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CENTRALIZATION AT DIFFERENT SPEEDS: THE ITALIAN BANKING REFORMS OF 1926 AND THE MAKING OF A MODERN CENTRAL BANK

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Abstract

A century after the Italian banking reforms of 1926, this article reassesses them as a decisive but incomplete stage in the making of the Banca d'Italia as a modern central bank. Drawing on legislation, the Bank's annual reports, published correspondence, and archive-based scholarship, it distinguishes three processes that advanced at different speeds. Monetary centralization was immediate: the May 1926 decree ended the issuing rights of the Banco di Napoli and Banco di Sicilia more than four years before their scheduled expiry and gave the Banca d'Italia control of interbank clearing. Legal centralization converted long-standing functional dominance into monopoly through a "managed" process, negotiated in Naples and contested in Palermo. Informational centralization (registration, reporting, authorization, and inspection) was gradual and uneven, and the largest mixed banks escaped early on-site scrutiny. Issue unification also created the consolidated balance sheet on which the parity and reserve rule of December 1927 were imposed, without conferring monetary-policy autonomy. Two propositions are advanced as hypotheses for archival testing: that external financial negotiations precipitated the timing of unification, and that the Bank's own credit exposures shaped supervisory forbearance.

KEYWORDS: Central banking; note issue; bank supervision; Banca d'Italia.

JEL codes: E58, N14, N24.

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Centralization at Different Speeds: The Italian Banking Reforms of 1926 and the Making of a Modern Central Bank

Luca Papi

I. Introduction

The Italian banking reform of 1926 occupies an ambiguous position in the history of central banking. On the one hand, it brought to an end the plural note-issue regime inherited from the nineteenth century by conferring the exclusive right of issue on the Banca d'Italia. It also placed the Banca d'Italia at the center of interbank clearing and introduced the first general system for registering, authorizing and supervising deposit-taking institutions. On the other hand, the reforms did not create a comprehensive credit order, did not resolve the close relationship between the major mixed banks and industrial firms, and did not transform the Banca d'Italia into an institution independent of government or entirely removed from commercial banking. Formal recognition of the Banca d'Italia as an institution under public law and the systematic reorganization of credit would come only in 1936. This combination of substantial innovation and evident incompleteness poses the central question of this article: what, precisely, did the legislation of 1926 contribute to the making of a modern central bank in Italy?

Answering that question requires a historically specific, functional definition of central banking. Following a non-teleological approach (Ugolini 2017), this article treats interwar central-bank "modernity" as a bundle of functions - note issue, reserve and liquidity management, interbank settlement and crisis intervention - to which supervision could be added in some countries. Monetary policy in the narrower sense, meaning discount-rate and exchange-rate management, is treated separately in Section IV.7, because in Italy it was neither conferred on nor autonomously exercised by the Banca d'Italia in 1926. This approach avoids projecting the later model of an operationally independent, price-stability-oriented central bank

backwards into 1926.

This article builds on a substantial body of earlier work. The most comprehensive account is Toniolo (2022), who reconstructs the Banca d'Italia's transformation from a nineteenth-century issuing institution into a modern central bank as a long evolutionary process. He treats the changes of 1926 as major institutional stages that partly formalized functions and relationships already emerging in practice, and explicitly connects the unification of note issue and the reduction of banking-crisis risk to the broader strategy of monetary stabilization (especially pp. 437-43, 469-86, and 516). This interpretation builds on earlier studies which reconstructed the gradual emergence of the Bank's monetary and crisis-management functions while emphasizing that the legislation of 1926 did not yet amount to an organic ordering of credit. Di Nardi (1953) remains the standard account of the nineteenth-century plural regime and of the statutory bargains that sustained it; Toniolo (1978) situates the 1926 framework within the bank–industry entanglement that the Great Depression later exposed; Belli (1981) provides the juridical comparison between the 1926 and 1936 laws; Fratianni and Spinelli (1997) place issue unification within the longer monetary history of the lira; and Gigliobianco and Giordano (2010) trace the doctrinal understanding of regulation that Italian policymakers brought to the problem. Polsi (2002) observes that the large banks remained largely outside the new supervision. The Bank's central administration urged its branches to proceed cautiously, so that inspections would not raise public doubts about the institutions concerned; in any case, extending inspection to the large banks in the early years would have been very difficult given the Bank's limited resources and capacity. More recent work by Molteni and Pellegrino (2024), based on previously restricted material in the Historical Archive of the Banca d'Italia (ASBI), has revised the conventional view that the supervisory regime established in 1926 was largely ineffective. Their findings indicate that the Bank interpreted its new powers proactively, developed both off-site and on-site supervision, and used the information thereby acquired in its subsequent management of banking distress.

This article offers a new synthesis of these recent historiographical shifts. It moves beyond earlier administrative histories by examining the friction between the centralizing executive and the institutional resilience of regional actors. It distinguishes the immediate legal centralization of central-bank money and settlement from the slower administrative centralization of prudential information, and it adds a third analytical problem: how a functionally dominant institution acquires legal exclusivity when rival rights remain formally

protected. Archive-based reconstructions suggest that the answer in 1926 lies in managed legal centralization, in which executive capacity was combined with bank-specific arrangements for the institutional afterlife of the two southern issuers, the Banco di Napoli and the Banco di Sicilia. This framework refines Charles Goodhart's evolutionary theory of central banking (Goodhart 1988) and complements Curzio Giannini's analysis of confidence costs (Giannini 2011) without attributing either model to the historical actors themselves.

The 1926 reforms therefore initiated three dimensions of centralization. The first centralization included the decree of 6 May, concentrated banknote issue and clearing in the Banca d'Italia; the second centralization including the two Conventions signed between the Government and the Banca d'Italia (Royal Decree no. 1195 of 15 June 1926) and between the Government, the Banca d'Italia, the Banco di Napoli and the Banco di Sicilia (Royal Decree n. 1192 of July 1926), and the third centralization of September–November that began to collect and centralize information about deposit-taking institutions through registration, reporting, authorizations and inspections. The first change was immediate: the issuing rights of the Banco di Napoli and Banco di Sicilia ended on 30 June 1926; the second change preceded the approval of the Conventions, and the third was incremental, because supervisory capacity and actual results depended on the construction of organization and enforcement over the following decade.

