

Transcription of the interview with Ignazio Visco (Rome, 16 October 2012)

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I. Tommaso Padoa-Schioppa's work at the Bank of Italy and his economic vision

[**Renaud Dehousse**] Mr Visco, thank you very much for allowing us to come at such a busy time. I would like to start by asking you to describe what kind of a person Tommaso Padoa-Schioppa was, working in an institution that you know well and where you have been at home for many years, the Bank of Italy. If I'm not mistaken, when you arrived at the Bank, he had already been Director-General of Research for a number of years.

[**Ignazio Visco**] No!

[**Renaud Dehousse**] Oh?

[**Ignazio Visco**] I came to the Bank from the United States in 1974, and Tommaso Padoa-Schioppa was Head of the Money Market Division within the Research Department. So he hadn't even reached the grade of head of office at that stage. There are still a good many grades above head of office; Director-General comes after that. But his views were already held in very high esteem by the Governor of the time, Guido Carli, and the Director-General, who was Paolo Baffi. And he had a remarkable gift for leadership, not just towards his colleagues, people who worked with him, but also towards people who weren't so close. He was a very practical person and also someone with a great ability to see the big picture, which was informed by his whole background — a European federalist background — but he was also someone who respected institutions. But in actual fact, even though he respected institutions, he was not a slave to them, or wedded to the status quo. On the contrary, he was inspired by a considerable reformist spirit, even though at the time, to youngsters like us, he somehow seemed like someone whose ideas were pretty firmly for preserving how things were. He was always critical of the events of 1968, for example, as being a period in which human and indeed intellectual resources were perhaps wasted a bit. But he was someone who paid a lot of attention to institutions, and in fact if I might mention an expression which wasn't his, in fact, it was from a Swiss philosopher called Amiel, if I remember correctly, who said: 'Experience is formed by individuals, but only institutions can transform this experience into wisdom, transmitting it and preserving it,' and I think this was his objective. He had so many initiatives going on. He took the initiative in so many fields, and I think he tried — through the work of his team — to bring to a conclusion most of these, while appreciating that there might be delays and resistance, but always trying to plant a seed for the next initiative.

[**Renaud Dehousse**] Can you perhaps tell us something about the economist ...

[**Ignazio Visco**] Yes.

[**Renaud Dehousse**] ... because he was trained at such a rigorous school, that is to say under Modigliani. How was he viewed in the environment of the Bank of Italy?

[**Ignazio Visco**] Right, well, you have to remember that the Research Department of the Bank of Italy

— even today — is a very important centre for economic analysis and research. At that time, Italy was in an unstable position: there was financial instability, currency instability, and many restrictions. He wrote, with Modigliani, those works on the 100 % plus indexed economy. And so he was a major — how can I put it — protagonist in economic policy at the time, what today we would call supply-side economics. Removing the conditions that resulted in delay, instability, inflation, that were applied from the labour market side, the side which can apply constraints — including, for example, the constraints created by a higher exchange rate than was probably needed for balance, in order to drive the search for productivity elements. On this point — at that time, I need hardly say, the legacy of Keynesian thought was still very dominant — so on this point, attention had to be paid to the demand side, which he did not dispute, since Modigliani, who had after all been his teacher, was also part of that school of thought. And clearly this school of thought has a strong tradition within the Bank of Italy; but he was trying to add this supply-side aspect. At that time, these studies were regarded as being, shall we say, something of a resistance to a trades-union movement that saw the wage as an independent variable, and other such rallying cries. But in fact, I think that these studies were important in showing clearly the limit or the constraints that an economy indexed in that way represented if Italy were to extricate itself from that period of instability. And we have to say as well that there were very difficult times at social level, at political level — there was terrorism. And what he felt most profoundly called on to develop was the work that related to the proper management of, well, monetary operations. You can't really talk of monetary policy in those days ...

[Renaud Dehousse] That's right.

