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Anti-Inflationary Commitment in the Post-Bretton Woods Era: Italy's Road to Stability-Oriented Monetary Policies, 1975–81

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Abstract

This article focuses on the historical reasons, and the main political implications of Italy's anti-inflationary commitment between the mid-1970s and the early-1980s. This study examines the broader climate of opinion within which Italy's economic and monetary authorities – that is, the Bank of Italy – changed or adapted their main attitudes regarding the existence of high inflation rates throughout the 1970s and early 1980s in accordance with an emergent international (i.e. the European Monetary System) anti-inflationary consensus. This article first explores the main political and social steps of Italy's prioritization of anti-inflationary goals as they were envisaged by the central bank and its governmental interlocutors. Second, it retraces the run-up to the 'divorce' between the Bank of Italy and the Treasury in July 1981. Here the 'divorce' is conceptualized as a counter-reaction of specific strands of Italy's ruling class (namely those who revolved around the central bank) against the volatility of public finance performances and what was deemed as the seeming elusiveness of Italy's governmental parties regarding the need to restore the country's financial stability. Finally, this article reflects on the historical meaning of Italy's anti-inflationary commitment as part of the global emergence of stability-oriented monetary policies.

Writing the history of Italy's economic and political transformations in the 1970s and the early 1980s forces one to understand how the country's main authorities – namely political parties, the government, the ruling economic and social institutions, and the central bank – dealt with the far-reaching shifts that the international economic and monetary systems experienced at that time.¹ The decade of 'malaise'² brought about the need to restore the very foundations of Western capitalism due to the unprecedented combination of swinging growth rates, inflation peaks, unemployment, and the dismantlement of a fixed-exchange-rate mechanism which pivoted around the convertibility of the US dollar into gold. Despite significant divergences between the US and the EEC's member states on how to cope with such issues,³ Western governments and central banks started progressively to share the objective of curbing inflation spirals through the adoption of restrictive monetary policies. Italy, too, took part in this process: the country had experienced three intertwined 'shocks' (a sharp rise in salary provisions, the peaking of energy prices, and a massive increase in public spending) which resulted in long-lasting inflationary outbursts and led to the deterioration of the country's overall economic stability.⁴ Thus, this article aims at exploring how Italy dealt with the emergence of these transformations by understanding how and to what extent Rome embraced its own commitment to anti-inflationary policies.

This premise forces me to clarify a few preliminary methodological aspects. Firstly, when I will refer to 'Italy' or 'Rome', I will be considering those public authorities which were mostly involved in the management of the country's monetary policy, namely, the Bank of Italy.⁵ Further mentions to other economic and political actors (i.e. prime ministers, political parties, and trade unions) will be made in order to show the conflicting interests and alternative policy options that contributed to the making of the country's economic policy programmes as a whole. Secondly, I deem it crucial to focus on the central bank and its primary sources in order to understand the evolution of the monetary authorities' attitude towards the 1970s' turmoil from a historical perspective. Being the Bank of Italy the highest institutional actor as far as the management of Italy's monetary policies was concerned, the implementation of anti-inflationary policies and the tools through which to achieve these policies' objectives were mainly planned and promoted by the central bank. Of course, the Bank of Italy, too, acted within a multi-layered framework of

interdependencies (both in the national and European contexts) which implied a constant confrontation with other institutions (governmental and non-governmental political parties; economic ministries; European and the US central banks; EEC institutions) with regard to the implementation of Rome's monetary measures. While the historical understanding of the rise in salary provisions would make it inevitable to highlight the role played by both the Italian largest trade unions (i.e. the *Confederazione Generale Italiana del Lavoro* (CGIL)) and the industrialists' organizations (*Confindustria*), this article provides a scrutiny of the Bank of Italy's debates, proposals, and sources in order to outline how and why the country's highest monetary authority implemented its own plan to run Italy through the crisis of the post-Bretton Woods order.⁶ Therefore, this article aims at contributing to a number of scholarly fields, which include not only the history of contemporary Italian politics and economics,⁷ but also – given the relevance of the EEC's interventions in the evolution of Italy's attitude towards the crises of the 1970s – the history of European economic and monetary integration,⁸ and the history of the central banks' participation in the reorganization of Western economic and monetary policy programmes in the second half of the twentieth century.⁹

Going beyond those (often a-historical) interpretations which draw on the categories of 'exceptionalism' or 'missed occasions' to explain Italy's economic events during the twentieth century,¹⁰ this study will examine the institutional climate of opinion within which Italy's economic and monetary authorities changed or adapted their attitude towards the 1970s to early 1980s' high inflation rates in accordance with an emergent international anti-inflationary consensus.¹¹ This subject will be contextualized within the framework of both Italy's domestic factors (i.e. the rise in public expenditures and inflation and their relevance for workers' claims) and the country's international involvement in events such as the establishment of the European Monetary System (EMS; 1978) or the mid-1970s' International Monetary Fund's (IMF's) aid programmes.¹²

With regard to this, the relevance of this topic is twofold. Firstly, as a founding member of both the EEC and – despite the earliest hesitations of some of its partners, such as France – the G6 to G7 summit in 1975–6,¹³ Italy took part in some of the most prominent forums of international policy discussion which aimed at handling the backlashes of the 1970s' crises across the Western world.¹⁴ During those years, the instability of Rome's economic and political conditions led both the largest EEC countries and the US to be concerned about Italy's ability to effectively deal with the intertwining of financial, monetary, and political (i.e. the electoral growth of the Italian Communist Party, PCI; the enduring intensity of shop-floor revolts; and the phenomenon of 'terrorism') domestic distresses,¹⁵ which included the occurrence of the highest trends in inflation rates among the G7 countries (Table 1; together with the UK and Japan¹⁶) between the mid-1970s and the early 1980s. For all these reasons, the historical analysis of how Rome's authorities conceptualized and implemented their responses to the threat of inflation and monetary disorder is crucial to understand what kind of policy options (and international constraints) were discussed, backed or even rejected within the broader circle of Western industrialized countries. Secondly, Italy's economic, social, and political backdrop during the late 1960s and the 1970s resulted in Rome's anti-inflationary plans becoming the source of a harsh social and political confrontation at the national level.¹⁷ In the wake of the long-term effects of Italy's post-Second World War economic 'miracle',¹⁸ the emergence of strong post-1968 protests and workers' movements,¹⁹ as well as the dawn of the 'historic compromise' agenda between the PCI and the Christian Democrats (DC) after 1973,²⁰ the Italian authorities first responded to these growing 'social demands' – that is, the call for increasing wage conditions, improvements in workplace rights, the reinforcement of welfare state provisions, and the overall strengthening of Italy's democratic institutions²¹ – by boosting public expenditure, accommodating trade unions' claims, and resorting to currency devaluations in order to support export flows without undermining the firms' profitability.²² Such a formula became progressively incompatible with the emergence of Europe's post-Bretton Woods economic and monetary order, which would pivot around a fixed but adjustable exchange rate system – the EMS – that

made the combination between non-restrictive monetary policy, growing public spending, and currency devaluations highly unworkable.

