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Italy Before the Second World
War

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Fading Investment Banking? Italy Before the Second World War

Carlo Brambilla*

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Abstract

The banking crisis of the early 1930s put an end to investment banking in Italy and led to a radical reform that almost ‘nationalized’ the banking system and entrusted state-owned special credit institutions with industrial financing and investments. The development of investment banking in Italy from its appearance in the 1860s to its collapse in the early 1930s was an evolutionary process of innovation through which big banks tried to root in a newly emerging financial system, tweaking to the developments of markets and institutions, as they gradually came forth, mainly in response to crises. In the first pioneering decades after the reunification of the country, big joint stock “French-style” investment banks played a role in supporting investments in infrastructures and public utilities, eventually collapsing in the aftermath of the fierce financial crisis that hit a still fragile banking system at the end of the 1880s. During the international positive trend of the 1900s-1910s, the new universal banks that replaced them from the mid-1890s flanked and fostered the first wave of Italian industrialization, establishing a network of branches and growing larger and faster than their ancestors. Nonetheless, big joint stock banks still had to face up to an institutional framework that did not provide incentives for information disclosure by companies, did not limit the speculative attitudes and prices’ volatility of the stock exchanges, thus allowing for high degrees of opacity as for the quality of investments and for overly high risks connected with capital investments. Moreover, persistent segmentation of the banking system and the presence of large shares of non-contestable deposit-taking financial intermediaries limited universal banks’ external growth and curtailed their ability to collect resources. Big banks’ responses to those issues tended to improve capital markets weaknesses and instability, and to expose the banks themselves

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to liquidity risks and financial crises. During the 1920s growing maturity mismatch risks and hazardous policies they adopted made universal banks transform into quasi-holding companies, an ‘innovation’ in the pattern of investment banking that eventually led to its failure in the aftermath of the 1929 crash.

JEL Classification: G21, G24, G32, N23, N24

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Introduction

The appearance of joint stock investment banking occurred in Italy after the unification of the country, from the early 1860s. As it happened in most Continental Europe from the 1850s, new joint stock investment banks were founded, after the example of the French *Crédit Mobilier*, by private bankers and financiers eager to develop this new powerful financial tool, which enabled them to better exploit the new opportunities of investment in railways, public utilities and the related industries¹.

As known, Italian banks largely inspired their patterns and working methods to those of the big French and German ones, that often, in fact, participated to their foundation. This notwithstanding, they soon developed peculiar banking patterns and organizational features which made them quite different from their European homologues². Indeed, though the establishment of big investment banks in Italy took place relatively soon, a mere decade later than in leading European experiences, their affirmation and consolidation was a long and difficult process, marked by several crises, some of which affected the very structure of banks and of the financial system. In this sense, the history of Italian investment banks before the second world war can be considered as an evolutionary process in banking practices and innovations owed to the endeavour by banks to fulfil their functions while struggling for additional liquidity and trying to preserve their own financial stability. Indeed, they had to adapt to a peculiar institutional framework characterized by weak capital markets, small, volatile and segmented monetary markets, and fairly poor regulation,

¹D. Landes, ‘Vieille banque et banque nouvelle: la révolution financière du XIXe siècle’, *Revue d’histoire moderne et contemporaine*, 3 (1956), pp. 204-22; R. Cameron, *France and the economic development of Europe, 1800-1914; conquest of peace and seeds of war*, Princeton (NJ): Princeton University Press, 1961; R. Cameron et al. (eds.), *Banking in the early stages of industrialization*, New York: Oxford University Press, 1967.

²C. Brambilla, ‘Assessing convergence in European investment banking patterns until 1914’, in P. Baubeau and A. Ögren (eds.), *Convergence and Divergence of National Financial Systems: Evidence from the Gold Standards, 1871-1971*, London: Pickering and Chatto, 2010, pp. 89-108 and 251-54.

that tended to curtail the liquidity of the system and to make it hard for them to raise funds and to perform asset liability management³.