[Ignazio Visco] ... because it was a time of major administrative intervention. There were the compulsory bank portfolios, there were the direct credit controls, there were controls on capital increases, there were the Treasury auctions, which saw the central bank as the residual buyer of whatever had not been sold on the market. And what Padoa-Schioppa did, which I think he describes pretty well in his article in the collection in honour of Modigliani, which was written sometime in the mid-1980s, I think, where he quoted the words of another Nobel Prize winner, James Tobin: 'One way to alter the economy, to have an impact on the economy, is to change the rule of economic policy or monetary policy, and to change the economic structure.' I believe his contribution was fundamental in the attempt to give this country the financial and monetary infrastructure to allow the efforts of monetary policy to be converted from a policy based on administration to that of indirect controls and open market operations, by introducing to our country a range of innovations. These included the way in which public debt auctions were run, thus enabling the Bank of Italy to shift interest rates by taking part in them; making the Bank of Italy independent of the Treasury through their 'divorce'; no longer being the residual buyer of unsold Treasury bonds; creating a system of financial instruments by supplying not only short-term Treasury bonds but longer-term instruments — multi-year government bonds, Treasury credit certificates; creating real infrastructure such as the electronic trading of government bonds, which exists to this day; the MTS, or the electronic market for interbank deposits; the e-Mid interbank market; futures markets; options on government bonds, all of which were established during that period. So this made a fundamental contribution. When we went through the crisis of 1992 and 1993, which was an extremely difficult crisis both financially and for currency, with significant devaluation — depreciation of the lira — we were really afraid that we would not be able to keep a lid on inflation. And monetary policy succeeded in going forward, benefiting to an extraordinary extent from all the financial and monetary infrastructure that Italy had in place. I think this was what Tommaso Padoa-Schioppa saw first of all. That's how it was with monetary policy, but he used to say: 'Monetary policy does not just mean creating money or aiming to keep prices stable; it is also about allowing the efficient circulation of money, such as speeding up monetary transactions through the system of payments.' So his work was really fundamental, both for Italy and for Europe.

[Renaud Dehousse] And this drive towards — shall we say — reform, which basically consisted in putting on the pressure for European integration, almost forcing the country to accept reforms — didn't that, well, meet with resistance inside the bank?

[Ignazio Visco] Of course it did ... I think we have to emphasise two things. First: Padoa-Schioppa

truly believed in Europe. Europe wasn't just ...

[**Renaud Dehousse**] ... a means ...

[**Ignazio Visco**] ... a means of forcing Italy to make changes. Second: he was also convinced that Italy had enormous potential, which it had amply demonstrated ever since the war and right up until we started our work. I think he joined the bank at the end of the 1960s, and I got there four or five years later. During that period, our country's crisis began to take off — a crisis, on the one hand, of development and, on the other, sadly, of the reverse — of a retreat which was perhaps political and perhaps also idealistic after the disappearance of the great motivation that had pushed forward the advance in order to escape from what we had inherited, which was really extremely difficult. And in forcing the country to adapt, to adjust, he definitely saw the importance of constraint: currency restrictions, as I said before, the constraints of inflexibility, the stresses in the national budget. Words were certainly exchanged on this topic; there were numerous occasions when I myself was involved in discussions on this. It was not clear that forcing a country to live with an overvalued currency — whether the country would succeed in making the effort or companies would succeed in making the investments needed to increase productivity and reduce costs and, by agreeing to this, improve competitiveness: well, it was an incentive, it was a constraint, but that wasn't all that was needed. There was no certainty that, if the currency and the national budget were independent of one another, the national budget would suddenly be kept to, and in fact that didn't happen. The curbing of inflation, which was also linked to a stronger currency, saw no corresponding reduction in the national deficit, because the inflation rate was not replaced by a revolution in spending or an increase in other taxes, so our debts went through the roof. So there was a lot of discussion about that. However, I think he really believed that paying attention to compatibility between relative magnitudes, to avoiding imbalances, to bringing about innovation by respecting the constraints on balance and costs, and ultimately through the market, through private initiative, would give results. In later years, he paid more attention to what we might call the failures of the market. In maturity, perhaps, he paid a great deal of attention to the failures of the state. He always saw these two things as two points at which the road was, so to speak, beset with a certain amount of difficulty, but it is fairly clear that, at the last, he saw how, despite all his initiatives regarding regulation — including bank regulation — despite the attention he paid to the payments policy, in fact the private system had not practised self-regulation and was rather unstable. And yet how monetary stability — something we had always believed here — which was a small thing in itself compared with the need to pursue financial stability, which did not follow automatically from the actions of all the economic players constrained by a system of rules and well-defined solutions, since in many cases the rules are important but actions are even more important. On this point, he played some part in terms of supervision, and in terms of ... because he was at Basel, he was Chairman of the Basel Committee, he gave a lot of thought to defining the various ways of covering the risks to which the credit institutions were exposed: credit risks, market risks, operational risks. And so to establishing a system, so to speak, to tackle instability, possible instability or possible 'failures', in inverted commas, of the private financial institutions. Towards the end, I think that he saw with great clarity the need to criticise the short-term view, he used to say ...