Table 1. Largest Western economies' performances.

Average annual	GDP growth		CPI change				Unemployment	
Years averaged	1960–9	1970–9	1960–9	1973–5	1970–9	1979–81	1967–73	1974–80
France	5.5%	3.9%	3.8%	11.9%	8.8%	12.7%	2.4%	4.8%
FRG	4.6%	2.9%	2.5%	6.2%	4.9%	5.7%	1.0%	3.2%
Italy	5.8%	3.0%	3.8%	16.5%	12.2%	17.8%	5.7%	6.7%
Japan	11.1%	5.4%	5.4%	16.5%	8.7%	6.2%	1.2%	1.9%
UK	2.9%	2.3%	3.6%	18.2%	12.4%	13.9%	3.5%	5.6%
USA	4.4%	3.4%	2.4%	9.6%	7.0%	11.3%	4.5%	6.7%

Sources: IMF and OECD data taken from C.S. Maier, *Malaise*, p. 28.

This helps us grasp why the management of monetary policy and the following attempts to bridle (or not) inflation rates turned out to be some of the key pillars in the overall making of Italy's economic and social policies in the 1970s to early 1980s.²³ The choice between expansive or restrictive monetary measures, together with the need to distribute the burden of price hikes among labour costs, prices of goods, currency devaluations, and public debt increases, clearly implied conflicting political visions among Italy's economic and political authorities with regard to which social classes, policy goals, and broader political balances should be favoured or discarded within a country that was strongly dominated by social conflict and Cold War constraints.²⁴ As it will be shown, the turn to anti-inflationary measures was neither univocal nor permanent. For example, both the central bank and governmental parties (i.e. the DC) were internally divided as far as the adoption of monetary restrictions was concerned. For the purpose of this article, three main reasons behind Italy's anti-inflationary shift between 1975 and 1981 may be preliminarily singled out: (a) the Bank of Italy acknowledged that providing further monetary accommodations to the government's budgetary programmes would both undermine the lira's stability and lead the central bank to lose its control over the management of the country's monetary base; (b) the government and the industrialist organizations started looking at salary increases as the main (and actually the most manageable through ordinary economic policy tools) fuel for internal inflation. This had to be stopped in order to, on the one hand, downsize trade unions and workers' claims, and, on the other hand, to prevent further losses in terms of the firm's profitability in the event that the lira's devaluations would not equate the side effects of inflation; (c) the trade unions and the opposition parties (i.e. the PCI) realized that further inflation peaks would damage the overall stability of the Italian economy, thus pushing private companies to schedule massive layoffs. Therefore, I assume that the historicization of Italy's anti-inflationary commitment represents an invaluable source to understand the social and political dimensions of Italy's economic policy programmes during the 'long' 1970s.

This article will firstly explore the early steps that Italy took towards the prioritization of anti-inflationary goals in the early 1970s. Specific attention will be given to the institutional and social implications of the policy measures adopted since then, as well as to the international actors (EEC and IMF) that supported the

implementation of Italy's restrictive economic policy measures. Secondly, this article will retrace the process that led to the 'divorce' between the Bank of Italy and the Treasury in July 1981.²⁵ Rather than being the mere by-product of Italy's involvement in the EMS' monetary framework, the 'divorce' is here presented as a counter-reaction of both the central bank and the Treasury minister to what they deemed as the apparent ambiguity of Italy's governmental parties regarding the need to restore the country's financial stability. In the conclusion, this article will reflect upon the effects and the broader historical meaning of Italy's anti-inflationary commitment as a part of the global emergence of stability-oriented policies.²⁶

Italy's post-Second World War economic reconstruction was primarily driven by an export-led growth model, supported by the combination of low salaries, the limitation of domestic consumption,²⁷ international trade liberalizations and the relative currency stability granted by the Bretton Woods system.²⁸ The following boom or 'economic miracle'²⁹ lasted between 1958 and 1963–64, when the Bank of Italy turned to restrictive monetary policies due to the deterioration of the balance of payments, the declining profit margins of domestic firms, as well as the choice not to devalue the lira³⁰ in order to avoid concerns among both the EEC partners and the whole Bretton Woods system.³¹ Despite the massive layoffs that followed the 1963–64 deflationist turn, this move went hand in hand with an increasing strengthening of workers and trade unions' movements, which – following the effects of the boom – had nearly obtained full employment conditions and then contributed to the outbreak of Italy's 'long 1968' (1968–77).³² In the early 1970s, Cold War constraints, the strengthening of the PCI's political consensus, and the following attempt to reach the 'historic compromise' (compromesso storico, i.e. a political and parliamentary collaboration) between the Communists and the DC brought Italy to the fore of Western (particularly US) concerns.³³ The effects of such political and social transformations were represented by the growing demand for private consumption, welfare state provisions, as well as the broader call for the strengthening of 'democratic institutions' (i.e. the 'Workers' Status' and the legalization of the divorce in 1970; the establishment of the National Healthcare System and the introduction of the abortion law in 1978) that sprang out from the post-1968 protests. These factors reframed the relationship between the State, society, and markets in the early 1970s' Italy³⁴ where the quest for the democratization of workplaces went hand in hand with the rising purchase of BOTs (i.e. the Italian T-bill) by State's employees, small-sized entrepreneurs, or employees in the service sector, thus highlighting the changing financial – and to a certain extent symbolic – attitude of the Italian middle-class towards the tools of financial capitalism.³⁵

Furthermore, both the establishment of the 'regional system' in 1970 (i.e. local political-administrative institutions which were progressively provided with spending autonomy³⁶) and the 1973–74 fiscal reform (which introduced both direct and indirect forms of taxation, such as the Personal Income Tax, *Imposta sul reddito delle persone fisiche* (IRPEF), and the Valued Added Tax, VAT³⁷) had a significant impact on Italy's budgetary trends. For example, one of the main pitfalls of the fiscal reform consisted of the incoherent and quantitatively inadequate reconfiguration of tax collection amounts, especially when compared to the already high trends in state's expenses (i.e. welfare system, social provisions, etc.) that had emerged in the early 1970s.³⁸ In addition, in light of the emergence of the first oil crisis' inflationary effects and the decline in growth rates, in January 1975, the largest trade unions' representatives – the previously mentioned CGIL; the Christian-oriented Confederazione Italiana Sindacati Lavoratori (CISL); the moderate socialist-oriented Unione Italiana del Lavoro (UIL) – and the main industrialists' association, Confindustria, agreed upon the establishment of a mechanism of direct indexing between inflation rates and salaries for all the workers' categories.³⁹ While trade unions and workers' goals on this topic were self-evident, the industrialists' acceptance of this agreement stemmed from two reasons: firstly, the need to prevent further strikes and long-lasting mobilizations within the shop floors; secondly, given Italy's relatively relaxed monetary policy between 1968–69 and the mid-1970s, Italian exporters believed that both the government and the central bank would soften the increase in labour costs through further currency devaluations. Indeed, in 1973–74, Italy depreciated the lira by 12% against the dollar and by nearly 30% against the Deutsche Mark. This

measure favoured Italian exports since the US and West Germany were two of the main outlets for Italian foreign trade. At the same time, it did not bring about a relevant rise in import prices – such as energy and raw materials, which were largely paid in dollars – since the US currency as well was being significantly devaluated at that time.⁴⁰

