

The Management Requirements That Inspired the European Investment Bank, 1957-1958

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ABSTRACT

Given the tasks entrusted to it from the outset, the European Investment Bank is highly particular with respect to other credit institutions. This study aims to augment our knowledge of the origins, the historical development, and the economic perspectives of this newly established institution, repeatedly invoked but still not used to the full. The article exploits archival sources, and in particular a written note by Pasquale Saraceno, to recall and analyse the birth of the EIB, so as to appreciate how it has changed and adapted over the years in order to contribute concretely to resolving the problems of SMEs and reducing disparities within the European Union.

Introduction

The European Investment Bank is a most particular institution compared with other credit institutions because of the tasks assigned to it from its very beginnings.¹

¹ E. Bussière, Michel Dumoulin and È. Willaert (eds.), *The Bank of the European Union. The EIB, 1958-2008*, EIB, Luxembourg, 2008; S.H. Lewenhak, *The role of the European Investment Bank*, Croom Helm, London, 1982; D. White, *25 anni: 1958-1983*, "Divisione Informazioni/Relazioni pubbliche", Banca europea per gli investimenti, Luxembourg, 1983; G. Sertoli, *La Banca Europea per gli Investimenti*, Bancaria Editrice, Rome, 1957; F. Mosconi, *La Banca Europea per gli Investimenti (la natura giuridica)*, Cedam, Padua, 1976; Banca Europea per gli Investimenti, *La Banca Europea per gli Investimenti ed i problemi del Mezzogiorno*, Banca europea per gli investimenti, Luxembourg September 1972; *Modalità di finanziamento nel quadro della seconda convenzione di Lomè*, European Investment Bank, Luxembourg, May 1980.

The world economic system, and particularly the European Union, is now going through a difficult period economically and financially. The causes are multiple, and never has economic history been as important as today, as Schumpeter emphasized: it is not only a valuable exercise of curiosity and erudition about the past but a necessary part of economic analysis and economic governance in the present and for the future. Thus it is interesting to review the construction of the European single market, including one of the first financial instruments created by the European Economic Community, namely the European Investment Bank.

This work aims to contribute to our knowledge of the origins, the historical development, and the economic perspectives of the EIB, a European institution that has been invoked repeatedly but not exploited to the full. The article exploits archival sources, and in particular a written note by Pasquale Saraceno, to recall and analyse the birth of the EIB, so as to appreciate how it has changed and adapted over the years in order to contribute concretely to resolving the problems of SMEs and reducing the disparities within the European Union.

The rest of the article is outlined as follows. Section 1: The EIB as an EU financial institution; Section 2: The particular characteristics of the EIB; Section 3: A better understanding of the facts: the sources; Section 4: Pasquale Saraceno and the management requirements for the EIB in its early years; and the Conclusions.

1. The EIB as an EU financial institution

As Pasquale Saraceno² pointed out in a note to Donato

² Saraceno was a close associate of the Governor of the Bank of Italy, Donato Menichella. He had collaborated with the Institute for Industrial Reconstruction, IRI, from its founding in 1933. He was president of the Association for Industrial Development in Southern Italy (SVIMEZ). He was part of the Paris Peace Conference. He served as adviser to the EIB from 1958 to 1963 and chaired the Committee on Employment and Income established under the Italian Prime Minister's Office in 1957, for studies related to the Vanoni Plan and the Committee for National Economic Planning, where he worked in 1962-1964.

Menichella³, then Governor of the Bank of Italy, the six founding members of the European Economic Community wanted to create an institution whose mission was capital investment in projects for economic development in the less-developed regions or for corporate modernization and restructuring, as we shall see below in more detail: the capital was to be raised on the financial markets through bond issues.⁴

Investment is the component that enables a system to adapt to changes in the magnitude and composition of demand. Investing means converting shares of means of subsistence into shares of means of production. The act of investment requires a source of finance and therefore an act of saving. The income that flows into productive factors – whether it is the income of an employee or a self-employed person, or income paid by firms – is intended first of all for consumption. Macroeconomically speaking, however, not all income is used: the unused part, by definition, is saved. Savings do not remain inactive but rather are invested: individually by the single wage earner (an employee saves part of his income in order to invest, say, in purchasing a car) or collectively in financial institutions, in the sense that savings not directly invested flow into financial institutions such as banks, which use them in various ways.

Investment makes a greater amount of physical capital available to the system, which in turn provides physical means of production or human capital in the form of greater technical knowledge and higher levels of education, or both together. In any case, investment increases the productivity of labour because it increases the capital stock per individual labour unit. An increase in productivity increases the total income produced and at the same time, within pro-

³ Donato Menichella, Governor from 1948 to 1960 (for further study of his works and his political action see Menichella, D., *Scritti e discorsi, 1933-1966*, selected speeches and writings from 1933 to 1966, Rome, 1986.