A related argument concerns the gap between functional dominance and legal monopoly. Before 1926 the Banca d'Italia was already the dominant note issuer[1] and had assumed central-banking functions in earlier crises, but the legally protected rights of the two southern banks persisted. Indeed, Royal Decree-Law no. 2158 of 27 September 1923 had only recently extended the issue privilege of all three note issue institutions to 31 December 1930. The May 1926 reform therefore terminated rights more than four years before their newly scheduled expiry. Toniolo (2022, p. 516) already identifies the broader de facto/de jure sequence. The contribution of this article is to treat the gap as a distinct stage of central-bank formation and to explain its closure through a combination of functional hierarchy, increased

[1] In June 1926, the total banknote holdings in Italy amounted to approximately 18.3 billion lire. The division of shares among the three issuing institutions reflected the clear and absolute dominance already acquired by the Banca d'Italia. It held the largest share by far, approximately 14.2 billion lire, or approximately 78 percent of the national total. The Banco di Napoli held approximately 3.5 billion lire, 19 percent of the total, and the Banco di Sicilia held the smallest share, approximately 0.6 billion lire, or 3.3 percent of the total.

political and executive capacity, differentiated institutional transition and external financial constraint.

This is a specification, not a rejection, of Goodhart's position. His account emphasizes centripetal forces generated by reserve concentration, clearing and the emergence of a non-competitive bankers' bank; recent institutional work likewise stresses that political bargains and legal privileges condition those forces[2]. The Italian case therefore suggests that functional differentiation, legal rights and political authority can evolve at different speeds.

Curzio Giannini's institutional theory provides a second, ex post lens. His concept of "confidence costs" links the evolution of central banks to the need to sustain trust in increasingly credit-based monetary systems (Giannini 1994, 2011). It is not used to impute a unified fiduciary doctrine to Stringher, Volpi, Beneduce or other reformers. Rather, it helps interpret the functional connection among central-bank liabilities, interbank settlement, bank deposits and prudential information.

The source base combines legislation, contemporary institutional reports, published archival correspondence and published research explicitly grounded in archival collections. Alongside the 1926 decree-laws, the 1923 extension of issue rights and the conventions implementing unification[3], the article uses the Banca d'Italia's annual reports and documents reproduced in Cotula and Spaventa (1993) and Guarino and Toniolo (1993). For the institutional bargaining immediately preceding issue unification, it relies on Ciullo and De Ianni's (2010) reconstruction of the Stringher–Miraglia correspondence preserved in the Historical Archives of the Banca d'Italia (ASBI, Carte Stringher, b. 28, 406.2/28.1.1, Banco di Napoli, 1920–27), and on Asso and Nerozzi's (2017) reconstruction based on previously unpublished minutes and correspondence in the A*rchivio storico del Banco di Sicilia*. The De' Stefani project of July 1925 is identified through the archival reference in ASBI, Carte De' Stefani, b. 8, f. 1, and the published reconstruction in Marcoaldi (1986). Read together, these reconstructions point to a

[2] Paniagua Prieto (2022) proposes an alternative rationale for the unintended emergence of central banks, providing evidence in favor of their politically oriented development, rather than their alleged intrinsic nature.

[3] Two conventions regulating the technical and accounting aspects of the unification of the monetary issuance service were signed between the Government and the Bank of Italy (Royal Decree no. 1195 of 15 June 1926) and between the Government, the Bank of Italy, the Banco di Napoli and the Banco di Sicilia (Royal Decree no. 1192 of 1 July 1926).

divergence between the two southern issuers: Naples moved through a negotiated transition managed directly by Stringher and Miraglia, whereas the transition in Palermo was more adversarial. The article also asks whether the Banca d'Italia's legacy credit exposures to large mixed banks, inherited in part through the *Consorzio per sovvenzioni su valori industriali* (CSVI), may have created a conflict of interest in supervision. This proposition is advanced as a hypothesis for archival testing, not as a finding.

The remainder of the article is organized as follows. Section II reconstructs the reform package, its political genesis, and the external financial constraint within which it was drafted; Section III examines the passage from functional dominance to legal monopoly; Section IV develops the distinction between monetary and informational centralization, examines the conflict of interest embedded in the supervisory design, and relates the 1926 reform to the December 1927 stabilization; Section V concludes and outlines a research agenda.

1. II. The 1926 Reform Package and Its Political Genesis

2. II.1. The inherited plural-issue system and the postwar banking problem

The plural structure of Italian note issue predated the Banca d'Italia, but it was not merely a market outcome. Article 1 of Law no. 1920 of 30 April 1874 expressly named the six institutions entitled to issue bearer notes, converting inherited regional plurality into a statutory oligopoly. The Banca Romana crisis led to the legislation of 1893[4] and the creation of the Banca d'Italia, while the Banco di Napoli and Banco di Sicilia retained their rights. Those rights were not in terminal decline as a matter of law: Royal Decree-Law no. 2158 of 27 September 1923 renewed the issue privilege of all three institutions until 31 December 1930. The 1926 decree therefore represented an early legal termination of recently reaffirmed rights, not the automatic expiry of an obsolete concession. That reversal makes the timing of legal monopoly a historical problem in its own right.

Over the following three decades the asymmetry among the three remaining issuers widened. Toniolo treats this period explicitly as part of the construction of a central bank under Bonaldo Stringher (2022, ch. 4, especially pp. 184–215)[5]. The Banca d'Italia expanded its national

[4] Law no. 449 of 10 August 1893, establishing the Banca d'Italia.

[5] See Torreggiani (2023) on the role of Bonaldo Stringher in the construction of the 1926 banking

reach, deepened its relationship with the Treasury and assumed a growing role in the management of financial disturbances. Its intervention during the crisis of 1907 strengthened its reputation as the institution to which the system and the government turned in conditions of exceptional liquidity stress (see also Gigliobianco and Giordano 2010). The creation of the *Consorzio per sovvenzioni su valori industriali* in 1914 further extended its involvement in crisis finance, although the *Consorzio* was designed primarily to mobilize industrial securities rather than to implement a formally codified lender-of-last-resort role. The importance of 1926 therefore lies in accelerating and formalizing a transformation already well under way, not in creating central-banking functions ex novo.