As said, the collapse of the Bretton Woods settlement in 1971–3 and the first oil crisis ignited Italian inflation, which in 1971 and 1972 had swung from 4.8% to 5.8%, while in 1973 increased to 10.8% and then reached 19.2% in 1974,⁴¹ when the global recession and the decrease in most of the Western countries' GDP rates (the fall in the Italian GDP amounted to –2.7% in 1975⁴²) were coming into being. Consequently, in February 1973, Italy left the EEC's semi-fixed exchange monetary agreement, the 'snake', which had come into force in 1972 and introduced a relatively narrow range of fluctuations among EEC currencies.⁴³ After applying the monetary and financial restrictions in 1974 (see below), the subsequent rebound in the national GDP after the 1975 recession was supported by a relatively expansionary monetary policy,⁴⁴ the persistence of the lira's devaluation and the support for internal demand via the indexing of salaries, which resulted in both the sustained – if compared to the performances of Britain, France, and even the US⁴⁵ – GDP growth average (around 4.7% between 1976 and 1980) and the rise in public debt (57% over the GDP in 1975).⁴⁶

The looming split between the trend of public finances – including both the internal deficit and public debt – and the management of monetary policy – which also involved the balance of payments – became one of the most prominent concerns among the Italian authorities. In 1973, the DC economist Beniamino Andreatta⁴⁷ (a prominent actor of the following 1981 'divorce') recognized the need to apply price controls 'not for the sake of dirigisme', but rather to avoid 'rough monetary interventions which give up on the goal of economic expansion to pursue stability-oriented policies'.⁴⁸ In fact, after the first oil shock and the worsening of both inflation rates and the country's balance of payments, restrictive measures were launched. In January 1974, the Italian government also called for the IMF's support, which provided Italy with various lines of credit: \$1.235 billion in April 1974 and a further 826 million dollars within the framework of the oil-facility line by the end of that year. Together with the IMF's aid, Italy was granted \$1.885 billion of short-term support by the EEC in March 1974 and \$2 billion by the Bundesbank in August.⁴⁹ The agreement between the IMF and the Italian policymakers led to the promotion of tight ceilings to private banks' loans; the setting up of a mandatory and non-interest-bearing deposit to the Bank of Italy on the value of imports (in order to manage the creation of liquidity); the prohibition for commercial banks to increase their foreign liabilities over the levels already set up on 19 July 1974.⁵⁰ The implementation of monetary and financial restrictions – which to some degree appeared harsher than those requested by the IMF itself – contributed to the achievement of the main targets of the IMF programme, such as the sharp reduction of Italy's non-oil current deficit and the overall improvement of the balance of payments. However, the Italian authorities were well aware that these measures, together with the decline in world demand, were bound to result in a severe recession, which eventually took place in 1975. Italy's 'stabilization through recession'⁵¹ showed how the rules of the post-Bretton Woods era would make the policy goals of, on the one hand, domestic growth through public investments and state's expenditures, and, on the other hand, monetary and financial stability increasingly unattainable. Even though when the recession seemed over the Italian Treasury relaxed financial restrictions, the 'culture' of monetary stability found a receptive interpreter in the new governor of the Bank of Italy, Paolo Baffi, who came into office in August 1975.⁵²

Baffi aimed at overcoming inflation by retrieving the full management of the lira's monetary base without further administrative controls, but through the management of interest rates. In his view, both public expenses and the public deficit, following the cooling down of inflationary expectations in the international markets, would soften accordingly.⁵³ In those years, Baffi shared his positions with Franco Modigliani, the 1985 Nobel Prize in economics,⁵⁴ who had worked at the Massachusetts Institute of Technology since 1962

and mentored some of the most distinguished Italian economists (and then policymakers) of the following decades.⁵⁵ According to Baffi, it was not only the central bank, but also the Italian society as a whole (and its political system) that had to be concerned with the consequences of inflation.⁵⁶ In particular, Baffi firmly believed that monetary policies could no longer act as a 'surrogate of an inadequate [governmental] economic policy'.⁵⁷ In turn, in light of the domestic debates about the 'historic compromise' agenda and the political grip that the communists had on both leftist trade unions and the broader working-class movements, Modigliani called for the PCI's full involvement – that is, its political 'normalization'⁵⁸ – into governmental offices as the best way to contain the spiral between trade unions' wage claims, inflation, and prices. This position triggered harsh criticisms within the DC's most conservative sectors, as well as among the US Secretary of State⁵⁹ and other Western European partners, as was clearly demonstrated at the G7 meeting in Puerto Rico in 1976.⁶⁰ From an intellectual point of view, Modigliani's statement was also telling of how inflation was not necessarily considered the direct effect of monetary trends, as Milton Friedman's monetarist school – which during the 1970s was all but hegemonic, let alone internally cohesive, even in the US and Western Europe as one might believe⁶¹ – preached at that time. While monetary policy was of course crucial in the management of inflation trends, these were conceptualized within the broader political framework of long-lasting confrontations between trade unions, industrialists, and political parties in mid-1970s Italy. In both Baffi's and Modigliani's views, monetary authorities had to deepen their interaction with political actors so as to bridle inflation and try to put stability-oriented prescriptions at the heart of governmental economic strategies.