⁴ Historical Archives of the Bank of Italy, Segreteria particolare, Fondo 11, serie 1, n. 283, f. 4, sf. 5, Letter (31.10.1958) from Saraceno to the Governor of the Bank of Italy, Donato Menichella, on “Critères pouvant inspirée la banque européenne d’investissement dans la phase initiale de son activité”, p. 2.

duction, alters the relationships between the holders of productive factors; as Carlo Cipolla observed, “it is people who make capital.”⁵ Generally speaking, when there is a change in the social relations of production, the primary distribution of total output also changes. Increases in the stock of capital and in the productivity of labour modify the relative weights of the capital and the labour factor in distribution relations.

According to its Statute, the EIB’s finance is restricted to investment projects to be carried out in European Union member states, for those states’ interventions in the Mediterranean and the countries of Africa, the Caribbean and the Pacific, as well as for projects of common interest in Latin America and in Asia, as provided for by associations for durable development in these countries.⁶ The EIB’s activity has always been instrumental to the prospect of European economic integration, for which the Bank was originally created. This is not the place to analyse the upheavals and the historical and economic factors that shaped the concept of Europe and the nature of its integration or the national interests of member states that hovered between hegemonic temptations and “a doctrine of European equilibrium based on maintaining an equal balance of powers between the various states”;⁷ however, it is important that the reasons for a European Union were dictated by economic functionalism, or the necessity to proceed first with gradual integration of the economies and only afterwards to achieve political union since, in the short term, an economic union would have more chance of being successful than a political or military union.⁸ Integration obviously

⁵ C.M. Cipolla, *Uomini, tecniche, economie*, il Mulino, Bologna, 2013.

⁶ EIB, ALA,27/01/1970, Les Etats D’Amerique Latine bref aperçu de la situation économique et de la capacité d’endettement (reperage sommaire des principaux indicateurs);

⁷ M.G. Melchionni, *Europa unita sogno dei saggi*, Marsilio, Venice, 2002, pp. 26-38.

⁸ M. Dumoulin, “Introduction. The EIB. A key player in the European Project”, in *The Bank*, cit., pp. 24-36; F. Fauri, *L’integrazione economica europea 1947-2006*, il Mulino, Bologna, 2006; K.G. Persson and P. Sharp, *An Economic History of Europe. Knowledge, Institutions and Growth, 600 to the present*, second edition, Cambridge University Press, United Kingdom, 2015; M. Artis, F. Nixon (eds.), *The economics of European Union, Policy and analysis*, Cambridge University Press, United Kingdom, 2001.

concerns all aspects of community life and varies with them. Increasing the degree of integration in all sectors is an essential task for every community.⁹

It should be made clear, however, that the function of “community financing” is wide-ranging and includes a large variety of activities, with transfers of funds both for structural development programmes (Structural Funds) and for joint actions or intervention programmes for specific, sectoral purposes (joint actions, community initiative programmes and other funding programmes). The financing of joint actions and community initiative programmes is part of the concept of public subsidy, which is distinct from public procurement; the community financing framework is completed by interventions connected with the Common Agricultural Policy, the loans of the European Bank for Reconstruction and Development (1990) and the European Investment Fund. A common feature of all these financial instruments is that they can all be attributed to a Community rule, namely to a principle of the basic European Union Treaties. They are designed to serve a Community interest that goes beyond the mere interests of the beneficiary; for this reason, these instruments qualify as public funding, since they are founded on the determination of a public body to make money available to other parties, both public and private, for promotion and investment. It should be specified that although they have elements in common, these types of funding do not belong to a single economic policy plan but rather to separate policies, such as those for agriculture or for economic and social cohesion, introduced into the EC Treaty by the Single European Act, which came into force on 1 July 1987, in the fifth paragraph dedicated to this subject.

This was essential given that the experience gained following the entry into force of the Treaty of Rome had made it clear that economic integration was unable to resolve regional disparities and might even exacerbate them: a fiercely competitive market requiring

⁹ M.G. Melchionni, *Quale domani per questa Europa?*, Edizioni Studium, Rome, 2004, pp. 29-59.

high levels of investment eventually penalizes the most backward areas. For this reason, as early as the end of the 1970s the European Community had started to promote some financial instruments to serve regional policy: EIB lending and the Structural Funds.

Nowadays, developing disadvantaged regions is the first of the EIB's priorities, complementing the European Commission's action for social and economic cohesion by creating wealth and employment; furthermore, by taking part in planning the interventions of the Structural Funds, it co-finances priority programmes for regional development.