This process can be divided into two main periods by the severe financial crisis that hit the country in the early 1890s, leading to the failure of the first experiences of investment banking, to a restructuring of the banking system and to the birth of the Banca d'Italia (1893). During the 1920s, then, the involution of universal banks and their transformation in quasi-holding companies preluded to their failure in the aftermath of the Great Crash, in the early 1930s, when the government had to intervene both in bailing them out and in promoting a radical re-shaping of the institutional and regulatory frameworks, putting an end to that paradigm.

The essay retraces the advent and development of investment banking in Italy during the decades preceding its failure in the early 1930s. It tries to show the activity of those banks, their evolution and the various tools they came to use in order to consolidate their ability to work and to root in a difficult institutional environment, that left them small room for raising new funds and for liquidating their assets.

The origins: Tilling the field

Though already in the 1850s few pioneering experiences in joint stock banking, along the lines of the French *Crédit Mobilier*, appeared in Piedmont and in Tuscany, at the time of unification Italy still had a fairly underdeveloped credit and banking system⁴. In fact, the financial apparatus of the new kingdom was quite segmented, with very different situations in the various regions and almost any presence of modern banking. While in Piedmont and in Tuscany a first core of new banks was developing and a certain articulation of the system was emerging especially in the former, thanks to the policy of the Banca Nazionale⁵ – roughly inspired to that of the *Banque de France* – in the southern regions issuing banks dominated a backward environment where credit services were mostly granted by the semi-publicly owned institutions inherited from the *ancien régime*, such as pawnbroking charity bodies and rural non-for-profit bodies offering advances

³M. Pantaleoni, *La caduta della Società generale di credito mobiliare italiano*, Turin, Utet: 1998, pp. 44 ff.; G. Conti, 'Finanza d'impresa e capitale di rischio in Italia, 1870-1939', *Rivista di storia economica*, n.s., 10 (1993), n. 3, pp. 307-32.

⁴I. Sachs, *L'Italie, ses finances et son développement économique depuis l'unification du royaume*, Paris: Guillaumin & C., 1885, pp. 699-707; A. Polsi, *Alle origini del capitalismo italiano. Stato, banche e banchieri dopo l'Unità*, Turin: Einaudi, 1993, ch. 1. On the influence of France in the shaping of the Italian credit and financial systems, see G. Luzzatto, *L'economia italiana dal 1861 al 1894*, Turin: Einaudi, 1993; A. Confalonieri, *Banca e industria in Italia, 1894-1906*, Bologna: Il Mulino, 1981; and B. Gille, *Les investissements français en Italie (1815-1914)*, Turin: Ilte, 1968.

⁵L. Conte, *La Banca Nazionale. Formazione e attività di una banca di emissione, 1843-1861*, Naples: ESI, 1990.

on crops⁶. In the central-northern regions, then, were active non-for-profit savings banks, while a community of merchant-bankers was widespread all over the country⁷. Starting from the 1860s, anyway, credit and banking saw a quite rapid development along with the first massive investments in public utilities and infrastructures – fore and foremost in railways – the establishment of new industries and, later, the first wave of industrial growth. These transformations in the financial sector and its subsequent developments were marked by a number of crises which had a relevant role in shaping the evolution of the credit system and of the new joint stock banks' patterns in particular.

After Unification, the commercial code of 1865 – partly inspired to the French one⁸ – was aimed at giving a common administrative and legal framework to the new country, and tended to privilege the protection of entrepreneurs' rights and properties from possible speculators, however somehow sacrificing minority shareholders and creditors' rights to those of promoters⁹. Indeed, though till the introduction of the new commercial code in 1882 the government's authorization for establishing limited liabilities firms and companies was needed, very weak measures were set up to ensure companies' and administrators' accountability. Even the short-lived experience of the *Sindacato governativo* (a sort of controlling Commission on joint stock companies depending on the ministry of Agriculture, industry and commerce) did not improve the situation, characterized by high degrees of opacity in financial and economic information on companies¹⁰. It was in such a context that *Credito Mobiliare Italiano* and *Banca Generale* were founded and had to work.