In January 1976, the lira underwent a severe crisis due to the increasing financing of the Treasury by the Bank of Italy and the subsequent speculations on the currency value. The crisis hit the very stability of the lira, which led the Bank of Italy to withdraw the currency from the foreign exchange market for 40 days.⁶² As noticed by the US Treasury, in the following months, the Bank of Italy recognized how ineffective its large intervention to defend the lira's exchange rate had been, thus now seeming prepared to let the market set the basic exchange rate even after the development of an economic programme in the context of the formation of a new government. The Bank did not want to incur more debt to finance what would likely be an ineffective intervention.⁶³ The need to reassess the relationship between the central bank and the Treasury became evident during a meeting held at the Bank of Italy on 31 January 1976, during which Baffi criticized both the 'government and the political class [classe politica]' for their inability to effectively and readily react to the currency crisis and to adopt measures which could tame speculative manoeuvres.⁶⁴ Earlier that day, another Bank of Italy's directorate meeting – with the participation of the aforementioned DC economist Beniamino Andreatta – had taken place. On that occasion, Andreatta outlined the need for the Bank of Italy to make a 'resolute independence statement' from the Treasury by fixing its monetary base targets. Beyond these targets, the Treasury should have financed its expenses autonomously, that is, through market operations. Those who attended the meeting also stressed how the EEC Monetary Committee was worried about the amount of Italy's monetary circulation and they feared that this would trigger a spill-over process in Western Europe. In order to prevent such an outcome and redefine the political and economic relationship between the central bank and the Treasury, Baffi openly asked for Andreatta's political help. The DC economist agreed to this, although he stressed the need not to abruptly cut the Bank of Italy's support of the Treasury's expenses, since in his opinion the economic recovery was getting closer and the central bank should not adopt a 'rough monetarist approach'.⁶⁵ As a matter of fact, Andreatta and the central bank seemed to share the need not to tackle the challenge of economic and monetary instability with a purely – and potentially naïve – monetarist-oriented attitude. According to both Baffi and Andreatta, the Bank of Italy's goal should have been that of turning the practice of 'sustainable' (namely, based on the effective balance between scheduled public expenses and the Bank of Italy's targets of monetary circulation) budgetary policies into a 'common sense' orientation among governmental policymakers. Additional calls for a 'sound' management of Rome's economic and monetary trends came from the IMF, with which since the early 1976 the Italian government had been bargaining a new loan

package to improve the country's balance of payments. Negotiations were tough and lasted until the spring of 1977, since the Fund did not share Italy's decision to apply 'a tax on the purchase of foreign currency on top of the 50% deposit', which was seen as a denial of the 'principle of avoiding restrictions on current payments and transfers'.⁶⁶ If compared to the 1974 agreement, in 1976 the IMF's attitude towards Italy seemed, on the one hand, more inflexible, since now the declining world economic conditions were not considered as crucial in the worsening of the Italian deficit as the 'deficient economic policies' promoted domestically. On the other hand, the 1976 IMF programme foresaw the occurrence of a short-term recession so as to achieve the Fund's policy targets. Furthermore, the IMF allowed the aid programme to be extended for a longer period (20 months) than usually agreed with other countries. The credit line of about \$530 million, which was explicitly devised for developed countries undergoing severe financial distress, was also approved during the G7 summit in Puerto Rico in June 1976, that is, a few days after the PCI's exploit (34.37%) at the general political elections.⁶⁷ Beyond the fact that Western leaders aimed at linking the effective attribution of the IMF package to the commitment of the DC government to not allow the communists to enter Italy's governmental offices in the framework of the ongoing 'historic compromise' agenda, historians Basosi and Bernardini stressed that 'the Italian loan was the first in the IMF's history to include heavy structural conditions, [thus somehow representing] the forerunner of the much more burdensome "structural adjustment loans" to Third World countries in the 1980s'.⁶⁸ The IMF targeted the rise in public deficit and the indexation between wages and inflation rates as the issues that Italian authorities should most urgently deal with. Italy's 1976 currency crisis turned into a proper crisis of financial reliability, against which the government promoted fiscal and consumption constraints. However, while the formal 'letter of intent' between Italy and the Fund was signed in April 1977, most of the IMF's targets – the increase in tax yielding; the softening of labour relations and trade union's acceptance of both wages reduction and productivity improvements; a sharp rise in the lira's interest rates – had already been achieved before that date. Both the IMF and the Italian authorities had not expected such favourable conditions, which resulted from a significant improvement in the current balance of payments (a surplus of about 2.100 billion lire), the international markets' 'approval' of the Bank of Italy's move towards higher interest rates, as well as the effects on foreign trade which were brought about by the fall in the dollar value and the parallel depreciation of the lira against stronger European currencies.⁶⁹ Therefore, Italy's preventive implementation of most of the IMF's suggested policy prescriptions made the use of the Fund's loan unnecessary, and, as a consequence, the 1976–7 IMF stand-by arrangement with Italy never came into being.

Rome's adoption of restrictive monetary and budgetary measures following pressures from the IMF's conditions was not an exception in Western Europe. As early as 1976, both Italy and Britain underwent severe and somehow similar crises as far as their balance of payments, inflation trends, exchange rate stability, and the consequent market pressures on their national currencies were concerned.⁷⁰ In fact, in 1976, Callaghan's Labour government applied for an IMF loan (\$3.9 billion, 'the largest amount ever requested'⁷¹) in order to curb the radical deterioration of its economic and monetary conditions.⁷² Unlike Italy, the 1976 IMF stand-by arrangement was fully used by Britain, which in return was asked by the IMF delegation to reduce by 1979 the national budget deficit by about 2.5 billion pounds. The IMF's cuts programme was fulfilled and British economic trends actually improved. However, the 1976 crisis had a great impact on British public opinion and in many respects marked a paramount economic policy shift from the primacy of full employment to that of low inflation rates and the reduction of state's expenditures. As Bentivoglio has shown, the 1976 IMF crisis:

May be considered Britain's economic Suez: if 1956 had rapidly diminished London's global political role, twenty years later the United Kingdom experienced the weakening of its economic stance, with the coup de grace to the sterling as a reserve currency.⁷³

At that time, the 'twin crises' of Italy and the UK were seen as a common and somehow parallel threat to the stability of Western Europe and, to some extent, to the whole international monetary order. The two Foreign ministers, the Labourist Anthony Crosland and the Christian Democrat Arnaldo Forlani, recognized the need for both Italy and Britain to help each other in the management of their own crises and to work together within the EEC to find suitable solutions to their financial distress.⁷⁴ The US, too, looked at the economic and political conditions of both Italy and Britain with concern. The US feared that the size of Britain's crisis, together with the need for the British government to impose largely unpopular cuts in welfare state provisions as a consequence of the IMF's loan, would lead Callaghan's cabinet to collapse.⁷⁵ Furthermore, Washington blamed 'Italy, and to a certain degree the UK for their inability to borrow enough money from international capital markets to finance their fundamental disequilibrium'.⁷⁶ According to US' views, any financial aid to both Italy and Britain should have been granted in exchange for the binding commitment to set up economic policy programmes in line with the IMF's requests.⁷⁷ Beyond Washington's concerns, the outcomes of the IMF's interventions in Italy and Britain clearly marked a further step forward in the political acceptance – even within leftist organizations⁷⁸ – of the primacy of restrictive monetary and budgetary measures over full employment targets.