The European Investment Fund (EIF) was formed in 1994 with the objective of sustaining the development of high-growth small and medium-sized enterprises active in new technologies. The EIB is the majority shareholder (60% since June 2000, with 30% held by the European Commission and the remaining 10% by about twenty banks and European financial institutions) and the operator of the EIF. In 2000 the EIB Group was formally created, consisting of the EIB and the EIF. Within the Group the EIB grants medium and long-term bank loans, while the EIF specializes in risk capital operations and collateral for SMEs.¹⁰

¹⁰ The EIF invests in specialized venture capital funds supporting the creation and development of high-tech and high-growth companies. The guarantee mechanism for SMEs is intended to facilitate access to finance for European SMEs that have strong potential for creating jobs. The Barcelona European Council (15-16 March 2002) asked the EIB to create a Facility for Euro-Mediterranean Investment and Partnership (FEMIP), given that the EIB has been supporting the economies of twelve partner countries in the Mediterranean for over 30 years (Algeria, Cyprus, Egypt, Jordan, Israel, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey, and Palestine). FEMIP was created with a view to customs union between Europe and the Mediterranean Partner Countries (MPCs) by 2010, supporting the development of the private sector and projects that promote regional integration. The Bank has resources provided by existing Euro-Mediterranean mandates, risk capital from the EU budget resources managed by the EIB, and technical assistance resources and investment support from the Union.

2. The particular characteristics of the EIB

The projects selected by the EIB, then, must contribute to European integration, balanced development, social and economic cohesion and an innovative knowledge-based economy. The Bank's role was and is to invest in projects that promote the European Union's objectives. The instrumental nature of the tasks entrusted to the EIB, from this perspective, explains the very close connection between the Bank and the EEC by comparison with such counterpart international institutions as the IBRD and the United Nations.¹¹

The Bank is a stand-alone legal entity, distinct from the EEC, though closely linked to it; it has its own organic organization, within which the Board of Governors has the power to decide the suspension of all its activities and winding up.¹² The Bank is therefore not a Community body but has its own distinct identity, whose importance should not, however, be overestimated; it is formally limited, given the two-way relationship between participation in the Community and participation in the Bank, which means that a state cannot be a member of the EEC without being a member of the Bank, nor a member of the Bank without also being a member of the EEC, given, as noted, the instrumental nature of the tasks assigned to the Bank with regard to Community goals.

The EIB is an entrepreneurial entity. Although on a non-profit

¹¹ D. Strangio, "La Bei e la Cassa per il Mezzogiorno. Criteri di funzionamento e di gestione", in Paola Carucci, Amedeo Lepore, Donatella Strangio (eds.), *La Cassa per il Mezzogiorno. Dalla Salvaguardia dell'Archivio alla promozione della ricerca*, Rome, Archivio storico della Presidenza della Repubblica, SVIMEZ, 2014, pp. 261-272; D. Strangio, *La rinascita economica europea. Dall'European Recovery program all'integrazione economica europea e alla banca europea per gli investimenti*, Rubbettino Università, Soveria Mannelli (CZ), 2011.

¹² For example, the separation between the Community and the Bank was taken over by the Swiss Government: see Chapter VI of the Message, dated 11 August 1972, of the Federal Council of the Federal Assembly concerning the Agreement on the Legal Status of the European Investment Bank in Switzerland: "Although the agreement with the EIB, established as an independent public entity by the European Communities, is distinguished by subject and institutional level, a Free Trade agreement between Switzerland and the EEC must still evaluate the perspective of our relationships with the Community" (F. Mosconi, *La Banca europea*, cit., p. 16).

basis, it provides services of benefit to member states and many of the associated states, as well as directly to public entities and private entrepreneurs operating therein. The member states launched the bank with an international agreement establishing a complete framework for matters relating to structure and organization, avoiding all reference to the rights of member states; the EIB, in fact, is exempt from all forms of taxation or similar levies, whether upon its constitution or any capital increase, as well as from the various formalities connected therewith in the state where the Bank has its headquarters.

As Franco Mosconi wrote (1976, p. 9), from a formal point of view the fact that the rules on the Bank's structure and conduct are set out in an annexed protocol – twenty-nine articles creating the Bank and laying down its Statute – rather than directly as part of the EEC Treaty (the provisions concerning the Bank included in the Treaty as such are in Article 3(J), 129, 130 and 180) is justified by the need to keep the latter text brief.

The EIB may stipulate agreements not only with states but also with other international organizations, to coordinate their respective activities. In making this provision (Statute, Article 16), the framers of the Treaty of Rome were presumably thinking above all of the IBRD, with which there had been coordinated relationships even in the absence of formal agreements. Once the EIB had become operational, after initial joint intervention in the financing of three projects in Southern Italy¹³ the IBRD no longer financed projects in EEC member countries.¹⁴ With regard to associated countries, there had been cooperation between the two banks on more than one occasion, with parallel financing of the same project.¹⁵

¹³ EIB, *Annual Report 1958*, p. 21; A. Rigano, *La Banca d'Italia e il progetto ENSI. Fonti per la storia e lo sviluppo energetico italiano degli anni Cinquanta nelle carte dell'Archivio della Banca d'Italia*, in Banca D'Italia, *Quaderni dell'Ufficio Ricerche Storiche*, 4, 2002.