The former originated from the transformation of the Piedmontese *Cassa del Commercio*, set up by Turin's private bankers in the 1850s as a tool aimed at mobilizing their assets both by granting advances on shares and even by holding and trading them, since the stock exchanges of Turin and Genoa were

⁶Luzzatto, *L'economia Italiana*; Polsi, *Alle origini del capitalismo italiano*; S. La Francesca, *Storia del sistema bancario italiano*, Bologna: Il Mulino, 2004.

⁷On the first Tuscan banks see, among others, G. Conti, 'Terra commercio e credito nella Toscana del XIX secolo', *Studi e ricerche*, Dep. of Economics, Università di Pisa, 1989; on the importance of savings banks in the Italian credit system see A. Cova and A.M. Galli, *La Cassa di risparmio delle provincie lombarde dalla fondazione al 1940*, Milan-Rome: Cariplo-Laterza, 1991; G. Prato and G. Fenoglio, *La Cassa di risparmio di Torino nel suo primo centenario*, Turin: Sten, 1927; about the permanence of ancien régime banking practices and structures in Milan till the 1860s see G. Piluso, *L'arte dei banchieri. Moneta e credito a Milano da Napoleone all'Unità*, Milan: Angeli, 1999; L. Segreto, 'I banchieri privati e l'industrializzazione italiana', *Imprese e storia*, n. 24, 2001, pp. 273-306, underlines the relevance of merchant-bankers for the Italian credit system development during the nineteenth century.

⁸In fact it was a sort of emendation of the Piedmontese code of 1842, in its turn derived from the *code Napoléon*. See Camera dei Deputati, *Ricerca sulle società commerciali. Linee evolutive della legislazione italiana e ordinamenti stranieri*, Rome, 1968.

⁹Conti, 'Finanza d'impresa'

¹⁰On this body see F. Belli and A. Scialoja, 'Vocazioni interventiste, miti ed ideologie del liberismo all'indomani dell'unificazione nazionale; il controllo delle società commerciali e degli istituti di credito nell'esperienza del *Sindacato governativo* (1866-1869)', in C. De Cesare, *Il Sindacato governativo, le società commerciali nel Regno d'Italia*, Bologna: Forni, 1978.

still small and underdeveloped. Thus, from the mid-1850s, joint stock banks in Turin started buying large stakes from the private bankers (especially railways securities), and often modified their charters, officially embracing investment banking. Nevertheless, these banks did not comply exactly with the *Crédit Mobilier* pattern, but were allowed to carry out both investment and deposit banking activities¹¹. When in 1860 its major stockholders, the Rothschilds, withdrew their participation, the *Cassa del Commercio* had to undergo a new reorganization as soon as 1863, this time with the *Pereires' Crédit Mobilier* as a partner, giving birth to the *Credito Mobiliare Italiano*¹². *Banca Generale* was founded in Milan in 1871, during the boom in banking foundations that took place at the beginning of the decade giving birth to several new joint stock banks, that nevertheless were often swept away in the following crisis of the mid-1870s¹³. The new bank was headquartered in Rome and it soon became the second largest investment bank in the country. Its promoters were some of the most prominent private bankers from Milan, Venice, Trieste and Turin, who were able to assure the participation of an important Austrian joint stock bank and of other Centre-European bankers, such as *Goldschmidt and Bischoffsheim*, to their project¹⁴. *Credito Mobiliare Italiano* and *Banca Generale* were multi-purpose banks according to their charters, but they tended to be primarily, though not exclusively, committed to market activities. They emerged from the 1870s as giants in an environment of dwarf or local banks, having hardly any relations both with cooperative and savings banks and with smaller joint-stock ones. At the time, the credit market was still characterized by the important role played by note-issuing banks (IBs, Fig. 1) that competed with other banks in offering commercial banking facilities to non financial firms and companies.