With regard to labour and employment issues, it is a matter of fact from 1976 onwards a crucial contribution to the prioritization of anti-inflationary attitudes in Italy came from both the PCI and the CGIL. The PCI's closer relation with governmental parties and its full acknowledgement of Italy's international economic interdependencies⁷⁹ led the communists to progressively conceptualize the containment of inflation rates and the parallel reduction of manpower salaries as a cornerstone of their economic strategy. Despite their political autonomy, trade unions, too, were influenced by this scenario and gradually softened their foundational wage trends as an 'independent variable' of the economic cycle. During a meeting held in Rome in February 1978 (the so-called 'Eur' conference), which gathered the steering boards of the CGIL, CISL, and UIL, Italian trade unions accepted the rule of wage controls, and the consequent cooling down of salary claims, in exchange for the improvement of manpower conditions in the workplace, the decrease of unemployment and the scheduling of public investments (which nevertheless remained largely unattained).⁸⁰

Although in 1977 Italy achieved significant improvements in the balance of payments (which, however, went hand in hand with the partial decline in the GDP), the concerns about inflation and the value of the lira would dominate the debates that took place in the EEC negotiations for the establishment of the EMS. After intense multilevel negotiations, which pivoted around a Franco-German entente and the newly born European council,⁸¹ the EMS emerged as a zone of relatively stable exchange rates among EEC currencies, which were bound to the exchange rate mechanism and the European Currency Unit (ECU), that is, an accounting currency unit that incorporated the average value of the EMS currencies.⁸² Currencies' fluctuations could happen within the range of $\pm 2.25\%$ against the pre-fixed exchange rate of the ECU. The negotiations about Rome's entry into the EMS occurred at the same time of the domestic debates that stemmed from the issue of the Treasury's three-year 'Pandolfi plan' on 31 August 1978.⁸³ This plan – which in many respects included most of the measures required by the EEC to join the EMS – envisaged a mix of anti-inflationary measures and the support of growth rates as the solution for Italy's financial and economic recovery. As observed by the economist Augusto Graziani, together with the need to intervene in the value of the lira, the 'Pandolfi plan' called for the reduction of inflation rates through a cut in labour costs rather than in the public deficit, since the plan considered wages' indexation (the 'sliding wage scale', *scala mobile*) to inflation as the most damaging trigger behind Italy's inflation.⁸⁴ In turn, the Bank of Italy – whose feelings regarding Italy's entry into the EMS were, at first, all but supportive – feared that the EMS' constraints would be too tight for the relatively weak Italian lira.⁸⁵ Therefore, Italy explicitly asked its EEC partners – first and foremost the Germans, in the hope that Bonn could persuade Paris – to let the lira fluctuate within a larger margin, which would allow the country to not damage its troubling process of financial and economic recovery.⁸⁶ The Italian central bank also recognized – as the UK and the

Netherlands' representatives did as well – that the EMS agreement had not foreseen any specific interventions to support less prosperous countries. According to the Dutch authorities, this might have also been linked to the ongoing Greek, Spanish, and Portuguese applications to join the community, which would probably lead the EMS negotiators not to introduce forms of support that would be too onerous for the EEC members as a whole.⁸⁷ In brief, Italy's main goal before the actual establishment of the EMS was to obtain, primarily a larger range of fluctuation for its currency (and eventually the EEC Finance Council granted a $\pm 6\%$ margin⁸⁸); and secondly, Rome aimed at establishing 'an effective symmetry in the adjustment onus in order to avoid not only inflationary, but also deflationary risks'.⁸⁹ The academic and Bocconi-trained economist Mario Monti⁹⁰ outlined that the new EMS conditions, despite the $\pm 6\%$ margin of fluctuation, would not be 'affordable' for the Italian economy. While he hoped that both the government and the Bank of Italy would promote a 'robust disinflation' move in order to enter the EMS from the very beginning, Monti maintained that the potential anti-inflationary constraints which would derive from Italy's participation in the system should have been seen 'as a necessary preparation for a credible entry [into the EMS] rather than as an unsustainable consequence of a premature entry'.⁹¹ Both Monti and the Bank of Italy, together with distinguished leftist-oriented economists, such as the aforementioned Spaventa,⁹² were primarily interested in preventing a short circuit between the EMS rules and Italy's unstable economic and monetary conditions. On the contrary, the DC – including Andreatta – emphasized the need to join the system as a confirmation of Italy's political involvement in the broader process of European integration.⁹³ In December 1978, the Parliament approved Rome's participation in the EMS treaty, whereas the PCI voted against it and the socialists abstained. The communists' refusal to support Italy's early participation in the EMS mainly originated from friction with the DC and the socialists on how (and if) to carry on the experience of the 'national solidarity' governments, rather than from technical discussions concerning the very mechanisms of the EMS.⁹⁴ Not surprisingly, a few months later the 'national solidarity' formula was abandoned and the communists definitely left the governmental area.⁹⁵

The establishment of the EMS, together with the effects of the second oil crisis and the sharp increase in the dollar's interest rates in 1979 – namely, the so-called 'Volcker shock'⁹⁶ – increasingly forced the central bank and the government to find suitable plans for Italy's own stand within the new international monetary order. As early as 1979, Paolo Baffi resigned as governor of the central bank⁹⁷ and was substituted by the Bank's deputy director, Carlo Azeglio Ciampi,⁹⁸ who was deeply concerned with the inconsistency between the increase in the public deficit and the need for the Bank of Italy to support the Treasury's expenses through monetary policies. In Ciampi's view, the struggle against inflation was intimately linked to the downsizing of the public deficit,⁹⁹ whose management depended upon the government's ability to properly manage its expenses without letting them act as a political consensus-building tool for the party system. This would also soften the blatant split between the country's public finance (under the Treasury's control) and its monetary (which were supervised by the Bank of Italy) policies, which in turn resulted in the central bank losing control over Italy's monetary base. However, the reduction of inflationary expectations via the rationalization of the public expenses could not result from the 'spontaneous markets' behaviours. Rather, in Ciampi's words, the achievement of financial recovery needed strong political interventions.¹⁰⁰ However, despite the introduction of the current annual budget law (no. 468) in 1978 and the consequent binding commitment to 'financial predictability' (i.e. the obligation to get financial coverage before expenditures would be approved) in the budget's parliamentary drafting, the Parliament itself, most of the Treasury offices, as well as the Italian Court of Audit¹⁰¹ continued to allow the organization of public expenses without prearranged financial coverage.¹⁰² This of course made it hard to reduce the country's deficit and led to an increase in the state's indebtedness, which in turn exacerbated the political confrontation between the central bank and the Treasury. In 1979–80, the central bank discussed several hypotheses on how to deal with the worsening of public finance conditions through existing or new monetary tools. These would range from the launch of indexed Treasury bonds – which would nevertheless postpone the burden of repayment while leaving no room for manoeuvre if inflation rates were to increase in the following

years¹⁰³ – to the remodulation of the *scala mobile*. Nonetheless, the cleavage between Ciampi's monetary policy targets and the governmental and parliamentary management of public finances improved.

