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Economic Theory and Banking Regulation:
The Italian Case (1861-1930s)

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Abstract

The paper provides a qualitative assessment of the role mainstream economic theory had in orienting Italy’s banking legislation from its political unification (1861) to the introduction of the 1936 Banking Act. Five regulatory regimes are considered. Whilst market discipline and self-regulation arguments characterized the first sub-period (1861-1892), the debate over convertibility and limits on note issuance was intense in the second (1893-1906). The third sub-period (1907-1925) was punctuated by two banking crises: the first (1907) vindicated economists who had stressed the need of a lender of last resort à la Bagehot; the second (1921-23) confirmed – to no avail – the dangers congenital to bank-industry ties. The following sub-period (1926-1930) was inaugurated by the first commercial bank regulation (1926) and responded to the prevailing economists’ call for restricting bank competition. The 1936 regulation, which inaugurated the approximately five-decade long fifth regime, matured in a virtual vacuum of professional economic debate. Overall, two key factors were found to affect the degree to which legislation drew upon contemporary economic thought: a) the severity of the preceding crisis; and b) the timing of the subsequent regulation.

JEL classification: B15, G28, N4

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