'we see that this privilege is again accorded to this newly established bank' (1 April 1893, Pareto 1965: 89).

The monopoly of issuance was formally instituted only under fascism, in 1926. But for all practical purposes, by 1893 a system based on the plurality of note issuance had been dismissed.

Conclusions

Commentators have given several explanations for the non-centralisation of currency issuances in the newly unified Italy. One was an alleged intellectual hegemony of free traders such as Francesco Ferrara; another, that local veto power persisted after unification. Daniel Ziblatt has made a more general point that the pre-unitary states lacked state capacity and thus federalism was impossible in Italy, as a federation would have required some version of a contractual unification of the country.

Perhaps the banks of issuance survived as long as they did because of the broader circumstances of the time. With a banking and financial sector still at the early stages of its development, a relatively decentralised system could endure because centralisation was administratively too difficult to achieve.

All in all, the period between 1861 and 1893 saw a financial system in evolution, as private actors reacted to regulation and pressure from the government, which occurred without any demonstrated 'market failures'. The scandal of the Banca Romana was precisely due to the lack of the effective policing that a free market performs, not to alleged 'cutthroat' competition, and it was not by chance that free market economists were the first to denounce it. As no good deed goes unpunished, their reward was to push the system further toward monopoly.

21 At the end of 1893 Italy suffered a capital outflow which brought about the collapse of two major commercial banks, Banca Generale and Credito Mobiliare. The government responded by postponing (*sine die*) the return to convertibility, i.e. postposting it indefinitely.

To a non-monetary economist at least, the history of the banks of issuance in Italy does not read like an obvious manifesto for centralisation. The system was marred less by unfettered competition than by unfettered politics. The overall lesson from this history is a warning about the perennial dangers of political meddling. But Italian free market economists, from Francesco Ferrara to Vilfredo Pareto, were also political realists, with declining hopes that anything good could come out of the political system. Corruption and politics they came to see as a web that could not be untangled. The fate of the banks of issuance certainly confirms this view.