Given the weakening of Italy's balance of payments, in the summer of 1980 business circles (Confindustria) called for a sharp devaluation of the lira in order to support export flows. Ciampi rejected this request and instead pushed for a far-reaching reinvigoration of the Italian firms' international competitiveness. This led the central bank to set up several measures to re-orientate the country's financial recovery without fueling inflation. Firstly, Ciampi let the lira slightly devalue according to the EMS' ranges. Since the rate of devaluation exceeded the current inflation rate, which in 1980 peaked to 21.2%, industrialists could not take advantage of this measure. Therefore, they largely retrieved the domestic firms' competitiveness by shrinking labour costs, which resulted in significant layoffs and industrial restructuring. As a matter of fact, it was in this very context that the anti-trade unions' FIAT's cadres march (the *marcia dei 40.000*, which aimed at putting an end to the conflict between trade unions and Fiat's board in order to resume the plants' production) took place in Turin in October 1980.¹⁰⁴ Secondly, the central bank made use of both higher interest rates and other tools¹⁰⁵ (i.e. the establishment of a mandatory and non-profitable deposit for those who made payments abroad,¹⁰⁶ which raised concerns among both exporters and EEC partners¹⁰⁷) in order to implement Italy's economic, financial, and monetary policies in accordance with stability-oriented rules.¹⁰⁸

It was in this scenario that in the fall of 1980 the DC economist Beniamino Andreatta became the new Treasury minister. As previously mentioned, Andreatta's ties with the Bank of Italy were strong and he started an ever-closer collaboration with Ciampi. Andreatta, too, aimed at stopping what he would later consider 'the dissociation between spending capability and coverage responsibility'.¹⁰⁹ In comparing the reasons behind the Italian boom and the ongoing country's decline, he stressed that should the 1950–60s' plans for deficit spending be adopted even in the early 1980s, this 'would have not resulted in the support of the aggregate demand, but rather in inflationary effects, which would have forced [monetary authorities] to keep high inflation rates and have, in turn, a negative impact on investments'.¹¹⁰ Such a paradigm shift was clearly embodied by the setting up of a joint study group between the Treasury and the central bank. This group was coordinated by a close collaborator of Andreatta, Maria Teresa Salvemini,¹¹¹ and Antonio Fazio, who would serve as the governor of the Bank of Italy between 1993 and 2005. The group's task was to study how to reconfigure the central bank's role in the purchase of the Treasury's unsold bonds at auctions, thus arranging the technical tools to break the central bank's semi-mandatory practice¹¹² of buying Treasury bills with no legal concerns for its effects on inflation and the settlement of the monetary base. While this practice was conceived to keep interest rates at a relatively low level, both the EMS rules and the international pressure on bonds' rates after the 'Volcker shock' put such a policy in a difficult position. This was particularly true for the Italian case, where domestic inflation amounted to 21.2% in 1980.¹¹³ On a technical level, the principle of 'competitive auction' was introduced as the best way to allocate Treasury bonds and contain – at least indirectly – the amount of monthly scheduled public expenditures.¹¹⁴ Starting from the study group's proposals, in February–March 1981, Andreatta and Ciampi carried out what was later labelled as the 'divorce' between the Treasury and the central bank, namely, the establishment of the full independence of the Bank of Italy as far as the purchasing of Treasury bonds was concerned. The divorce came into being thanks to a simple exchange of letters – which Andreatta himself would later define as an 'open conspiracy'¹¹⁵ – between the minister and the governor.¹¹⁶ It was then finalized in June–July 1981 with further communications between the central bank and the government,¹¹⁷ in which the issues of the preservation of the currency's value and the need to adjust the Italian inflation to the EEC countries' average were crucial.¹¹⁸ As indicated by Garavini and Petrini,¹¹⁹ the short-term effects of the divorce were threefold. Firstly, a rise in the interest rates – which had a negative impact until the first half of 1981 – took place; secondly, the sharp increase in the public debt's interest repayments costs, whose origins dated back to the early 1970s, became of paramount relevance; thirdly, when market operators were unwilling or unable to get Treasury bills at the cost imposed by the government in October–

November 1982, and the central bank refused to cover public finance expenditures through massive BOT purchases, the very economic implications of the 'divorce' clearly emerged. Technicalities aside, it was probably the criticisms that came from the broader political system that most directly hit at Andreatta and Ciampi's manoeuvre. Most of the DC and the socialists harshly opposed a measure that they saw as a threat to their management of public finances as an important tool to gain electoral support. Furthermore, social actors, and trade unions, in particular, experienced a decrease in their ability to manage and participate in the establishment of direct linkages between salaries, inflation, and currency value. Although in 1981, Ciampi himself believed that the promotion of further monetary restrictions was too risky, given the low trends in GDP growth and the period of massive layoffs, he maintained that

monetary stability [was] the necessary counter-reaction that the government can offer to the needed willingness of trade unions and industrialists to accept a scheduled reduction of salary dynamics [...] If these measures are taken, monetary policies will be able to support the country's economic recovery in terms of inflation decreases and solutions to the trade deficit.¹²⁰

In short, Ciampi aimed at providing the technical and institutional tools through which the management of both public finance and collective bargaining could cease to be nothing more than 'instruments [...] of money destruction'.¹²¹ As early as the 1980s, the previous trade unions' motto of wage as an 'independent variable' was definitely overturned by the goal of monetary stability and low inflation rates. The 'open conspiracy' gained momentum and the Italian road to the primacy of stability-oriented policies was paved.

In 1979, the chairman of the Federal Reserve, Arthur Burns, gave a lecture in Belgrade titled *The Anguish of Central Banking*.¹²² One of the main topics of his speech concerned the issue of inflation and its political acceptability in Western countries. By reflecting on the foundations of the US post-Second World War economic settlement, Burns outlined that the pursuit of costly social reforms often went hand in hand with the goal of full employment. In fact, much of the expanding range of government spending was prompted by the commitment to full employment. Inflation came to be widely viewed as a temporary phenomenon – or, provided it remained mild, as an acceptable condition. ““Maximum” or “full” employment, after all, had become the nation's major economic goal – not stability of the price level [...] Fear of immediate unemployment – rather than fear of current or eventual inflation – thus came to dominate public policymaking’.¹²³

While the social implications of full employment had already been explored by Kalecki in 1943,¹²⁴ Burns' reflection revealed how during the 1950s and the 1960s the 'threat' of inflation – regardless of what central bankers actually thought about this – was accepted (or at least tolerated) because policymakers considered employment as one of their main social and political concerns, as both the US employment act and the very mandate of the Federal Reserve implied.¹²⁵ Years later, several external shocks (1971, 1973, and 1979), the slowdown of GDP growth trends, and the collapse of the fixed exchange rate monetary order, contributed to making this primacy – and to a certain extent its political and social supporters, too – no longer viable.