[**Renaud Dehousse**] That's right.

[**Ignazio Visco**] ... of those operating on the markets but, at the same time, defining the rules of the institutions so as not to be caught out by the regulators.

II. Tommaso Padoa-Schioppa and his European vision

[**Renaud Dehousse**] Yes, indeed, since he applied this thrust — if I may call it that — towards modernisation, towards institutionalisation and drawing up payment mechanisms not just at national level but equally at European level, where it is said he was a major architect of, for example, the

relaunch of deliberations about economic services by the European Commission, and with that great openness — or great attention — towards supply-side policy and its central role in the Delors Committee, with its final reflections on the need to set up banking regulation at European level. So there was great continuity, remarkable continuity. And if I may add a point, what strikes me is that there are not that many Italians of whom we can say they made an outstanding impact on the course of events at European level. But he is one.

[**Ignazio Visco**] Yes, I think that's true. I think it was his view later on — but he had already seen by the end of the 1990s — that the journey being taken by the European Union was not yet complete. It's clear that Tommaso Padoa-Schioppa came from a very European tradition. There was Trieste before the end of the war, so even though he was very young he had lived through that tragedy of conflict. So he grew up in what I might call a federalist atmosphere, where there was the aim of establishing a Europe united against conflict and for peace. Quite clearly, he would have seen the award of the Nobel Prize as very, very positive, but clearly he saw that this journey was a complex one that did not move in a straight line. Monetary union was just a small part of it. If we look at the acronym for monetary union, there is an E in there too: it's the EMU. People might think that this E stands for Europe, but it's E for economic, economic comes before monetary. But the monetary side was part of it, and then there was the component represented by the single European market, the internal market. He made an enormous contribution to both these aspects, but even when the European Union was created and there was monetary union, he said: it's not enough, it's not complete yet. There has always been, he used to say, a conflict in Europe between the economic and the political, between technocracy and ideology, a unity which is both social and political, between confederalism and federalism, the functionalism of Monnet and the constitutionalism of Spinelli. Basically, there were different starting points which were fundamental to European politics. His, and I truly believe this, was a vision focused on improving the state, the land he was born in, improving the functioning of the institutions and then the economics and politics of the land he wanted to live in: that of Europe.

III. Tommaso Padoa-Schioppa and his work at the Italian Ministry of the Economy and Finance

[**Renaud Dehousse**] In the meantime, he had also made a daring choice, if I might put it like that, by accepting Romano Prodi's invitation to enter politics, because while there had indeed already been eminent ministers chosen from the Bank of Italy — one thinks of course of Ciampi — that was in the context of a so-called technocrat government, whereas the choice of Padoa-Schioppa was in the complex context of a clear split between the majority and the opposition — and an extremely slender majority, at that. Within the bank, how was his choice seen, given that it was quite a leap, and he himself said that it was a completely new departure for him?

[**Ignazio Visco**] I should mention that I talked to Tommaso a lot during the months before he accepted the job, and also because — and he talked with many others besides me — he was trying to get as detailed a picture as possible of the situation and what was actually the case, but at the same time, while he was putting together this picture, he was trying to bring his knowledge up to date after a long period of doing something different: he had been dealing with European currency, international questions, international finance in the context of his responsibilities in European banking. During that time, he really tried to bring his knowledge up to date and to gain a better understanding of the country's needs, but he also wanted to come up to the demands implied by Prodi's invitation to be involved. And I think that some months passed before he took that decision. When he took it, he still hadn't taken it, and the elections had still not been held — it seemed the Prodi coalition would have a bigger margin than it actually had in the end, and so there would be more stability for the government to put into effect the policies for recovery — since that was the objective, at a time when the global economy still seemed to be developing stably and steadily, with major advances from the developing nations and the US economy also strong. And he certainly talked to many of us about that. At that