¹⁴ The two banks were planning to act in common, in connection with the issuance of a loan by the Fund for the Mezzogiorno on the New York market, whereby each of the two participated in the financing of projects presented by the Fund.

¹⁵ EIB, *Annual Report 1974*, p. 31; *EEC Bulletin*, 1973, No. 9/2487, p. 101, and 1974, No. 1/2463, p. 10 and No. 12/2468, p. 125.

The EIB's immunities and privileges, including in the field of taxation, are justified by the fact that the interests pursued are those of the Community itself; the strictly functional nature of such immunities is underscored in Article 28(I) of the Treaty, which establishes a single Council and a single Commission and provides that Communities shall enjoy the immunities and privileges necessary for the performance of their tasks. Under the terms of Article 240 of the EEC Treaty, according to the particular legal system imposed by the contracting parties there are no legitimate grounds for terminating its effectiveness.¹⁶

The Treaty and the Statute assign the EIB a subsidiary and complementary role with respect to other channels for providing financial resources. In principle the Bank cannot grant loans or provide collateral to finance projects 100 per cent. It can provide only a share of the required finance, and it is therefore necessary for the applicant to have other means of financing at its disposal, either own funds or from other sources; it is essential that these other sources not be sufficient to finance the project fully, which would make application to the Bank superfluous. These limits reflect the need to prevent the Bank from competing with ordinary sources of finance or assuming direct responsibility for carrying out projects and managing initiatives in the economic field, and above all the need to enhance the Bank's role as an incentivator and catalyst by multiplying the number of its interventions.¹⁷ As to the applicant's incapacity to finance the project entirely by other means, this incapacity must extend even to funds available on uneconomic terms or terms that would impede

¹⁶ A particular type of extinction is nevertheless envisaged in the Statute, Article 9, where we read that the "Board of Governors shall be competent to take, acting unanimously, in the context of the Treaty and of this statute, all decisions related to the suspension of the Bank and its possible liquidation" and, in particular, according to Article 27.2, to appoint the liquidators and to provide instructions for carrying out the liquidation. The resolution of the Council, however, does not per se cause the extinction of the Bank but starts the process that will end with extinction (F. Mosconi, *La Banca Europea*, cit., p. 118).

¹⁷ EIB, *Annual Report 1958*, p. 39.

the realization of the project. It is not enough for the applicant to demonstrate the indispensability of the Bank's financial assistance. It is the Bank that supplements the indications provided by the applicant with its own knowledge, through its departments, of the financial markets and with any additional relevant elements for judgment. The projects must, of course, be financially viable and must be of immediate or deferred economic benefit. It is the Bank that establishes the payment schedule and adapts it to the particular characteristics of the financing of each project; the rules are usually either laid down in advance in the contracts or subsequently in an agreement with the borrower.

As noted above, the Bank's interventions must contribute to the growth of the overall productivity of the economy and, in the case of projects developed by firms, must promise satisfactory profitability. Loan applications are examined by teams of engineers and economists; the usual guarantees required by commercial banks are necessary.

The main reasons for the establishment of the European Investment Bank, then, were to intervene – given economic integration and the common market for goods, services and capital – where imbalances might form to the severe disadvantage of the less favoured regions and secondly – for political expediency – to strike the right balance between the advantages and the obligations accruing to the six countries that were party to the Treaty of Rome.

3. A better understanding of the facts: the sources

Although the original idea of a European investment bank was attributed to Maurice Petsche, it should be emphasized that he was not the only one to have formulated proposals for organizing investment.¹⁸ “The planned institution had a dual role: on the one hand,

¹⁸ M. Doumolin, *The birth of an institution*, cit., p. 31; M. Kipping, “La Banque Européenne d’Investissement, de l’idée à la réalité (1949-1968)”, in *Le rôle des ministères*

the bank would be the instrument by which the governments would exercise control over industrial agreements (oil, iron and steel) with a view to letting companies survive where they are more capable of manufacturing a specific commodity in optimum conditions for consumption by an enlarged European market; on the other hand, the disappearance of certain industries due to freedom of trade and specialisation of production in presenting an industrial and economic adaption problem that may have profound social repercussions meant that a European bank would be the most suitable body for resolving these difficulties.”¹⁹