The two southern issuers were not, however, merely residual competitors in note issue. The Banco di Napoli in particular had been entrusted since 1901 with the state service for the collection and transmission of emigrant remittances,[6] which gave it a dense network of foreign correspondents, a distinctive public mission and a claim to institutional standing that was independent of the issue privilege itself. This matters for the interpretation advanced below. The loss of the privilege threatened a bundle of attributes - reserves, prestige, deposit-gathering capacity and the ability to sustain the remittance business - rather than a single legal faculty, which is one reason why the terms of transition, and not only the fact of closure, were the object of negotiation in 1925–26.

War and postwar adjustment magnified the system's weaknesses. Inflation, exchange-rate instability and industrial reconversion interacted with the close bank–industry nexus. The failure of the Banca Italiana di Sconto in 1921 exposed the limits of existing crisis arrangements (Sraffa 1922; Gigliobianco and Giordano 2010), while the Banco di Roma's difficulties showed the political sensitivity of large-bank distress.

At the same time, the deposit-banking network expanded rapidly. Molteni and Pellegrino (2024) report that the number of banking branches increased from 4,227 in 1913 to 6,012 in 1920 and to 11,444 in 1926[7]. Expansion took place in the absence of a general system of entry

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reforms.

[6] Law no. 24 of 1 February 1901, adopted alongside the emigration law of the same year, entrusted the state service for emigrant remittances to the Banco di Napoli.

[7] Calabria and Molteni (2026) assess the relationship between economic fundamentals and banks' spatial organization and they find that market forces shaped Italy's banking geography.

control, prudential reporting or bank inspection. The problem confronting policymakers was therefore broader than the survival of a few large mixed banks. It also concerned the proliferation of local institutions that accepted deposits without being subject to minimum capital requirements or continuous public scrutiny. The reform therefore preceded the Great Depression, but did not arise in financial tranquility: it followed bank failures, emergency rescues, exchange instability and rapid branch expansion.

3. II.2. A three-part legislative package

Rather than a single "banking law," the 1926 reform combined three principal royal decree-laws with conventions and transitional measures. On the issuing side, legal closure required not only terminating the Banco di Napoli's and Banco di Sicilia's privileges but also reallocating reserves, outstanding notes and claims. The institutional change was therefore implemented as a legal and balance-sheet transfer, not simply as a prohibition on further issue.

The first measure was Royal Decree-Law no. 812 of 6 May 1926, *Unificazione del servizio dell'emissione dei biglietti di banca*. Article 1 ended the issuing rights of the Banco di Napoli and Banco di Sicilia on 30 June 1926; from 1 July the Banca d'Italia was the sole note issuer. The decree was converted by Law no. 1262 of 25 June 1926. Operational unification then proceeded through a convention between the Government and the Banca d'Italia signed on 15 June and approved by Royal Decree no. 1195; a second convention, signed on 26 June by the Government, the Banca d'Italia and the two southern banks and approved by Royal Decree no. 1192 of 1 July; and Royal Decree-Law no. 1298 of 23 July, which contained transitional provisions for the Banco di Napoli and Banco di Sicilia. The Banca d'Italia's annual report describes the transfer of metallic and gold-equivalent reserves, the assumption of outstanding notes as liabilities of the Banca d'Italia, and the transfer of specified claims against the Treasury and crisis-management institutions (Banca d'Italia 1927, pp. 49–54). Legal monopoly thus required a concrete reallocation of balance-sheet positions as well as the extinction of issuing rights.

The same decree gave the Banca d'Italia exclusive responsibility for managing all Italian clearing houses from 1 July. The 1926 annual report records that the clearing houses of Naples and Turin, previously operated by the Banco di Napoli, and that of Bologna, previously operated by the Cassa di Risparmio di Bologna, passed to the Banca d'Italia on that date

(Banca d'Italia 1927, pp. 94-95)[8].The provision therefore centralized not only banknote issue but also a key interbank settlement infrastructure.

The second measure was Royal Decree-Law no. 1511 of 7 September 1926, *Provvedimenti per la tutela del risparmio,* later converted with amendments by Law no. 1107 of 23 June 1927.[9] It required institutions that collected deposits to be entered in a register maintained at the Ministry of Finance (art. 1). It introduced official control over the establishment of new banks, the opening of branches, mergers and other structural changes (art. 2). It also assigned important reporting and supervisory tasks to the Banca d'Italia.

Supervision was not vested exclusively in the Banca d'Italia. The Banca d'Italia collected information, inspected institutions and supplied technical assessments, while major authorizations and sanctions remained with the Ministry of Finance; savings banks and certain specialized institutions remained under pre-existing arrangements. The September decree also required allocations to reserves from annual profits (art. 3), introducing a preventive balance-sheet objective alongside depositor protection.

The third component was Royal Decree-Law no. 1830 of 6 November 1926, *Norme regolamentari per la tutela del risparmio,* converted by Law no. 1108 of 23 June 1927.[10] This was not a marginal technical appendix. It made the September framework operational by specifying minimum capital requirements differentiated according to the territorial reach of the institution, a minimum relationship between capital and deposits, limits on excessive exposure to a single borrower, and transitional rules for institutions that did not immediately comply.

The implementing decree made the prudential constraints more precise. Under art. 15, capital and reserves could not fall below one-twentieth of deposits; art. 16 generally limited unsecured exposure to one borrower to one-fifth of capital and reserves. These were not modern risk-weighted capital rules and allowed transition and exceptions, but they established general ex ante constraints on leverage and risk concentration. The asymmetry between the measures is

[8] On the development of Italian clearing arrangements more generally, see Brizi and Petricola 1994.

[9] Royal Decree-Law no. 1511 of 7 September 1926, *Provvedimenti per la tutela del risparmio*, converted with amendments by Law no. 1107 of 23 June 1927.

[10] Royal Decree-Law no. 1830 of 6 November 1926, *Norme regolamentari per la tutela del risparmio*, converted by Law no. 1108 of 23 June 1927.

analytically important: the May decree achieved legal centralization at a fixed date, whereas the September–November framework created supervisory powers whose significance depended on later administrative implementation.

4.

