

Preface

“... The involution afflicting the economy calls for urgent solution. There are those who, critical of the very foundations of our system and observing the difficulties with which we are faced, deduce that their views are correct and hope for early radical change. There are others, like myself, who believe in the principles on which the present system is founded and who are aware of the need for adaptation of economic institutions to the requirements of the times; and who, believing that the principal causes of the imperfections of the system lie, human error apart, in delay in that adaptation, are engaged in providing the necessary remedies. My remarks, and the entire document presented to you today, are intended to be a cognitive instrument which, by providing ample information, in observance of scrupulous objectivity in presentation and in the search for logical connections, contributes to promotion of the necessary choices”.

With these words Guido Carli closed his Concluding Remarks for 1971. I would say that they summarize both the guiding principles of his actions as Governor and the role he attributed during his governorship to the Annual Report of the Bank of Italy and, in particular, to the Concluding Remarks.

It was Guido Carli who transformed the annual meeting of the shareholders of the Bank of Italy, held on the last working day of May, into an occasion of significance not only for those who work there or who follow economic affairs but also for public opinion in general: an occasion on which the Bank gives the nation an up-to-date view of economic events – the fruit of a year’s research by a team of economists unrivalled in Italy – and at the same time indicates the course it is following in the matters for which it is responsible.

One of the great qualities for which Carli earned universal recognition was his dedication within the Bank to strengthening the research department and fostering its activities. From the more radical component of the Enlightenment he took over the maxim

“knowledge is the basis for action”, in support of the ideal of a gradual development of civil liberties, of a transformation that rather than forcing the pace (or running ahead of the times) would accompany observable change.

The Annual Report constitutes an opportunity for the organization and verification of this continuous research effort. The indications that gradually materialize from the work of economists in the research department are set against each other and an overall pattern is sought. The discussions within the Bank, led by the managers of the research department, the Directorate and the Governor, provide a strong incentive for scientific accuracy and enthusiasm in an environment where individual opinions and teamwork come together in lively but ordered debate.

The Concluding Remarks are the “political” synthesis of the Report. They, too, are the fruit of teamwork: the interpretations that emerge from the research on which the Report is based are spelt out and debated in an attempt to identify clearly the most significant underlying factors; the economic policy decisions adopted and those to be taken are then related to these interpretations; the impulses to be sent to other actors on the economic stage are carefully appraised and their nuances and accents weighed.

This groundwork for the Report starts in January-February; from the end of April a working group meets for several hours each week to read successive drafts of the Concluding Remarks; these meetings are attended not only by the Bank’s finest minds but also by a very small number of select outsiders. Each participant adds something to the document. Towards the end of Donato Menichella’s governorship and throughout that of Guido Carli a considerable influence was exercised by Federico Caffè and later by his pupils Ezio Tarantelli and, above all, Fausto Vicarelli.

To a greater or lesser extent each Governor pens the key passages of the Concluding Remarks himself and, obviously, his influence over the remaining passages is decisive with regard to both the views expressed and the economic policy guidelines proposed, as well as the actual manner of stating them. Carli sought particularly to enhance the impact of the document, a goal that he increasingly achieved over the years. It was a logical option, almost a moral obligation for someone for whom the manner of preparing the document, the work of researching and calibrating its contents, made it the most valid contribution for the country to draw on in deter-

mining the direction of economic policy. Carli was convinced that political decisions should be based on reason enlightened by thorough empirical research, rather than on adherence to one theory or another or, still less, the blind trust in abstract general principles so widespread in Italy. This conviction led him continually to strengthen the research basis of the Report and to ensure the steady growth of its key role in the country's political and economic debate.

Over fifteen years this approach – which Carli had largely inherited from his predecessors, Einaudi and Menichella – gained ground. Through it Carli and the Bank followed and – so far as was within their power – intervened in circumstances whose continuous evolution was always throwing up fresh problems.

When Carli took the helm of the Bank of Italy the post-war reconstruction was complete and in its wake Italy had achieved the “economic miracle” that made it a full member of the international community and of the European Economic Community. These achievements needed consolidating: in retrospect we have to remember that the lira's convertibility had been restored only in 1958 and that the Treaty of Rome establishing the European Common Market was signed in 1957. The economic progress, by reducing unemployment and steadily absorbing excess labour from the agricultural sector, led to tensions in industrial relations. In 1963, for the first time since the First World War, average wages rose faster than labour productivity. The attempts to put the economy on a sustainable growth path, which found expression in Ugo La Malfa's famous “Supplement”, encountered obstacles in the opposing political maximalisms, which ruled out the proposals for economic planning and an agreed incomes policy on principle. Carli, whose conviction that the policies followed by the Bank of Italy should respect the choices of the democratically elected political authorities later came in for some criticism, in 1963 adopted a firm stance to overcome the inflationary trend and balance-of-payments crisis as soon as they loomed. The ensuing lively debate on this decision was joined by eminent economists, from Modigliani and La Malfa to Graziani, from Napoleoni to Salvati, and marked a significant moment in the development of Italian economic thought.

In the following years the expansion of the Italian economy resumed at a pace that can be considered satisfactory in comparison with other European countries. Tensions in industrial relations again took centre stage with the “hot autumn” of 1968 and its repercus-

sions in the years that followed; it is in this context that the above passage from the Concluding Remarks for 1971 is set. Conditions for sustainable growth were perhaps around the corner when, in 1973-74, Italy found itself, together with the other industrialized economies, faced with the first oil crisis, the effects of which were exacerbated by the country's greater dependency on imported energy. Things were not easy for Governor Carli: precisely because his decisions were based on the search for difficult equilibria, they frequently came under fire from all quarters at once; nevertheless, the search for consensus, in which Carli was a master, never prevented him from following the strategy he deemed most appropriate.

Above all else, Carli bequeathed to his successors an institution that was vigorous, efficient, tough and firm in its moral standards. The procedures for selecting staff, based on public examinations and the formal appraisal mechanisms Carli believed in so strongly, played a large part in this achievement. The unswerving conduct often demonstrated by the Bank of Italy earned it increasingly widespread recognition as a public institution operating only for the common good.

For these reasons I believe that the Concluding Remarks read by Guido Carli during the fifteen years of his governorship can be interpreted in several ways. They are in the first place a vital record of the economic policy debate as it unfolded in those years. At the same time they provide a step-by-step account of the development of the Italian economy, its potential and its weaknesses as interpreted through the work of the best group of economists devoted to applied research in Italy. Finally, and most importantly, they reflect the methodological approach and practical assessments, as well as the moral convictions, of one of the finest intellects to have served Italy.

CARLO AZEGLIO CIAMPI