What seems to emerge from Figure 1 is that joint stock banks (jsb) were quite a marginal component of the system, and that their development tended to be highly pro-cyclical and volatile: their share in the system did not change substantially between 1870 and 1894, except from ephemeral booming periods; moreover, what they had gained during the late 1870s and 1880s was not only

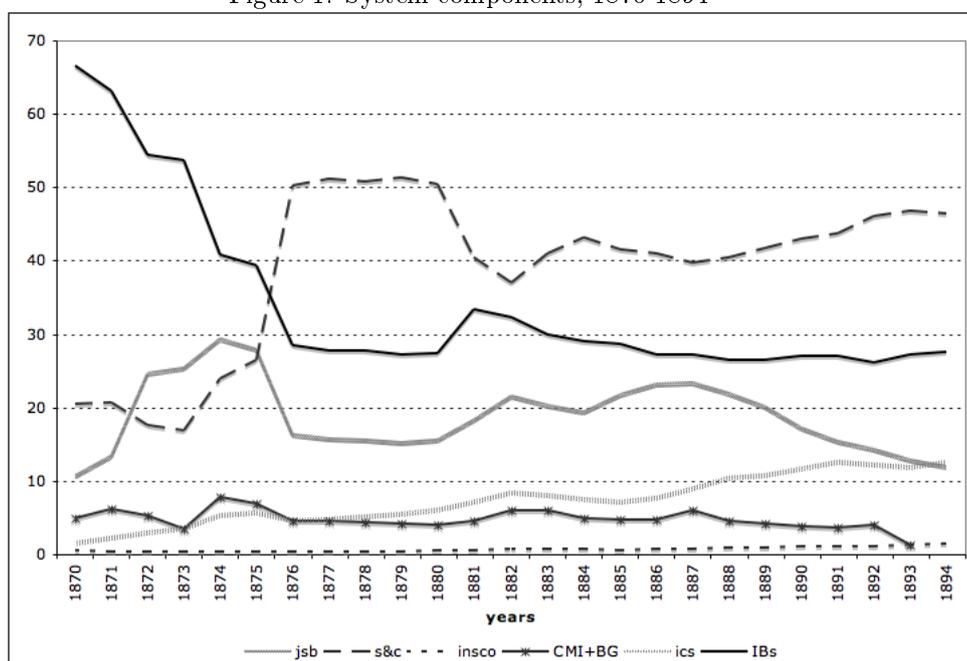
¹¹Royal Decree, 3 May 1856, which approved the new charters of the *Cassa del Commercio* (quoted in Polsi, *Alle origini*, pp. 18-19).

¹²Cameron, *France*, pp. 181-82. Among Italian founders there were also outstanding bankers, such as Bastogi and Balduino.

¹³Luzzatto, *L'economia italiana*, pp. 75-81; Sachs, *L'Italie, ses finances*, pp. 700 ff.

¹⁴A.M. Galli, 'Sviluppo e crisi della Banca generale', in E. Decleva (ed.), *Antonio Allievi, dalle scienze civili alla pratica del credito*, Milan-Bari: Cariplo-Laterza, 1997, pp. 561-651; Luzzatto, *L'economia italiana*. Among the founding partners there were: the Union Bank of Vienna; the Milan banking houses *Figli Weill-Schott*, *Pio Cozzi e C.*, *Ulrich e C.*, *Zaccaria Pisa*, *Cavajani Oneto e C.*; the banking houses of *Morpurgo and Parente*, in Trieste, that were Rothschilds' correspondents; and three outstanding bankers from Turin: *Ulrico Geisser*, *Ignazio Weil Weiss* and the *Fratelli Ceriana*. On the financial milieu of the Piedmont capital see I. Balbo, 'Banche e banchieri a Torino: identità e strategie (1883-1896)', *Imprese e storia*, n. 21, 2000, pp. 61-102.

Figure 1: System components, 1870-1894



Note: banks' liabilities as a percentage of total system liabilities.