5. II.3. Why 1926? (I) Political capacity, bargaining, and differentiated institutional settlement

The immediate prehistory of the May decree begins before 1926. On 11 July 1925, the day after leaving the Finance Ministry, Alberto De' Stefani - former Finance Minister sent Mussolini – head of the government - a preliminary plan for concentrating the issue privilege in the Banca d'Italia. The project did not envisage the disappearance of the two southern institutions. Rather, it coupled issue unification with their conversion into strong credit institutions rooted in the Mezzogiorno and with a widening of the ordinary banking operations they could undertake (ASBI, Carte De' Stefani, b. 8, f. 1, 'Istituti di emissione'; see Marcoaldi 1986, pp. 151–52). From the outset, therefore, unification was conceived not simply as the abolition of rival rights but as a problem of institutional conversion. It is worth noting that the project did not succeed in July 1925 and was enacted only ten months later; Section II.4 argues that the intervening change in Italy's external financial position is a substantial part of the explanation. The published reconstructions discussed below suggest that the interval was also used to work out institution-specific terms for the two southern issuers, which is the basis of what this article calls managed legal centralization.

Published archival correspondence makes the drafting chronology unusually clear. Stringher sent the draft prepared in January to Treasury Director-General Luigi Pace on 28 January 1926 (Guarino and Toniolo 1993, doc. 69, p. 418). On 10 February he forwarded the project to Finance Minister Giuseppe Volpi together with notes on the unification of banknote issue (doc. 71, p. 422). The same documentary sequence identifies Gustavo Bonelli and Alberto Beneduce among the small technical group working around Stringher. This is direct contemporary evidence that supervision and issue unification were being considered within the same administrative process months before the Pesaro speech of August 1926.

Banking-sector opposition is equally visible in the primary correspondence. On 2 February Giuseppe Bianchini, Director of the Fascist banking confederation - told Beneduce that no new machinery was needed and argued that political interference, rather than the absence of formal

rules, had obstructed earlier bank clean-ups (Guarino and Toniolo 1993, doc. 70, pp. 419–20). On 26 August, Bianchini and Felice Guarneri - Director of Assonime - again urged Volpi and Giuseppe Belluzzo -Minister of the national economy - not to proceed with general banking legislation (Guarino and Toniolo 1993 doc. 74, pp.- 431–35).

The final rules were nonetheless softened relative to earlier drafts: a proposed liquidity requirement disappeared, the capital-to-deposit ratio was reduced and the permitted single-borrower exposure increased (Molteni and Pellegrino 2024). The episode therefore documents bargaining over regulatory intensity rather than either unilateral state imposition or industry capture alone. Torreggiani (2024) interprets the outcome as a compromise among Volpi, Stringher, and the Fascist banking confederation led by Bianchini. Whether these concessions were linked to the subsequent concentration of inspections on smaller institutions (Section IV.4) is a question the published evidence raises but does not settle.

The surviving evidence also shows that the two southern issuers did not follow the same path. Ciullo and De Ianni (2010), drawing on the Stringher–Miraglia correspondence preserved in ASBI, reconstruct repeated visits by Stringher to Naples from December 1925. The negotiations with Nicola Miraglia -Banco di Napoli Director General - concerned the Banco di Napoli's transformation after the loss of issue, Miraglia's succession and, most delicately, the transfer and valuation of the Banco's gold reserve. Their reconstruction places the May decree after an accommodation had been reached. This does not mean that the Banco di Napoli voluntarily abandoned a valuable privilege; it does indicate that the cost of legal closure was managed through bargaining over the terms of institutional transition. Whether the continuation of the Banco's emigrant-remittance service under the 1901 law, or implicit liquidity support from the Banca d'Italia, formed part of that accommodation remains to be established from the Banco di Napoli's own records.

The Banco di Sicilia presents a contrasting case. Asso and Nerozzi (2017, pp. 129–30), using previously unpublished board minutes and management papers from the Banco's historical archive, show that its board reacted with marked alarm to Volpi's April 1926 announcement. At the meeting of 22 April, Director-General Ignazio Mormino warned that loss of the issue privilege would deprive the southern banks of an important source of institutional attraction and complained that the reform was being imposed without prior agreement on the terms and safeguards of transformation. His opposition continued after the decree. The evidence therefore does not support a single story of consensual settlement across the South: Naples moved

through negotiation, while Sicily experienced a more adversarial transition. The contrast suggests that the uniform legal outcome of June 1926 concealed markedly different paths to compliance.

These different trajectories motivate the term managed legal centralization. The outcome was uniform (the issue rights of both banks ended on the same statutory date), but the route to compliance was not. Legal centralization combined the executive's capacity to impose a binding settlement with institution-specific arrangements that preserved the former issuers as credit institutions, transferred reserves and liabilities, and organized their transition to new functions. "Managed" is preferable to "compensated" centralization because the Sicilian evidence does not establish a consensual bargain equivalent to the Neapolitan one. It should be emphasized that what varied between Naples and Palermo was not the legal outcome but the terms and the cost of conversion; the concept is accordingly a claim about the management of transition, not about the determinants of closure itself.

6.

7. II.4. Why 1926? (II) The external constraint: war debts, foreign credit and the timing of unification

The Banca d'Italia's functional dominance and the government's executive capacity established that legal monopoly was feasible in 1926; they do not, on their own, explain why it occurred in May of that year rather than in 1925 or 1927. This is the question raised most sharply by the 1923 extension of issue rights to 1930 and by the fate of the De' Stefani project. A plan for concentrating issue in the Banca d'Italia existed in July 1925, its author had just held the Finance Ministry for three years, and the regime's normative powers were already substantial. It nonetheless went nowhere. Something changed between July 1925 and May 1926, and the most plausible candidate lies outside the domestic institutional field altogether.

That interval coincides almost exactly with the reconstruction of Italy's external financial position. De' Stefani left the Finance Ministry on 10 July 1925 and was replaced by Giuseppe Volpi, whose mandate was defined by the exchange rate and by access to foreign capital. In November 1925 Volpi settled the Italian war debt to the United States, and a loan of one hundred million dollars was arranged with J. P. Morgan & Co. in support of the lira; in January 1926 a parallel settlement was concluded with the British Treasury. Within a few months Italy therefore moved from being a defaulting or negotiating debtor with no organized access to the

New York and London markets to being a state with settled obligations, a syndicated dollar credit and an explicit ambition to return to gold. Stringher's visits to Naples begin in December 1925, immediately after the American settlement; the January project reaches Pace on 28 January, the day after the British agreement; the transmission to Volpi follows on 10 February. The drafting chronology of issue unification sits precisely inside the window in which Italy's monetary constitution had become an object of foreign scrutiny.