In Italy in particular, in the years between 1948 and 1960, when Donato Menichella was Governor of the central bank, real gross national product grew by 5.6% a year, while inflation ran at around 3%. From 1951 to 1958 a virtuous circle was created in which the accumulation of capital led to strong growth in industrial productivity, with benefits for Italian output and exports; wage moderation enabled profits to increase and investments to be financed without excessive reliance on debt. A milestone was the establishment in 1950 of the Cassa del Mezzogiorno (Fund for Southern Development), in which Menichella played a significant role, thanks in part to the insistence of the World Bank, which was keen to have a single interlocutor. “The new body managed not only to pool a more significant amount of resources that were more appropriate for the needs of regions that had been neglected for too long, but above all managed to give a sense of unity to disparate interventions. [...] In the final years of Menichella’s governorate, events of international importance occurred such as the foreign convertibility of the lira and the signing of the Treaty of Rome to create the European Common Market; for Italy this meant an interaction between the effects stemming from the common market and domestic demand that brought the country close to full employment for the first time in

des finances et de l’économie dans la construction européenne (1957-1978), Actes du colloque tenu à Bercy les 26,27 et 28 mai 1999, t. 1, Comité pour l’histoire économique et financière de la France, Paris, 2002, pp. 525-542.

¹⁹ M. Doumulin, *op. cit.*, pp. 30-31.

the period 1958-1963, though with a sectoral and above all territorial imbalance.”²⁰

For these reasons, the ministers meeting at the Messina Conference in June 1955, known as the Spaak Committee, examined several memorandums. The final conference declaration, consisting of a programme of projects to be explored on the basis of a compromise between the position of the Benelux countries and the rapprochement between France and Germany, included the decision to “look into [...] the creation of an investment fund aimed at the joint development of European economic potentialities and, in particular, the development of the least advantaged regions.”²¹ As Pasquale Saraceno pointed out,²² following World War II the search for a solution to the European question needed to make the problem of the underdevel-

²⁰ M. Sarcinelli, “Politica bancaria e sviluppo economico: l’era menichelliana e quella attuale”, in *Atti del premio Donato Menichella*, II edizione, Rome, 9 November 2004, pp. 16-30, in particular pp. 21-23. On this Italian historical period there is much debate and a considerable literature; among many, see: V. Castronovo, *L’Italia del miracolo economico*, Editori Laterza, Rome-Bari, 2010; G. Crainz, *Storia del miracolo economico*, Donzelli, Rome, 2005; J. Coen, G. Federico, *Lo sviluppo economico italiano 1820-1960*, il Mulino, Bologna, 2001; V. Daniele, P. Malanima, *Il divario Nord-Sud in Italia. 1861-2011*, Rubbettino, Soveria Mannella (CZ), 2011, pp. 64-668-81; E. Felice, *Divari regionali e intervento pubblico. Per una rilettura dello sviluppo in Italia*, il Mulino, Bologna, 2007. For the extensive literature on European economic growth since 1950, see N F R. Crafts and G. Toniolo (2008), “European economic growth, 1950-2005: an overview”, Discussion Paper no. 686, London, Centre for Economic Policy Research. This paper presents an overview of comparative growth performance together with benchmarked growth accounting estimates. It divides European growth into three periods, the “Golden Age” of 1950-73, the growth slowdown of 1973-1995, and the new economy period since the mid-1990s, and examines it both across countries and across regions. The key conclusion emphasizes the importance of incentive structures for growth outcomes and argues that sustaining growth performance over the long run requires the (often difficult) adaptation of institutions and policies, as catch-up becomes more complete and new technological epochs arrive; B. Eichengreen, *La nascita dell’economia europea. Dalla svolta del 1945 alla sfida dell’innovazione*, il Saggiatore, Milan, 2009, pp. 150-170 (Italian translation of *The European Economy Since 1945. Coordinated Capitalism and Beyond*, Princeton University Press, 2006).

²¹ M. Doumolin, *op. cit.*, p. 35.

²² Archivio Storico SVIMEZ, Collezione 391, Carte Saraceno - Convegni, Convegno di Bari Fiera del Levante, 9 September 1982, *Il mezzogiorno e l’Europa nel pensiero di Francesco Compagna*, Cassa per il Mezzogiorno, from the report by P. Saraceno, 9 September 1982, p. 8.

opment of Mediterranean Europe the top priority, and to involve those, for example Northern Europeans, who apparently had little reason to consider Southern Italy to be important. A similar approach was followed at the SVIMEZ in the years when the EEC was under preparation, thanks to the contribution and impetus of a series of eminent economists who served as advisors: Jan Tinbergen, a future Nobel laureate for economics; Paul Rosenstein Rodan, a consultant at the World Bank; Robert Marjolin, general secretary of the Organisation for European Economic Co-operation (OEEC), who, after the signing of the Treaty of Rome was named Vice-President of the Community; Austin Robinson, professor at Sidney Sussex College, Cambridge, whom the OEEC in Paris had appointed to follow SVIMEZ's work; and Gunnar Myrdal, secretary of the UN Commission for Europe. It was here that the protocol on Italy came into being as an annex to the Treaty, recognizing the Italian programme for increasing employment, which specifically mentioned Southern Italy, as of common interest to the member countries of the Community, in order to make commitments for its political future.²³

