

The exchange-control regime

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The second Italian constraint was exchange control. The fascist regime had established a comprehensive control of foreign exchange in the 1930s, and Chapter D.I describes how Italian money nevertheless reached Lugano at a discount, with banks in Lugano paying about twenty francs for a hundred lire in September 1935 against an official rate of twenty-five.¹ The Republic kept the principle of control and transferred the administration of foreign exchange to the Ufficio Italiano dei Cambi (UIC), created in 1945 as an instrumental body of the Banca d'Italia, which took over the functions of the fascist Istituto nazionale per i cambi con l'estero.² Every resident who held foreign currency, foreign securities or assets abroad had to declare them, and every transfer of capital abroad required authorization.

The regime was relaxed in stages as Italy integrated into the European economy. Berbenni describes how the rules adopted in 1955 and 1956 allowed a closer integration of the Italian banking system into international markets, how the European Monetary Agreement of December 1958 restored the external convertibility of the lira for nonresidents, and how a change in 1961 allowed transfers from a *conto capitale* to a *conto estero*.³ The distinction is technical but decisive. A *conto estero* in lire held by a nonresident could be freely converted into foreign currency. A *conto capitale* held the proceeds of investments made in Italy by non-residents and was subject to transfer restrictions. Once lire could move from the second category to the first, a foreign bank holding lire for clients could convert them into francs without asking where they came from. Berbenni concludes that this opened a systematic channel for evasion of the exchange controls.⁴

For residents, the export of capital without authorization remained prohibited throughout the period. Until 1976, however, the violation was punished by the administrative sanctions of the currency rules, chiefly fines, and the criminal offences introduced in that year left administrative

sanctions in place for minor cases.⁵ The criminal law did not apply to the simple export of banknotes or securities. Prosecution was rare and detection at the border depended on chance. A courier who was caught lost his load and paid a fine. For the owner of the capital, who remained invisible behind the courier, the risk was small.

1 Lira crises and the two-tier market

The lira itself became a reason for flight in the 1960s and 1970s. A first crisis of the balance of payments in 1963 and 1964 coincided with the political shift to the centreleft and with a peak of capital exports.⁶ After the collapse of the Bretton Woods system in 1971, Italy introduced in January 1973 a two-tier foreign exchange market with a separate rate for financial transactions, the *lira finanziaria*, which traded at a discount to the commercial rate. Allowed to float in February 1973, the lira lost value steadily against the Swiss franc during the following years.⁷ In January 1976 the official foreign exchange market was suspended for several weeks after the Banca d'Italia had exhausted much of its reserves.⁸ Between the beginning of the 1960s and the end of the 1970s the Swiss franc gained several times its value against the lira, so that an Italian who had exchanged lire for francs in 1960 had multiplied his purchasing power at home by the end of the period. The currency argument and the tax argument pointed in the same direction. Common misconception. Italian flight capital in Lugano is often equated with tax evasion alone. The motives were mixed. Fear of a Communist government, of nationalization, of kidnapping and of the devaluation of the lira weighed as heavily for many families as the wish to avoid income tax. The Banca d'Italia's branch in Como described the outflows of the early 1960s as driven by "fear of the tax office" and by political uncertainty together. The legal character of the money was also mixed. Under Italian law the export of capital without authorization was an administrative offence until 1976, while the evasion of income tax was a separate matter. Swiss law treated neither as relevant to the acceptance of a deposit, which is why the question of tax evasion only became a Swiss legal problem decades later (Chapter E.II).

2 Notes

1. Berbenni (as above), 327 (banks of Lugano paying "circa 20 franchi per 100 lire" against the official rate of 25 francs in September 1935). ↩
2. Legislative Decree of the Lieutenant of 17 May 1945, no. 331; see Banca d'Italia, "La seconda guerra mondiale e la stabilità monetaria postbellica", <https://www.bancaditalia.it/chi-siamo/storia/seconda->

guerra-mondiale/index.html ("Venne creato l'Ufficio Italiano dei Cambi per la gestione delle transazioni valutarie"), and, as a last resort for the decree number, the predecessor institute and the status as ente strumentale of the Banca d'Italia, Wikipedia (Italian), "Ufficio italiano dei cambi", https://it.wikipedia.org/wiki/Ufficio_italiano_dei_cambi. ↩

3. Berbenni (as above), 334–335 (norms of 1955–1956; European Monetary Agreement 1958 and external convertibility for non-residents; transfers from "conto capitale" to "conto estero" from 1961). ↩
4. Berbenni (as above), 335. ↩
5. Corte costituzionale, ordinance no. 124 of 1987, ECLI:IT:COST:1987:124, <https://www.cortecostituzionale.it/scheda-pronuncia/1987/124>, and judgment no. 236 of 13 July 1984, <https://www.cortecostituzionale.it/stampa-pdf-pronuncia/1984/236>, both of which describe the criminal offences introduced in 1976 and the administrative sanctions that remained for minor violations. Judgment no. 236 of 1984 refers to the "sanzioni amministrative previste dalle norme valutarie e fiscali vigenti al momento del fatto". ↩
6. Berbenni (as above), 335 (capital exports estimated at 2.5 per cent of GDP in 1963). On the balance of payments crisis of 1963–1964 see Ginsborg (as above), chapter 8. ↩
7. On the two-tier market introduced on 22 January 1973 and the floating of the lira from 13 February 1973 see Banca d'Italia, Relazione annuale for 1973. ↩
8. The official foreign exchange market was closed from 21 January to 1 March 1976; Banca d'Italia, Relazione annuale for 1975 and 1976. The currency crisis of 1976 and the tightening of exchange controls are confirmed by Banca d'Italia, "Dagli anni Cinquanta a Maastricht" (as above). ↩

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