The mechanism is straightforward and does not require attributing sophisticated doctrine to the actors. Foreign lenders and their central-bank interlocutors assessed a borrowing state's monetary framework as well as its fiscal position, and a regime in which three separate balance sheets issued legal-tender notes under privileges renewed to 1930 was difficult to present as a credible foundation for stabilization. Plural issue complicated the reporting of circulation and reserves, divided responsibility for the note liability, and left the metallic reserve dispersed across institutions whose accounts were not consolidated.

Unification resolved all three problems at once. It produced a single circulation figure, a single reserve position and a single institutional counterpart with which foreign central banks could deal - precisely the attributes that the Bank of England and the Federal Reserve Bank of New York had come to treat as preconditions for participation in stabilization credits elsewhere in Europe. The transfer of the southern banks' metallic reserves to the Banca d'Italia, described in detail in the 1926 annual report, was thus not merely an accounting consequence of legal closure but part of what made the reserve internationally legible.

Read this way, the three domestic factors identified above operate as enabling conditions and the external constraint operates as the precipitant. Functional dominance made unification technically unproblematic; executive capacity made early termination of protected rights enforceable; managed transition made the institutional cost of closure bearable. What supplied the timing was the requirement to present a unified monetary framework to creditors during the eighteen months in which Italy's stabilization was being negotiated. The claim is offered as an interpretation of the documented chronology rather than as a demonstrated causal relation: the correspondence discussed above does not, in the published extracts, argue the case in these terms, and testing the proposition properly would require the diplomatic and banking records of the 1925–27 credits (De Cecco 1993; Migone 1980; Cohen 1972).

The external reading also clarifies the relationship between 1926 and the stabilization decree of December 1927, which fixed the lira's gold parity, established a statutory reserve ratio and

restructured the Bank's position vis-à-vis the Treasury. If issue unification is understood as a domestic institutional reform, the two measures belong to different projects. If it is understood as the first stage of a program addressed to external creditors, they form a sequence: 1926 created the single balance sheet and the consolidated reserve without which a parity commitment could not have been made, and 1927 made the commitment. On that reading the making of a modern central bank in Italy runs through both dates, and the analytical separation of monetary from informational centralization proposed in Section IV applies to the whole 1926–27 conjuncture rather than to the May decree alone. A full treatment of the December 1927 decree lies beyond the scope of this article, but its omission from accounts centered on 1926 is difficult to justify.

8. II.5. The institutional position of the Banca d'Italia

In 1926 the Banca d'Italia was still formally a joint-stock company, not yet an institution under public law. Yet its issuing privilege, Treasury relationship and new system-wide responsibilities had already given it substantial public functions.

The 1936 reform formally recognized the Bank as an institution under public law, reorganized ownership and further restricted direct business with non-bank private customers (Belli 1981). The 1926 settlement was therefore transitional: it strengthened public central-bank functions without completing the later public-law reorganization. This distinction between legal form and public function is essential to any historically specific definition of the Banca d'Italia's modernization, and Section IV.5 argues that it was not merely a formal residue, but a source of substantive tension in the operation of the new supervisory regime.

9. III. From Functional Dominance to Legal Monopoly: Specifying Goodhart's Evolutionary Account

Goodhart's evolutionary account starts from the transformation of profit-seeking banks into non-competitive institutions that hold system reserves, occupy a central clearing position and assume responsibilities toward the banking system as a whole (Goodhart 1988). The framework is useful, but should not be read as a theory of purely spontaneous market evolution. Recent work on the Bank of England emphasizes the interaction of centripetal banking forces with statutory privileges and political bargains (Paniagua Prieto 2022).

The Italian trajectory broadly fits this pattern. Created in 1893 as one of three note issuers, the Banca d'Italia nevertheless occupied an asymmetric position because of its national reach, balance-sheet scale and Treasury relationship; crisis-management responsibilities widened that asymmetry over time. The crisis of 1907 and the subsequent creation of the *Consorzio per sovvenzioni su valori industriali* illustrate that the Bank was already moving beyond ordinary competition: government and banks increasingly treated it as the institution expected to coordinate support when market mechanisms failed.

Functional ascendancy did not, however, extinguish legal plurality. The persistence of the three-issuer regime was repeatedly codified rather than merely tolerated. Article 1 of the 1910 consolidated law still granted the issue privilege to the Banca d'Italia, Banco di Napoli and Banco di Sicilia, and Royal Decree-Law no. 2158 of September 1923 renewed those privileges until the end of 1930. The southern banks' rights were therefore legally current and embedded in historically rooted regional institutions when the government terminated them in 1926. Economic predominance alone could not cancel them.

Analytically, the sequence has two stages: functional dominance between 1893 and 1926, followed by legal exclusivity in 1926. The first reduced the practical significance of plurality; the second extinguished it as a matter of law. Toniolo (2022, p. 516) documents the de facto/de jure sequence; the contribution here is to use it as a mechanism that can be compared across central-bank histories. On this reading the Italian case specifies Goodhart: functional differentiation can be advanced while formal monopoly remains blocked by residual legal privileges. Evolution can therefore create the economic basis for centralization without itself supplying the legal mechanism that terminates competing rights. The May decree supplied that mechanism by reallocating issue and placing clearing under one authority; it legally completed rather than originated the Banca d'Italia's rise to the apex of the system.

The political and financial conditions of 1926, discussed in Sections II.3 and II.4, bear on timing rather than on the origin of the Bank's predominance. Established functional predominance, an executive able to terminate entrenched privileges at a fixed date and active management of the institutional consequences of abolition are documented enabling conditions. The detailed character of institution-specific transition arrangements is an interpretation based on published reconstructions. The proposition that war-debt settlements and the Morgan credit supplied the precipitating external constraint is a hypothesis supported by the chronology and by institutional plausibility. Functional hierarchy preceded legal closure,

but legal closure still required a political decision and arrangements that allowed the former issuing banks to continue without the privilege. The transfer of clearing reinforces the argument because settlement centrality also preceded legal exclusivity. In his address to the Banca d'Italia's Superior Council on 30 November 1925, Stringher recalled that the Bank had managed the clearing houses of Florence, Genoa and Milan since 1894, Rome since 1905, Trieste since 1921 and Venice since 1923 (Stringher 1926). The May 1926 decree transformed this extensive but partial operational role into nationwide legal exclusivity. In Goodhart's terms, the Italian sequence therefore offers an unusually clear case in which a bankers' bank function developed before the law completed institutional centralization. That position did not yet amount to prudential information about bank balance sheets. It did, however, create the operational setting into which the September–November supervisory regime inserted a distinct information-gathering function.