The note that Saraceno sent to Governor Menichella forms part of this historical and economic background. The only document of its kind on file in the Bank of Italy's historical archives, it is replete with projects, estimates, balance sheets, letters and various references to the activity of the EIB and its managers during the early years, which have already been identified and will be analysed in a more extensive paper. The document is unique because, unlike other sources to be found in the historical archives of IRI²⁴ (where a series of documents on Saraceno's activities can be consulted) and at the

²³ The text of the Protocol is in P. Saraceno, *The years of the Vanoni Plan*, SVIMEZ, 1982, p. 65. Very interesting and useful are the reports contained in the Historical Archive of SVIMEZ relating to the promotion of a balance, and on the feasibility studies promoted by the EEC in the development of some particular areas of Europe, such as those of Greece or Turkey, and entrusted to SVIMEZ for implementation, because it was deemed the most qualified and capable because of the work done for the south of Italy.

²⁴ On IRI see F. Amatori, *Storia dell'IRI, Il miracolo economico e il ruolo dell'IRI*, Laterza, Rome-Bari, 2013.

SVIMEZ, it is very specific, clearly setting out the Bank's procedures and management problems in order to enhance its utilization and to achieve a more proactive realization of the Treaty's objectives. There was broad agreement at the time that France and Italy needed to do far more than had been achieved up until then to solve their problems of territorial management; and if on the one hand new impetus for national regional development policies was needed, on the other the EEC had to ensure the fair distribution of investments, using its own management bodies and coordinating Community policy with national policies.²⁵

The very reasons for European integration would have been reinforced had there been a serious contribution by Community institutions to solving national problems of economic development; and had France and Italy been confronted with the demonstration that only European integration could solve the problems of territorial management in "little Europe," and therefore that the solution required deeper integration, including at the political level.²⁶ It was accordingly objected that the testing of the instruments envisaged by the EEC for regional development policy, namely the EIB and the Social Fund, had taken too long and had not been properly accomplished; therefore it would have been useful to strengthen them and above all to make more and better use of them.

4. Pasquale Saraceno and the management requirements for the EIB in its early years

The final declaration of the Conference of Messina of 3 June 1955 referred to a "European investment fund" with the objective of "common development of European economic possibilities and, in particular, the development of those regions less favoured by the

²⁵ Archivio Storico SVIMEZ, Collezione 391, Carte Saraceno, sf. 3, F. Compagna, "Migrazioni e problemi di sviluppo regionale nella Comunità europea", in *Nord e Sud*, December 1960, pp. 164-182, esp. p. 179.

²⁶ *Ivi*, p. 180

participant states” (F. Mosconi, 1976, p. 2).²⁷ Saraceno made it clear in his note, however, that the member states wanted to create a “bank”, not an “investment fund.”²⁸

The tasks assigned to the EIB, as we have seen, were so particular that it could not be managed like an ordinary credit institution; yet, as Saraceno pointed out, the problems it faced were the same as those of normal banks: its main activity was investing funds raised on the market, while its own capital played the standard secondary role in terms of funds for investment and a major role as collateral in the collection of savings from third parties. As Saraceno makes clear, the EIB’s own capital provided collateral to offer to bondholders and the Bank’s other creditors. As far as the transactions that the Bank could carry out and the conditions under which they could be carried out were concerned, it was necessary first of all to consider the problems posed by the collection of funds.²⁹ Saraceno considered this aspect fundamental to the Bank’s ability to function smoothly and achieve its objectives and argued that the ideal solution was to issue bonds simultaneously with the EIB’s initial investments, or even to link the issues directly to the investments; the Bank’s equity would thus be all the more clearly in the nature of a guarantee fund, serving simply to overcome any lags between collection of the proceeds of the bond issues and the loan disbursements. Given the state of the economy there was no pressing need for loans in the various countries, and so it was possible to take some time to reflect on the criteria that would guide the Bank, and there was no immediate reason to agree to loans or conditions that might risk becoming unsustainable at a later date.

The first thing to do was to decide the main policies for fundraising, since the first payments of capital, for a total of \$200 million,

²⁷ Over the years the EEC and the European Union came to take on financial tasks, although not that of investment promotion.

²⁸ Archivio Storico Banca d’Italia, Segreteria particolare, Fondo 11, serie 1, n. 283, f. 4, sf. 5, Letter dated 31.10.1958, from P. Saraceno to the Governor of the Bank of Italy, Donato Menichella, p. 2.

²⁹ *Ibidem.*

had been planned before the end of 1959; this would make it possible to place bonds worth the same amount and to have a total of \$400 million available before the end of the year.