stage, the Bank of Italy saw him as — how can I put it — as someone from the institutions who had gone into politics. And yet ... But the same thing is true of this government. I don't believe in technocrat governments per se: in reality, when all is said and done, any government is a political government. That government, and he had a clear political dimension within that government, talked about politics. But not being elected — the difference is between being elected and not being elected. In a system like ours, in practice parliament is made up of individuals elected by the people who then take a vote of confidence in who should and will take decisions at executive level. It is not unheard-of in this kind of set-up, even if we find it pretty unusual, since in reality the ministers of most governments that we have had in Italy are ministers who have been voted for by the electorate, and he hadn't been elected and was very conscious of the fact. But one thing that Tommaso always emphasised was that 'The political comes first, then the technical.' That's the thing, and this belief really marked him in youth, and he continued to apply it in his mature years as well.

IV. The personality of Tommaso Padoa-Schioppa

[**Renaud Dehousse**] So your, what shall I say, judgment of him as a person is that he was someone with a vision, or very clear political views, who had naturally mastered technical challenges, and not that he was a technical wizard who was called into politics a bit by chance?

[**Ignazio Visco**] On the contrary, I must say that Tommaso Padoa-Schioppa was not an academic. One may have — and in fact there were — clashes with the academic world. He had a gift, and that was to apply economics, economic theory, to create economic policy, to review the institutions, but he also had, on top of that he was a person with the gift of irony, I would say with the gift of bit of cunning, and he was very clear-headed in his dealings with the academic world. When the academics trotted out simplistic or superficial views, or rather when they didn't apply their knowledge, the knowledge developed in research or analysis to make a contribution, a practical contribution — a contribution which might be used for the common good. Well, in the end, everyone has their good points and their bad points. Padoa-Schioppa had the remarkable quality of being able to motivate people, to press them to put their all into projects, but at the same time he was very critical, very attentive to detail. And as a person he was indefatigable. He may have seemed a bit inflexible behind all this, because of course he never lost his focus — but in fact he was more beset with doubts than people thought. Perhaps he didn't like to let on to doubt for fear of making it more difficult to attain his objective.

[**Renaud Dehousse**] And one last question: you mentioned his irony. Perhaps you have in mind an example — a particular instance?

[**Ignazio Visco**] Well, first of all, one quality that he had was to give his friends and colleagues suggestions for reading, music and sometimes the actual CD or book. So, let's see, favourite books: Monnet, Spinelli, these were the classic examples. But as well as these, he always kept a small volume that I often borrowed, and that I think he frequently gave to people. It's a book by an Italian author by the name of Achille Campanile, called *Manuale di conversazione* — 'conversation handbook' in English. It's an interesting title, but it's a sharply ironic satire on platitudes. And I think that on this point he was really ... he was questioning his own use of platitude and how to get past it. And I think he did have a gift in that respect. At the same time, I saw that when he tried to be a bit ironic in a public forum, he didn't succeed. He said that taxes were a wonderful thing, but he was trying to say many other things: that with state revenue, the state succeeds in meeting the public needs of everyone — providing public education, public health, building roads. So he was trying to say that it was a good thing to contribute to the community. That was how he got over his point. But when another expression — when he said in fact that at some point young men had to leave home, he used the word 'bamboccioni', a word which has now become a term ... a term also used in other ways, 'big babies', by which he effectively meant, 'Look, what you have to rebel against is your own

selves.' But instead it came over as a connotation of a lifestyle choice, as you might say, whereas in fact it was an awareness that there was an injustice towards young people which older people would never put right: they had to do it themselves. So where communication was concerned, he was a great communicator to educated people, to politicians, to those who have to take decisions; he wasn't so skilful in mass communication. With his colleagues and friends, he always had a thoughtful answer, and often an answer derived from those somewhat out-of-the-way books that economists are not always known for reading.

[**Renaud Dehousse**] Well, all that remains is for me to thank you for this conversation and for giving us your time.

[**Ignazio Visco**] Okay.

[**Renaud Dehousse**] Thank you.

[**Ignazio Visco**] Thank you very much.