The sticks and carrots of central banking: Moral suasion, credit management and monetary policy in the early 1960s.

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Economic historians have largely documented the ability of the Bank of Italy, during the 1950s and 1960s, to act effectively as the supreme guardian of monetary and credit stability without making resort to such heavy tools as interest rates variation, extensive increases of reserves requirements or credit ceilings. The term "Moral suasion" has been often invoked to explain the kind of "soft power" the central bank Governor was able to exert on the Italian banking system; actually, after the 1936 banking reform, the latter was mostly composed by State-owned banks, whose activities and expansion depended upon the authorizations dispensed by the Bank of Italy and the Interministry Committee on Credit and Savings (CICR). Given the discretionary powers that the Bank of Italy could exert on a wide set of operations that pertained to commercial and investment bank activities, the top managers of these financial institutions were brought to accommodate the solicitations coming from Via Nazionale and assist the Central bank pursue its monetary policy goals.

In this paper we will focus more specifically on a set of discretionary tools that were at the disposal of the Bank of Italy and on how they were used to enforce its control over banks' behaviour. In particular, we shall focus on the "piano sportelli" that minutely regulated the distribution and the expansion of bank branches on the whole national territory. Moreover we shall analyse the meetings between the Bank of Italy's Governor and a set of large banks (whose proceedings have been preserved in different banking archives), that may increase our understanding on how the most relevant information about credit and monetary trends were examined and how strategic decisions were taken and actively enforced. In particular, the minutes of the meetings may reveal the importance of real economic variables (regarding investments, specific sectors and territories) in shaping monetary policy as well as the dimensions of qualitative credit controls applied by the Central Bank in times of low competition and international integration.