In order to determine the Bank's policy for issuing the loans for the \$200 million specified, and for other loans that would become necessary, three main financial markets had to be distinguished:

- a) all the EEC member countries;
- b) the American market;
- c) other markets (particularly Switzerland).³⁰

It was evident, at first analysis, that the first market would be the main provider of funds; and it was equally clear that political and not only technical factors would determine the direction the Bank would follow from the very beginning. In this regard, Saraceno assumed that the six-country Community market plus the American and Swiss markets would be able to provide the specified amount by 1959. In this case the Bank would have capital in seven different currencies and therefore would only be able to agree to loans in these currencies under the corresponding conditions, interest rates and maturities; it seemed obvious that this was the only way the Bank could facilitate the distribution of capital among the EEC member countries, thus fulfilling its mandate. Indeed, it is not clear why capital was to be raised in countries where capital was scarce and costly and placed on a market where interest rates were lower, or vice versa.

Another serious question was whether the Bank had to charge an interest rate that was equal to its cost of funding, or instead to apply different interest rates to different loans; and in the latter case, what standards it should observe.

A first criterion would be to adapt the interest rate to the currency in which the loan was denominated, as each currency effectively had its own cost; so it seemed that some difference between interest rates was inevitable.³¹ If instead the EIB were to charge an

³⁰ *Ivi*, p. 3.

³¹ *Ivi*, p. 4.

interest rate equal to average cost, this would be tantamount to selling goods differing in value at the same price, with a series of damaging consequences.

Once the interest rate for loans in a given currency was established, it could then vary according to the risk of inconvertibility in the specific country of investment; although posing this question was perfectly legitimate, no Community country could possibly be expected to accept such a discrimination against its currency. It was therefore likely that each currency would have its own interest rate in all EEC member countries.

A final criterion for differentiating interest rates might have been the destination of the loan: industry, agriculture, public works, or services. Clearly such a criterion would be problematic, but it could not be rejected out of hand.

At first glance, it seemed that the Bank's funds had very particular characteristics as regards exchange rate risk. Its capital comprised various currencies, and member states were obliged to transfer additional funds if the currency in which the original transfer was denominated depreciated.³² Yet this circumstance in no way changed the criteria that were to guide the Bank in placing the funds that it had received as capital contributions. If one of the transfer currencies depreciated, the additional payments the Bank would receive in that currency would be used in the same way, creating a perfect correspondence between the Bank's resources in the various currencies and its uses in those same currencies. At the same time the injections of capital would maintain their value in real terms and the currency would be expressed as capital contributions; the Bank would grant loans using the funds from the transfer of its capital and raise funds in the market on the same conditions. There was no reason to favour the debtors who received funds from this second source; at most, if the capital was not remunerated, the income generated by its use could serve to constitute reserve funds and help defray administration costs.

³² *Ivi*, p. 5.

By operating in this way the Bank would be able to lend all the funds at its disposal on better terms, either out of own capital or funds raised by bond issuance. This is another factor that made it advisable not to take on any further commitments as long as the conditions on which the Bank would be able to raise funds in the various currencies could not be determined.

The fact that the Bank's action was based on the use of real currencies did not prevent it also recording transactions in a theoretical currency unit, a unit of account.³³ Saraceno highlighted some important points in this regard:³⁴

- 1) With regard to fundraising, it was clear that in every country market rates and rates applied to the unit of account would be different, and that the difference would be more marked, the greater the lack of confidence in the local currency. When the rates applied to transactions in local currency are effectively an indicator of the scarcity of capital, those applied to units of account are totally determined by lack of confidence in the country's currency. Adopting an abstract unit of account would thus have a disruptive effect on monetary policy.
- 2) With regard to actual lending, there could be no doubt that debtors would prefer a real currency to a unit of account because:
 - a. if it was the national currency there would be no foreign exchange risk;
 - b. if it was a foreign currency, it would be preferable for the debtor to run the risk of use of an existing currency, in which the debtor could expect to obtain funds, rather than that stemming from the use of an abstract unit whose value was the result of a formula that meant nothing to him.³⁵

Finally, increasing the use of a unit of account – an abstract accounting currency – would facilitate the future creation of a single

³³ *Ivi*, p. 6.

³⁴ *Ibidem*.

³⁵ *Ibidem*.

European currency; at that time, however, according to Saraceno, the possible basis for such a position was not clear, and he concluded “[...] mais ce point exigeait une discussion qu’on ne peut pas entamer ici”.³⁶

Starting in May 1958 the EIB received and appraised loan applications in different sectors, including industries undergoing conversion in various regions of the Community. “Over and above the opportunity they represented for implementing certain working methods, these initial projects illustrated particularly well the geographical and sectoral diversity of a rapidly developing activity”.³⁷

Conclusion

The significant monetary imbalances marking the aftermath of World War II were clearly due mainly to the lack of international cooperation to solve economic and financial problems. This experience stimulated a new way of thinking about the world economy and the problems of international economic relations and fostered the belief that the solution consisted in coordination of economic policies among different countries. The result was the foundation of a series of international organizations that would influence economic reconstruction and development for decades to come. This was a historic advance, ascribable to the growing awareness of the various governments of the need for international cooperation.