This article has explored the institutional roots of Italy's anti-inflationary commitment as it was conceptualized by the Bank of Italy between the 1970s and the early 1980s. The run-up to the early 1980s showed how political, social, as well as technical issues – at both the national and international levels – intertwined with the making of Italy's economic policy strategies. The 1981 'divorce' between the central bank and the Treasury embodied the apex of the monetary authorities' commitment to an open and enduring stability-oriented monetary policy, which mainly stemmed from three interlinked causes. Firstly, the establishment of the EMS and the broader EEC's responses to the dissolution of the Bretton Woods system played a crucial role. However, far from being an 'external constraint' on Italy's economic and monetary architecture, as Guido Carli would elaborate in his memoirs,¹²⁶ the ever-binding rules of the EMS were used by the Bank of Italy – in particular after Baffi's mandate – as further propellers for the implementation of anti-inflationary shifts at the domestic level, especially when the way-out provided by

the currency's 'double' exchange rate policies (the one against the dollar and the other against the Deutsche Mark) was no longer enforceable. Secondly, following its growing political and electoral consensus, the gradual acceptance of the PCI (and the largest trade unions) of considering inflation and its causes as a threat to both the goals of Italy's working class and the general stability of the country's economy increasingly mattered. The PCI and its trade union's allies offered the relaxation of salary claims in return for the - by and large unfulfilled - promise of higher public investments and the decrease in unemployment rates to demonstrate the leftist forces' reliability as full-fledged members of the country's 'establishment', both as governmental actors (the PCI) and trustworthy agents in social negotiations between industrialists, the government and workers' representatives (CGIL).¹²⁷ Accordingly, both the DC (at least those who supported the 'historic compromise' agenda, such as Aldo Moro) and the PCI aimed at providing a political solution to the mid-1970s economic, monetary, and financial turmoil through the 'national solidarity' formula. However, cold war anti-communist constraints, the PCI's parliamentary vote against the EMS, the ensuing end of the 'national solidarity' formula, as well as the leftist trade unions' defeats in the early 1980s (i.e. *marcia dei 40.000*), marked the beginning of a new political season, which was characterized by the emergence of the socialists' attempt to dominate Italy's political scenario and the parallel decline of social unrests in the country.¹²⁸ Thirdly, the rationale of Italy's road to restrictive monetary policies originated from the Bank of Italy's aim to get back full control over the management of monetary circulation and to make use of interest rates and market operations (i.e. the introduction of competitive auctions in the BOT market) as tools to influence the country's economic and financial trends by reducing inflationary expectations and imposing the preponderance of market-oriented solutions as far as the management of monetary policy was concerned. Baffi and Ciampi, together with Andreatta, tried to get rid of administrative controls on credit and sought to distance monetary policies from a seemingly loose management of public finance by governmental actors. The Bank of Italy came to consider its autonomy from the Treasury not as an 'independence of mind during the very setting up of the country's policies, but as an independence in the decision-making process according to its own mandate'.¹²⁹ In the following years, further steps would be taken in the struggle against both inflation and what was deemed as one of its main (if not the most important) propellers: namely, wage claims, trade unions' role, and the social conflict as a whole. In 1984–85, Craxi's socialist-led cabinet would promote a far-reaching dismantlement of the *scala mobile* thanks to a law decree that would be subsequently confirmed by a popular referendum.¹³⁰ This shift did play a role in reducing inflation rates from 20% in 1980 to around 5% in 1987.¹³¹ Nevertheless, after 1981 Italy's public spending had to be increasingly financed – beyond the revenues resulting from GNP growth and taxation – through national and international market operations, which would 'evaluate' Italy's financial reliability through the amount of BOT purchases. Indeed, between 1980 and 1987 Italy's public debt grew from 70% to 90% of the GDP.¹³² However, the institutionalization of the monetary policy's independence led the government to foster, rather than – as expected by the central bank – reduce, Treasury bills and the public expenses in order to underpin the system of state-owned companies (*partecipazioni statali*) and support those private economic sectors which would hardly face the challenge of international competition. While, at first, Italy's monetary authorities sought to 'discipline' the political system by claiming their own independence and making use of monetary tools (exchange rate policy and interest rates) to steer the country's overall financial rebalancing, by the early 1980s a further and unintended bifurcation between the political system (the government and the governmental parties, such as the DC and the socialists) and the Bank of Italy's monetary targets emerged. Only the implications of the Single European Act (1986), the Maastricht Treaty (1992), and the overall end of the Cold War would show to what extent such bifurcation could no longer be viable in the framework of post-1992 Europe.

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Footnotes

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10 The conceptualization of Italy’s recent economic and political history as a sort of ‘exception’, if compared with other national cases or different paths towards capitalist ‘modernization’, is quite frequent in the literature. See G. Crainz, *Il paese mancato. Dal miracolo economico agli anni Ottanta* (Rome 2003); M. Salvati, *Occasioni mancate. Economia e politica in Italia dagli anni ’60 a oggi* (Rome-Bari 2000); F. Amatori (ed.), *L’approdo mancato. Economia, politica e società in Italia dopo il miracolo economico* (Milan 2017). A critical recounting of such ‘exceptionalist’ historiography can be found in F. Petrini, ‘L’Italia nella trasformazione globale. Appunti per una lettura non eccezionalista della crisi’, in F. Balestracci and C. Papa (eds) *L’Italia degli anni Settanta. Narrazioni e interpretazioni a confronto* (Soveria Mannelli 2019), 13–27. See also F. Benigno and I. Mineo (eds), *L’Italia come storia. Primato, decadenza, eccezione* (Rome 2020).

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55 I.e. Antonio Fazio, Mario Draghi, Giorgio La Malfa, Ezio Tarantelli, Tommaso Padoa-Schioppa, and Francesco Giavazzi: all of them worked with Modigliani as PhD students or visiting economists. See Asso, 'Introduzione', 4.

