Controlling the exchange rate during WWI:
Liberalism versus State Intervention in the Italian case

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Abstract

The First World War, as it is well known, provided significant systemic changes and instability in the economies of the countries involved, like the exit from the gold standard system. In Italy, the growing deficit in the balance of payments, added to intense financial speculation, affected the level of exchange rate, especially after the battle of Caporetto (October 1917), where the Italian Army suffered major losses in terms of prisoners taken and equipment lost.

Urgent measures had to be taken in order to face this situation. So, the government and specifically Francesco Saverio Nitti – as Minister of Treasury – decided to found the so-called INCE (*Istituto nazionale per i cambi con l'estero*), the institution that managed the Italian exchange rate from 1918 up to 1943.

The fall of the lira occurred during WWI generated a strong and relevant debate, that involved both policy makers and the most important Italian economists, such as Riccardo Bachi, Luigi Einaudi, Maffeo Pantaleoni, and Vilfredo Pareto. This paper – that is a part of a Ph.D thesis that tries to reconstruct the history and the role played by INCE – deals with it. Firstly, it focuses on the coeval explanations concerning the Italian currency's depreciation. Secondly, it analyzes the broader debate between liberalism versus governmental intervention about the currency policy, with special reference to INCE's foundation. What emerges is a substantial difference in understanding the role of the State and the one of the market, even in a such peculiar context like the one of WWI.

The research is being carried out mainly on primary sources – coming above all from the Italian Central State Archive in Rome – and from the historical archives of the Bank of Italy –, and on selected coeval economic literature.

The idea behind the article is that the study of economic thought is strictly linked to the study of economic events. Facts, theories, policies are so interdependent factors that investigating their complex relationship could be very useful both in Economics and in Economic History.

Keywords: Currency policy, First World War, Italy, Italian economic thought, Economic history.