The broader implication is both sequential and institutional: functional convergence, legal reallocation, transition management and supervisory capacity can develop at different speeds. Informational centralization then continued to be built through the following decade.

10.

11. IV. Monetary and Informational Centralization

12. IV.1. Confidence costs: Giannini's framework

Giannini interprets central-bank development as a response to the confidence costs of increasingly credit-based monetary systems: as monetary claims become more abstract, specialized institutions emerge to sustain confidence in them (Giannini 1994, 2011).

The primary evidence makes the distinction between historical linkage and theoretical interpretation especially important. Volpi's conversion report and the Banca d'Italia's 1926 annual report explicitly connected control of note circulation with the protection and supervision of savings, but neither articulated Giannini's later theory. Giannini is therefore not used to discover or attribute that connection; his value is analytical, providing a language for relating central-bank liabilities, settlement, deposits and prudential information.

Before 1926 the lira was a single unit of account supported by notes issued by three privileged institutions. Bank deposits, transferable through cheques and clearing, formed a second layer of monetary claims. The relevant issue was therefore not plurality of the unit of account, but the coexistence of several issuing balance sheets and a growing deposit-money system.

The reforms addressed those layers differently: May centralized banknotes and settlement; September–November began to make deposit-taking institutions more visible to the Bank and the state. Giannini's framework interprets the two changes as complementary safeguards rather than as proof of a consciously unified legislative intention.

13. IV.2. Centralizing note issue and settlement

Monetary centralization was immediate. From 1 July 1926 one balance sheet alone supplied banknotes, replacing the previous three-issuer structure. This did not create the lira or confidence by fiat; it removed institutional fragmentation in note issue and concentrated responsibility for the circulation of privileged banknotes. As argued in Section II.4, that concentration also had an external dimension, since it produced a single reported circulation and a single consolidated reserve at the moment when both had become objects of foreign assessment.

Exclusive management of the clearing houses also placed the Banca d'Italia at the operational center of interbank settlement. The importance of this change lies in settlement centrality, not in assuming that clearing data were equivalent to prudential information. That distinction matters for the argument developed below: informational centralization arose primarily from reporting and inspection powers, not automatically from the clearing function.

14. IV.3. Building a prudential information system

The September–November regime extended the Bank's informational reach from settlement relations to bank balance sheets. Registration mapped deposit-taking institutions; authorization requirements covered entry, branches and mergers; periodic reports supplied comparable balance-sheet information; inspections allowed the Banca d'Italia to verify what accounts did not reveal.

The organizational dimension is documented directly in the Banca d'Italia's 1926 report. To implement the new legislation, the Bank created a central *Ufficio di vigilanza su le aziende di credito* under the Inspectorate General and issued instructions to its branches. The report explicitly described a division of labor in which local offices handled supervisory business while the center followed and coordinated their action (Banca d'Italia 1927, page 70, footnote 2). "Informational centralization" therefore denotes a concrete administrative architecture for aggregating local knowledge at the center, not merely a legal competence conferred in

September 1926.

The 1926 report also rejected the idea that supervision guaranteed bank solvency, stressing that oversight did not remove responsibility from managers or depositors (Banca d'Italia 1927, p. 71). This is consistent with an early awareness of the moral-hazard problem created by official oversight. The practical significance of the new regime therefore depended on implementation rather than on statutory ratios alone.

15. IV.4. Supervision in practice, 1926–1935: reach and unevenness

Molteni and Pellegrino (2024) show that the Bank used reports, correspondence, authorization decisions, moral suasion and inspections rather than treating its powers as nominal. The branch network supplied local information, while the center coordinated supervisory practice. About 3,230 on-site inspections were conducted between 1927 and 1935, demonstrating that supervision became operational, albeit very unevenly. Where supervision was applied, Molteni and Pellegrino find higher capital and reserves and a marked reduction in excessive loan concentration.

The largest mixed banks were the main exception: they were not subjected to the same degree of early scrutiny as smaller commercial institutions and they remained essentially outside the new supervision, apart from occasional inspections of some of their branches (Polsi 2002). There may be several reasons for this attitude. Limited initial administrative capacity, fear of destabilizing depositors, systemic importance, political protection, and creditor self-interest are competing or complementary hypotheses. The sources assembled here do not assign causal weights among them. The correspondence among Stringher, Volpi, and Belluzzo after 1926 shows that, in the context of the "quota 90" revaluation, the holders of supervisory powers shared the aim of rationalizing the system at its periphery (Polsi 2002, p. 274)[11].

16. IV.5. A private supervisor: legal form, conflict of interest and the interpretation of

[11] It should be remembered that in 1926, despite the new laws having introduced a new supervision system, the banking sector still appeared fragmented. In particular, the Savings Banks (Casse di Risparmio) and the Monti di Pietà were supervised by the Ministry of Agriculture, the public law and land credit institutions were supervised by the Ministry of Finance and the private law banks (ordinary companies) and cooperative banks were controlled by the Bank of Italy.

forbearance

The uneven application of supervision has usually been discussed as a question of capture or of administrative capacity. Both framings are incomplete, because they treat the supervisor as an agency whose incentives are external to the banks it supervises. In 1926 that was not the case. The institution charged with collecting balance-sheet information, conducting inspections and advising the Ministry of Finance on authorizations was itself a joint-stock company whose shares were held by private subscribers, including credit institutions; it continued to conduct discount and other business with private counterparties; and it stood in a direct creditor relation to several of the large mixed banks whose condition it was now expected to assess. The supervisory design of 1926 therefore lodged a system-wide public function in an entity that remained, in legal form and in commercial practice, an active participant in the market it oversaw.

The banking industry understood this and preferred it. Bankers favored supervision by the Banca d'Italia over direct ministerial control, regarding the Bank as technically more competent and less exposed to day-to-day politics (Guarino and Toniolo1993, doc. 70). That preference is itself evidence about the expected intensity of oversight: the supervisor the bankers preferred was the one whose interests were most closely aligned with their own.