56 Baffi to Modigliani, 16 February 1975, quoted in Asso, 'Introduzione', 32.

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- 80 F. Loreto, *Storia della CGIL. Dalle origini a oggi* (Rome 2009); Paggi, D'Angelillo, *I comunisti*, 10–13.
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- 96 Eichengreen, 'Globalizing Capital', 142–4.
- 97 On 24 March 1979, Rome's public prosecutor accused Paolo Baffi and the vice-deputy director of the Bank of Italy, Mario Sarcinelli, of lacking surveillance concerning the management of a Sardinian-based credit institute. Later on, they were fully absolved, but this episode marked a painful moment in both the public and private lives of Baffi and Sarcinelli. See Gigliobianco, *Via Nazionale*, 329.
- 98 U. Gentiloni Silveri, *Contro scettici e disfattisti. Gli anni di Ciampi* (Rome-Bari 2013).
- 99 ASBI, Banca d'Italia, Direttorio Ciampi, pratiche 172, fasc. 1, 'Incontro fra il Presidente del Consiglio, i Ministri Andreatta, Pandolfi, Reviglio, Sarti, Scotti e il Governatore della Banca d'Italia sulla linea di politica economica del Governo' (without date).
- 100 ASBI, Banca d'Italia, Direttorio Ciampi, pratiche 172, fasc. 1, 'Letter of Ciampi to Cossiga' (22 November 1979).
- 101 M.T. Salvemini, 'L'indipendenza della banca centrale e il «divorzio»', in Agenzia di ricerche e legislazione (ed.), *L'autonomia della politica monetaria. Il divorzio Tesoro-Banca d'Italia trent'anni dopo* (Bologna 2011), 60. On the 468/1978 law, P. De Ioanna, 'Debito pubblico e classe politica: uno sguardo d'insieme sulla Prima Repubblica', in S. Colarizi, A. Giovagnoli and P. Pombeni (eds) *L'Italia contemporanea dagli anni Ottanta a oggi*, vol. 3 (Rome 2014), 151–3.
- 102 As Leonida Tedoldi puts it, starting from the mid-1970s the inclusion of previously stored funds (the so-called 'global funds', which were not supposed to be included in the formal counting of public resources to be employed by the Treasury for its expenses, since their effective amount was noticeable only at the very end of each year) among the financial resources to be used in Italy's annual budget became largely accepted. However, there existed a permanent discrepancy between Treasury's scheduled expenses and the actual availability of 'global funds'. Furthermore, the use of these stored-funds was not subjected to parliamentary discussion or approval. This resulted in a twofold effect: the rise in public deficit and the ensuing need to finance non-covered expenses through public bonds, that is, debt. See Tedoldi, *Il conto degli errori*, 37–41.
- 103 ASBI, Banca d'Italia, Direttorio – Ciampi, pratiche 172, fasc. 1, 'Osservazioni sull'indicizzazione del debito pubblico' (22 February 1980).
- 104 G. De Luna, *La marcia dei quarantamila: come finisce il Novecento* (Milan 2020).
- 105 Gigliobianco, *Via Nazionale*, 348.
- 106 This mandatory deposit aimed at discouraging the outflow of national currency and preserve the lira's value. ASBI, Banca d'Italia, Direttorio Ciampi, pratiche n. 172, fasc. 2, 'Evoluzione della bilancia dei pagamenti fino al maggio 1981' (3 September 1981).
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- 108 E. Gaiotti and S. Rossi, 'La politica monetaria italiana nella svolta degli anni '80', in Colarizi et al. (eds) *Gli anni Ottanta*, 281–340.
- 109 B. Andreatta, *Discorsi di un inverno* (Rome 1982), 48.
- 110 B. Andreatta, Intervention at the Senate's Commission, Parliamentary records (22 October 1981).
- 111 Salvemini, 'L'indipendenza', 47–74.
- 112 In 1975, the reform on the Treasury bonds' circulation established a norm – which was never turned into a proper law and involved the Treasury, the Bank, and a further committee, the Centro interministeriale per il credito e il risparmio, 'Cicr' – according to which the central bank would act as purchaser of last resort of unsold Treasury bonds. Interest rates, however, were always indicated by the Treasury itself. While the 1981 move has been labelled as a 'divorce', the 1975 agreement has been often described as a sort of 'marriage' between the Treasury and the central bank.
- 113 Inflation decreased to 17.8% in 1981, 16.4% in 1982, 14.7% in 1983, 10.4% in 1984, and 9.2% in 1985. See https://www.istat.it/it/files//2019/03/cap_21.pdf (accessed 8 November 2021).
- 114 Previously, Italian bonds were sold according to the principle of the 'marginal price', which aimed at favouring the few and often inexperienced participants in the auctions. Salvemini, 'L'indipendenza', 59–60.
- 115 B. Andreatta, 'Un divorzio per tutte le stagioni', *Il Sole24 ore* (26 July 1991).
- 116 ASBI, Banca d'Italia, Direttorio Ciampi, pratiche 69, fasc. 1, letter from Andreatta to Ciampi (12 February 1981); letter from Ciampi to Andreatta (6 March 1981).
- 117 ASBI, Banca d'Italia, Direttorio Ciampi, pratiche 172, fasc. 2, letter from Ciampi to Andreatta (24 June 1981).
- 118 ASBI, Banca d'Italia, Direttorio Ciampi, pratiche 172, fasc. 2, letter from Ciampi to Spadolini (7 August 1981).
- 119 Garavini, Petrini, 'Il «divorzio»', 60–1.
- 120 ASBI, Banca d'Italia, Direttorio Ciampi, pratiche 172, fasc. 2, letter from Ciampi to Spadolini (7 August 1981). I added italics.
- 121 C.A. Ciampi, Considerazioni finali del governatore della Banca d'Italia (May 1981). Available at http://www.carloazegliociampi.it/71?resource_1681=12077 (accessed 8 November 2021).
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- 124 M. Kalecki, 'Political Aspects of Full Employment', *The Political Quarterly*, 4 (1943), 322–30; Gigliobianco, *Via Nazionale*, 304; F. Petrini, 'Stabilization Through Integration: the European Rescue of Italian Capitalism', *European Review of History/Revue Européenne d'Histoire*, 4 (2019), 576–7.
- 125 R.G. Rajan, *Fault Lines: How Hidden Fractures Still Threaten The World Economy* (Princeton 2010), 102–4.
- 126 G. Carli, *Cinquant'anni di vita italiana*, in collaboration with P. Peluffo (Rome-Bari 1993), 5; K. Dyson and K. Featherstone, 'Italy and EMU as a "Vincolo Esterno": Empowering the Technocrats, Transforming the State', *South European Society and Politics*, 1–2 (1996), 272–99. However, the first conceptualization of European economic and monetary integration as a fruitful 'external constraint' for the Italian economy was envisaged by Donato Menichella, who served as the governor of the Bank of Italy from 1948 to 1960. See R.

Gualtieri, 'L'Europa come vincolo esterno', in Craveri and Varsori (eds) *L'Italia nella costruzione europea*, 315.

127 Epstein and Schor, 'The Divorce', 160.

128 P. Mattera, *Storia del PSI, 1892–1994* (Rome 2010), chapter 9

129 Gigliobianco, *Via Nazionale*, 323.

130 L. Cafagna, 'L'accordo di San Valentino. Introduzione', in G. Acquaviva (ed.) *La politica economica italiana negli anni ottanta* (Venice 2005), 125–31.

131 Gatiotti, Rossi, 'La politica monetaria italiana', in Colarizi et al. (eds.), *Gli anni*, 328.

132 De Ioanna, 'Debito pubblico', 154.