

The (Pre)History of Central Bank Independence

Stefano Ugolini



Nicolai Rygg Panel Debate on Central Bank Independence
Norges Bank – 8 April 2021

PALGRAVE STUDIES IN ECONOMIC HISTORY



THE EVOLUTION
OF CENTRAL BANKING:
THEORY AND HISTORY

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An Eternal Trade-Off

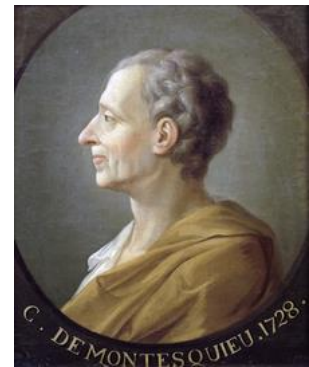
“The credit of our banks has been maintained, then, because the Court has behaved almost as though it were not even aware of their existence. Their management is in the hands of the most honest individuals who, in properly regarding the care of the public welfare as a pious and devout work, have demonstrated a total and, I should say, almost miraculous disinterest. Money deposited in them is kept religiously. And although the resulting immobility is harmful, failure of the banks would be even more harmful.”

Ferdinando Galiani, *On Money* (1751), IV.4



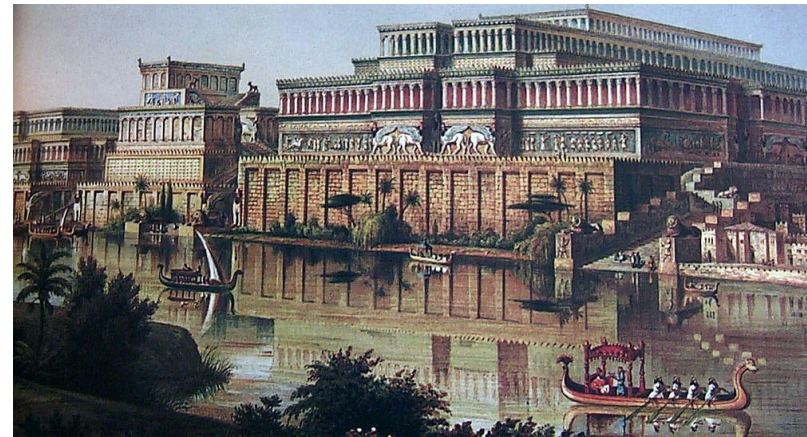
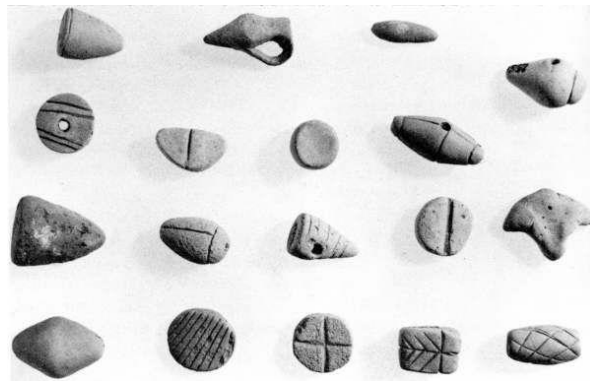
The “Separation of Powers” Principle

- **Should the fiscal authority and the monetary authority be strictly separated?**
- A perennial question of constitutional nature (explicitly dealt with also by Montesquieu’s *The Spirit of the Laws*)...
- ...but **no universal solution**



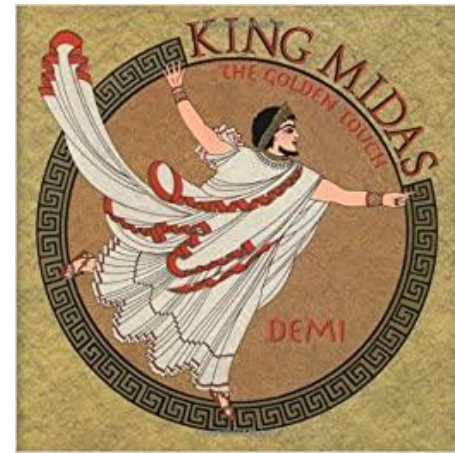
Money before Coins

- In early centralized civilizations (**Mesopotamia, Egypt**), central organizations (“*palaces*”) also took up economic functions (warehousing, banking)
 - **No separation of powers:** interests were aligned between *money holders* (the landed aristocracy) and *money issuers* (aristocratic governments)



Money as Specie

- *Full-bodied coins* were invented in a highly fragmented political framework (the **Aegean area**) as a tool to remunerate mercenary troops
- The **Romans** appropriated the invention, spread it westwards, and put at the core of their legal system the notion that money *is* specie



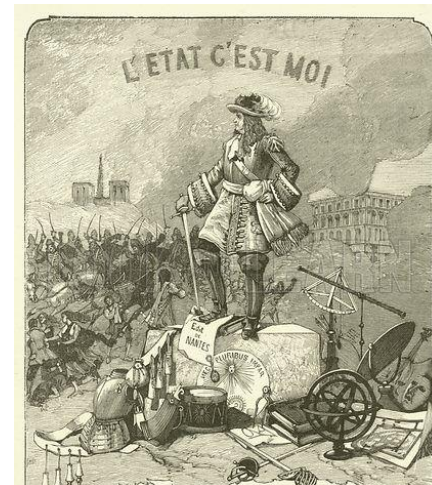
Money in Merchant Republics

- Issuance of “inside money” resumed in medieval and early modern merchant republics (**Venice, Amsterdam, Hamburg...**), where the first *public banks* were created as a division of government
 - **No separation of powers:** interests were aligned between *money holders* (merchants) and *money issuers* (bourgeois governments)



Money in Territorial Monarchies

- **Territorial monarchies** had to find different solutions in order to establish well-functioning mechanisms of “inside money” creation
 - **Separation of powers:** interests were not necessarily aligned between *money holders* (merchants) and *money issuers* (absolutist governments)



Money in Territorial Monarchies

- **Solutions:** externalization of money creation to:
 - *Charities (Kingdom of Naples)*
 - *Parliament (Sweden)*
 - *A municipal government (Austria)*
 - *A joint-stock company (England)*
- **The exception (proving the rule): John Law's bank in France**



Sum-Up: A Dynamic Relationship

- The question of the relationship between the monetary authority and the fiscal authority is a **perennial constitutional issue**
- Many different solutions have been designed over the centuries... each of which has evolved according to the evolution of political
- A dynamic relationship... **no perfect solution set in stone**

Sum-Up: A Dynamic Relationship



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