This reframes the capture-versus-forbearance question. Stigler's (1971) account of regulation as a service supplied to the regulated industry captures part of the 1926 story—the softening of the draft rules under pressure from Bianchini and Guarneri is a clear instance of industry influence over regulatory intensity—but it does not describe what followed. The lighter treatment of the largest mixed banks is consistent with limited administrative capacity and with political reluctance to trigger a systemic panic (Polsi 2002). It is also consistent with a possibility that the capture framing leaves out: that the supervisor's own balance-sheet position shaped its incentives. The large mixed banks did not undergo significant inspections until the late 1930s (Molteni and Pellegrino 2024), whereas supervisory action against small local institutions often ended in mergers or liquidations. Whether enforcement between 1927 and 1935 served not only as a shield for depositors but also as a selective mechanism that restructured the banking periphery, while sparing the intertwined core, remains an intriguing hypothesis[12].

[12] The assets of the Autonomous Section of the CSVI are reported to have reached about 3,364

The point has a bearing on the interpretation of 1936. The public-law reorganization is usually read as a change of legal status consequent on the crisis of the early 1930s and the creation of IRI. The argument developed here suggests a complementary reading: the 1936 reform can also be seen as correcting an incentive structure created in 1926. By severing the Banca d'Italia from private shareholding and ending its discount business with private non-bank counterparties, the 1936 law did not merely strengthen the central bank's powers; it removed a source of the conflict of interest that may have constrained informational centralization during its first decade.

17. IV.6. Supervision as an information stock for crisis management

Before 1926 the Banca d'Italia had already intervened in banking crises, notably in 1907 and through the *Consorzio per sovvenzioni su valori industriali*. Crisis management therefore preceded formal supervision. The reform did not codify the later shorthand associated with Bagehot's lender-of-last-resort rule (Bagehot 1873), nor did it establish a statutory solvency or liquidity test. Emergency support remained discretionary and often involved government or special public bodies (Goodhart and Huang 1999).

Supervision's contribution was informational. Before the new regime, detailed knowledge of bank weakness was often acquired when distress was already acute; reporting and inspections increasingly created institution-specific knowledge before the crisis. This did not eliminate uncertainty, but it improved the basis for distinguishing temporary illiquidity from deeper impairment. Molteni and Pellegrino (2024) find preliminary evidence that such information informed interventions in the early 1930s. The complementarity is therefore temporal: crisis managers could enter a distress episode with information gathered through prior supervision.

This ex ante information channel is the strongest link between the 1926 supervisory reform and the emergence of modern central-banking capacity. It should be read alongside the qualification developed in Section IV.5, since the value of an information stock depends on the supervisor's willingness to act on what it records.

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million lire in mid-1926, a sum equal to a substantial share of the note circulation (Banca d'Italia 1927). To the extent that these assets included claims on, or holdings linked to, institutions subject to the new supervision, rigorous enforcement against those institutions could have imposed losses on the Banca d'Italia itself.

18. IV.7. From institution to rule: monetary policy and the December 1927 stabilization

The functional definition adopted in Section I omits monetary policy in the narrower sense - the management of the discount rate and of the external value of the currency - and the omission is deliberate rather than inadvertent. In 1926 that function was not exercised by the Banca d'Italia. The revaluation target of the lira was announced by the head of government at Pesaro in August, not decided by the Banca d'Italia; the discount rate and the credit restrictions that followed were instruments applied in the service of an objective fixed elsewhere. Whatever the Banca d'Italia's technical influence over the design of the stabilization, and it was considerable, the 1926 legislation conferred no authority over the price level or the exchange rate and created no procedure through which such authority could have been exercised. Any account that treated monetary policy as part of what 1926 delivered would misdescribe the reform.

That function acquired an institutional form only with the stabilization decree of 21 December 1927. Royal Decree-Law no. 2325 fixed the gold parity of the lira, established a statutory reserve requirement against notes and sight liabilities to be held in gold and in foreign exchange convertible into gold, abolished the inherited distinction between ordinary and extraordinary circulation, and settled the Treasury's position with the Bank. Those measures were supported by an international credit organized with the Bank of England and the Federal Reserve Bank of New York alongside a further American loan (Cohen 1972, Migone 1980, De Cecco 1993). With it, Italy entered the gold-exchange standard on terms comparable with those of the other European stabilizations of the decade.

The relation between the two dates is one of logical dependence, not merely of chronological succession. A parity commitment backed by a proportional reserve rule presupposes a single note liability and a single consolidated reserve against which the proportion can be computed and published. Under the three-issuer regime the rule could not have been stated in the same form: reserves were dispersed across institutions whose accounts were not consolidated, and responsibility for the note liability was divided. The transfer of the southern banks' metallic reserves to the Banca d'Italia in 1926, described above as an element of legal closure and of external legibility, was also the operation that made the reserve ratio of December 1927 technically expressible. The monetary constitution that emerged from the stabilization was therefore built on the balance sheet created eighteen months earlier, and the two measures are best read as a single conjuncture.

What follows for the argument of this article is a qualification rather than an extension. Monetary policy reached the Banca d'Italia as a rule, not as a power. The parity and the reserve requirement subordinated discount policy to the defense of the external value of the currency, narrowing rather than widening the range of decisions available to the Banca d'Italia; monetary autonomy in any recognizable sense was not conferred in 1927 and would not be conferred by the reorganization of 1936 either. This is a further reason for treating supervision, rather than monetary management, as the distinctively Italian pathway to interwar central-bank modernity, and for describing the contribution of 1926 as the construction of the institution on which a monetary rule could subsequently be imposed. A full analysis of the December 1927 decree and of its consequences for the Bank's balance sheet lies beyond the scope of this article; its relation to 1926, however, cannot be left implicit.

19. V. Conclusions and Research Agenda

Taken together, the evidence presented in this article suggests that the Italian banking reforms of 1926 should be understood neither as the sudden creation of a modern central bank nor as a merely formal consolidation of changes already completed in practice. They instead marked a decisive but incomplete reordering of monetary, legal, and supervisory authority. The reform converted the Banca d'Italia's pre-existing functional predominance into an exclusive legal position by concentrating note issue and the management of interbank clearing in a single institution. Yet this apparently abrupt legal centralization rested on a much longer process through which the Bank had acquired a national network, a privileged relationship with the Treasury, a central position in settlement arrangements, and increasing responsibility for crisis intervention. The Italian case therefore confirms the importance of evolutionary accounts of central banking, while also revealing their limits: functional dominance could reduce the economic significance of the remaining issuing banks, but it could not extinguish rights that had been reaffirmed by legislation as recently as 1923. Legal monopoly required a distinct political decision, the reallocation of assets and liabilities, and transitional arrangements capable of preserving some of the functions and institutional standing of the Banco di Napoli and Banco di Sicilia. More generally, the reform demonstrates that functional ascendancy and formal exclusivity constitute analytically separate stages in the development of central banking.