Source: calculations on A.M. Biscaini and P. Ciocca, 'Le strutture finanziarie: aspetti quantitativi di lungo periodo (1870-1970)', in F. Vicarelli (ed.), *Capitale industriale e capitale finanziario: il caso italiano*, Bologna: Il Mulino, 1979, pp. 61-138; C. Brambilla, *Affari di banche. Banche universali in Italia in prospettiva comparata, 1860-1914*, Pisa: Plus-Pisa University Press, 2010.

lost in the following crisis, but it was not even regained until the mid-1900s (Fig. 2). On the contrary, non-for-profit institutions, such as savings and coop-banks (s&c) experienced a steady and sustained growth that awarded to them almost half of the market. Thus, while the two largest investment banks were in fact major actors on the Italian financial and credit markets, they found extremely difficult to increase their collection, especially in the form of deposits, because of the competition of non-for-profit banks. Even state-owned special purpose institutions (Ics) – mainly aimed at long term investments in agriculture, at that time – grew faster and larger than them, placing special bonds that made it even harder for investment banks to raise long term funds. These difficulties explain big banks' largely unsuccessful attempts in raising significant deposits, and their need to substitute them with correspondents' current accounts.

The segmentation of the credit system and its features, on the one hand, and the characters of the institutional and legal framework, on the other, can explain the strong ties Credito Mobiliare Italiano and Banca Generale established with the major note-issuing bank, the Banca Nazionale nel Regno d'Italia, which sustained them whenever downturns or crises threatened their liquidity¹⁵. Their primary commitment to market activities can then be explained by the attempt to mobilize capital and to allocate it to long term investments while at the same time preserving their own stability in a still underdeveloped and poorly regulated economic context in which creditors suffered a lack of information. On one hand, thus, they collaborated with the Banca Nazionale in placing risk free securities, such as national and local governments bonds; on the other, they underwrote and placed bonds and equities of railways companies and other public utilities, of basic industries such as metal works and mechanical engineering companies, essentially financing projects of national interest, that offered higher guarantees. When great infrastructural projects came nearly to an end, during the 1880s, Credito Mobiliare and Banca Generale started investing heavily in the real estate boom connected with the renovation of main cities like Rome and Naples, relying upon a patrimonial concept of credit. Unfortunately this was not sufficient to avoid bankruptcy when the real estate bubble burst, causing frozen assets, that, together with accumulated non performing assets on industrial investments and persisting economic depression, eventually caused their failure in 1892-93¹⁶.

The financial crisis that hit the country in the early 1890s, during which Credito Mobiliare and Banca Generale collapsed, was extremely severe. It beheaded the Italian credit system, sweeping away not only the two major investment banks, but also many other banks, big and small, and one of the banks of

¹⁵Many bankers serving as directors in the banks' boards were also sitting in the board of the Banca Nazionale. Poldi, *Alle origini*, p. 35.

¹⁶See Pantaleoni, *Credito Mobiliare Italiano*; Luzzatto, *L'economia Italiana*; Confalonieri, *Banca e industria in Italia 1894-1906*.

issue, the Banca Romana, while the Banca Nazionale and the two Tuscan issuing banks were merged in the newly founded Banca d'Italia. This latter established itself as the dominant bank of issue, and soon as a real central bank, while the other two survivor issuing banks (the Banco di Napoli and the Banco di Sicilia) played a marginal role as central and issuing authorities. These outcomes had consequences on the relations between the new major bank of issue, the Banca d'Italia, and the joint stock banks, too, as it will be seen in the next section.