As Douglass North observed, “institutional change influences the evolution of society over time and is the key to understanding history.” The central thesis underlying institutional analysis is that economic activity is so heavily dependent on institutions that it cannot be understood without prior knowledge of their nature and development, as institutional functioning is the framework for the

³⁶ *Ibidem*.

³⁷ E. Willaert, “The activity of the EIB in the Europe of the Six (1958-1972)”, pp. 51-70, in *The Bank*, cit, p. 51.

action of individuals and groups. Institutions are important because economic growth depends on the existence of organizations that create an environment conducive to cooperative solutions in the complex context of trade. At the center of everything is cooperation, in the sense of the concurrence of actions that allows economic systems to reap the benefits of trade, as posited by Adam Smith. The aim of institutions is to create a stable structure of social relations that can reduce uncertainty.

The European Investment Bank was formed in 1958 with the signing of the Treaty of Rome. Its institutional mission was to contribute to the balanced development of the Common Market by supporting initiatives to reduce imbalances.³⁸ It is now a modern international institution, financing investment projects in many countries, not only within the European Union. In purely quantitative terms the EIB was certainly one of the European Community's most important financial instruments, with a volume of resources that made it a definite point of reference for member countries, firms and institutions.³⁹

The institutional configuration that the Bank assumed at its creation was the product of an intense debate and a comprehensive set of proposals put forward starting in the late 1940s within the framework of the OEEC. In this debate and in defining the initial organizational characteristics of the Bank, Italy played a major role.⁴⁰ As

³⁸ D. Strangio, "La BEI e la Cassa per il Mezzogiorno. Criteri di funzionamento e di gestione", in P. Carucci, A. Lepore, D. Strangio (eds.), *La Cassa per il Mezzogiorno. Dalla Salvaguardia dell'Archivio alla promozione della ricerca*, Roma, Archivio storico della Presidenza della Repubblica, SVIMEZ, 2014, pp. 261-272; D. Strangio, *La rinascita economica europea. Dall'European Recovery program all'integrazione economica europea e alla banca europea per gli investimenti*, 2011, Rubbettino Università, Soveria Mannelli, Cz.

³⁹ The EIB is not on the EU budget: its funds are raised in the capital markets.

⁴⁰ See G. Marchegiani, "La banque européenne d'investissement", in *Commentaire J. Mègret Le droit de la CE et de l'Unione Européenne*, vol. 9, 2nd edit., Bruxelles, 2000, pp. 447-558; G.P. Manzella, "Alle origini della banca Europea per gli Investimenti: tra Mezzogiorno ed Europa", in *Rivista giuridica del Mezzogiorno*, 2, 2007, pp. 279-306; P. Tedeschi, "The EIB and the economic and social development of Italy from 1958 to the beginning of the 1970s" in E. Bussière, M. Dumoulin, È. Willaert (eds.), *The Bank of the European Union. The EIB, 1958-2008*, EIB, Luxembourg, 2008.

conceived by the Italian negotiators, the Bank constituted the necessary “compensation for... economic backwardness that the country asked for in exchange for agreeing to the trade liberalization imposed by the process of European integration.”⁴¹ Greater trade openness had to be balanced by financial support to overcome regional disparities, which would otherwise be aggravated by accession to the Community. Pasquale Saraceno’s note to Governor Menichella is an important historical document in that it envisaged what the EIB was to be and anticipated what is now a reality: namely the single European currency.

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⁴¹ Manzella (2003, p. 1205). In this vein, the EIB and the European Social Fund must be considered victories of Italian diplomacy. The demand for these institutions represented a crucial point for Italy behind a precise plan of economic policy, that of the Vanoni Plan. According to Manzella (2003, p. 1206), “the EIB can be described as an Italian idea”. The Bank started its activities with an Italian president, Pietro Campilli, who remained in office for two years. After him, another Italian took over the presidency of the Institute: “[...] in almost every organization there is a personality who, by general consensus, is distinguished from the others by an outstanding contribution. The EIB has this personality in Paride Formentini, who was appointed president in the summer of 1959 when Pietro Campilli, who gave the Bank the basic structure, resigned to assume the presidency of the National Economic and Labour Council in Rome” (EIB, 1978, p. 23). The presidency of Formentini, former Director General of the Bank of Italy, left an important sign. His strong personality and his intellectual brilliance marked the EIB’s first twelve years. For a biography of Formentini, see Gigliobianco, *Via Nazionale. Banca d’Italia e classe dirigente. Cento anni di storia*, 2005, Donzelli editore, Roma.

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