The distinction between different forms of centralization also qualifies the conventional periodization of Italian central-bank modernization. Monetary and legal centralization occurred

rapidly, whereas informational centralization developed through a slower and gradual process of administrative construction. Informational centralization was uneven, with some sectors still outside the new arrangements and the largest mixed banks subject to lighter early scrutiny. Most importantly, the 1926 legislation did not resolve the structural bank–industry nexus or create a comprehensive specialization of credit institutions. The exposures that became critical after 1929 therefore survived the first supervisory reform. Nor did the legislation make the Banca d'Italia an independent public-law authority. Its modernity in 1926 was functional and sectoral, not constitutional in the later twentieth-century sense. The legislation of September and November 1926 provided the foundations of a prudential information system by introducing registration, reporting, authorization, and on-site inspection powers. Its practical effects, however, depended on the creation of specialized offices, the mobilization of the Banca d'Italia's branch network, the accumulation of administrative expertise, and the willingness of supervisory authorities to use the information they obtained. The approximately 3,230 on-site inspections conducted between 1927 and 1935 indicate that the new apparatus became operational, but their unequal distribution shows that statutory authority did not automatically produce uniform supervision. The reform thus increased the state's capacity to observe the banking system without eliminating the institutional, political, and financial constraints affecting how that capacity was exercised. In this respect, the contribution of 1926 was not the establishment of a fully coherent regulatory order, but the creation of an informational infrastructure that could support supervision and crisis management while remaining incomplete in both coverage and enforcement.

The reform must also be situated within the broader monetary transformation of 1926–27. By consolidating note liabilities and metallic reserves on the balance sheet of the Banca d'Italia, the 1926 measures created the institutional and accounting conditions on which the stabilization decree of December 1927 could establish a fixed gold parity and a statutory reserve ratio. The two reforms therefore formed a connected sequence, even though they did not confer autonomous monetary-policy authority on the Banca d'Italia. The first centralized the monetary balance sheet and made Italian circulation and reserves more readily intelligible to foreign creditors and central banks; the second imposed a monetary rule on that newly consolidated structure. This interpretation shifts attention away from a teleological account centered on the gradual emergence of an independent monetary authority.

At the same time, the institutional position of the Banca d'Italia introduces a tension that

cannot be resolved on the basis of the presently available evidence. The institution entrusted with system-wide supervisory responsibilities remained a joint-stock company, continued to undertake transactions with private counterparties, and may have held direct or inherited exposures to some of the banks whose condition it was expected to assess. The documented deferral of intensive scrutiny of the largest mixed banks is therefore compatible with several explanations. It may have reflected limited administrative capacity, concern that an inspection could undermine depositor confidence, the systemic importance and political connections of the institutions concerned, or the preference for confidential contacts between bank managers and senior political authorities. It is also possible that the Banca d'Italia's position as creditor, directly or through exposures inherited from the *Consorzio per sovvenzioni su valori industriali*, affected its incentives to reveal losses or impose corrective measures. The article does not establish that such exposures caused supervisory forbearance, just as the chronology of the external debt settlements and foreign credits does not by itself demonstrate that external pressure determined the timing of issue unification. These propositions should remain clearly identified as hypotheses rather than findings. Nevertheless, they identify a broader problem that deserves greater attention in the history of financial regulation: a supervisory institution's decisions may be shaped not only by its statutory powers and political independence, but also by its own balance sheet, ownership structure, market relationships, and exposure to the consequences of bank failure.

Future research could therefore proceed along several complementary lines. First, direct and symmetrical examination of the records of the Banco di Napoli and Banco di Sicilia is necessary to reconstruct the negotiations surrounding the termination of their issuing rights, identify the concessions or compensatory arrangements granted to each institution, and measure the consequences for their reserves, profitability, deposit-gathering capacity, territorial networks, and public functions. Such work would establish whether "managed legal centralization" accurately describes a differentiated process of institutional accommodation or merely imposes coherence on distinct episodes reconstructed from uneven sources.

Second, the hypothesis concerning the external origins of the reform's timing should be tested through the combined examination of Italian governmental records and the archives of the foreign institutions involved in the war-debt settlements, and the subsequent stabilization program. Correspondence among the Treasury, the Banca d'Italia, foreign governments, private banks, the Bank of England, and the Federal Reserve Bank of New York could reveal

whether issue unification was explicitly requested, informally encouraged, treated as a prerequisite for financial support, or simply regarded by Italian policymakers as a means of increasing the credibility of stabilization.

A third and particularly important research agenda concerns the relationship between legacy exposures and supervisory treatment. This requires the construction of a bank-level dataset combining the Banca d'Italia's direct claims, securities holdings, discounts, and inherited *Consorzio* exposures with evidence on the timing, duration, findings, and consequences of on-site inspections. These data should be linked to authorization decisions, sanctions, mergers, closures, emergency assistance, and other forms of intervention, while controlling for bank size, legal category, branch network, portfolio composition, geographical location, political connections, and systemic importance. Comparisons between similar institutions with different degrees of exposure to the Banca d'Italia could help determine whether creditor relationships were associated with delayed inspections, less intrusive enforcement, or greater recourse to confidential rescue. Detailed case studies would remain indispensable, however, because quantitative associations alone could not distinguish creditor self-interest from legitimate concerns about contagion or the destabilizing effects of public intervention.

Finally, extending the analysis beyond 1926 would make it possible to assess whether the public-law reorganization of 1936 altered supervisory incentives as well as formal ownership and institutional status. A comparison of supervisory practices before and after the reform could test whether reducing the Bank's commercial relationships changed the distribution and intensity of inspections, the use of sanctions, or the handling of distressed institutions. Comparative research on other interwar European countries could likewise establish whether the Italian sequence—functional predominance, legal monopoly, gradual informational centralization, and later public-law reorganization—was exceptional or represented one variant of a broader pattern. Pursued together, these lines of inquiry would contribute to a more general history of central banking in which modernization is understood as an uneven process involving not only monetary functions and legal mandates, but also information, administrative capacity, institutional incentives, and the conflicts generated when a central bank simultaneously acts as supervisor, creditor, crisis manager, and participant in the financial system.

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