A new phase: Growth and strengthening

The new commercial code of 1882 presented several novelties that improved the legal framework and ameliorated both the information disclosure on the part of companies and the minority shareholders' and creditors' rights as compared to the privileges of promoters and majority shareholders, improving corporate governance tools in joint stock companies, so bringing Italian institutions closer to those of the other main European countries¹⁷. The new code, in fact, fixed a few stricter rules on bookkeeping and made annual balance sheet publication as well as a statutory board of auditors (*collegio sindacale*) compulsory. However, the law only prescribed that balance sheets reported the exact amount of profits and losses, of capital and of reserves, but did not fix rules on the quality and quantity of information to be given on other items, in contrast with other European legislations, such as those introduced in England, Belgium and Germany, that indeed provided for more precise and accurate bookkeeping practices¹⁸. The statutory board of auditors, then, was elected by the same majority which expressed the board of directors; moreover, the law was very soft about shareholding syndicates, interlocking and pyramidal shareholdings; and shareholders maintained the right to withdraw from the company at any time, a threat that could be used to oppose strategic decisions such as new capital issues, mergers and acquisitions, changes in the company objects, etc.¹⁹.

Banca Commerciale Italiana (Comit) and Credito Italiano (Credit) –founded

¹⁷A. Errera, *Il nuovo codice di commercio del Regno d'Italia*, Florence: Pellas, 1883; Conti, 'Finanza d'impresa'; R. Teti, 'Imprese, imprenditori e diritto', in F. Amatori et al. (eds.), *Storia d'Italia*, Annali 15, *L'Industria*, Turin: Einaudi, 1999, pp. 1211-1303; G. Carriero, P. Ciocca, M. Marcucci, 'Diritto e risultanze dell'economia nell'Italia unita', in P. Ciocca and G. Toniolo (eds.), *Storia economica d'Italia*, Rome-Bari: Laterza, 2004, vol. 3-2, pp. 455-528.

¹⁸L. Cellérier, *Etudes sur les sociétés en France et dans les pays voisins*, Paris, 1905; G. Zappa, *Le valutazioni di bilancio con particolare riguardo ai bilanci delle società per azioni*, Milan: Società editrice libraria, 1910; for a wider discussion on these issues see also C. Brambilla and G. Conti, 'Informazione e regole contabili nei rapporti tra banca e industria', in G. Conti, *Creare il credito e arginare i rischi. Il sistema finanziario tra nobiltà e miserie del capitalismo italiano*, Bologna: Il Mulino, 2007.

¹⁹Conti, 'Finanza d'impresa'; A.K. Kuhn, *A comparative study of the law of corporations with particular reference to the protection of creditors and shareholders*, New York, 1912; C. Vivante, 'Per la riforma delle società anonime', *Rivista del diritto commerciale e del diritto generale delle obbligazioni*, 2 (1913), n. 2.

after the crisis had swept away not only the two biggest investment banks, but also a plethora of other joint stock banks and, most importantly, four of the existing six issuing banks – had to cope with a framework in which the Banca d’Italia was unable, and unwilling, to maintain the same strict, friendly relations and generous attitudes the Banca Nazionale had had with the failed great banks. The main bank of issue arose from the ashes of this latter and of two regional issuing banks, having moreover taken charge of the liquidation of the Banca Romana’s frozen assets, and displayed a more thrifty behaviour in offering refinancing facilities to the banking system²⁰. Comit and Credit hybridized Central European patterns and experiences, as the composition of their groups of control confirms²¹, and, because of their origins and their universal pattern, they are often referred to as German-style mixed banks²². During the two decades preceding the first world war, universal banks answered to the growing demand for investment banking and industrial financing induced by the upturn trend of the Giolittian years, committing themselves in financing especially new sectors such as chemicals, metal works and mechanical engineering, electricity. With the new century, the growth of industrial investments and profits, the slackening of public debt issues, and universal banks’ market activities produced the first stock exchange relevant widening in listed securities and prices²³. Compared to their Italian ancestors, they showed stronger abilities to raise funds from customers, to manage multi-branch banking, particularly from 1900 onwards, and to maintain friendly and stable relations with international financial circles: that allowed them to more easily manage demand for funding and investment banking services through the organization of larger pools and syndicates, thus preventing a too rapid exhaustion of their means and helping preserving their liquidity.

Besides, Comit and Credit grew faster and bigger than the previous generation of investment banks, as it can be noticed from Fig. 2. Whereas Credito Mobiliare and Banca Generale remained stable throughout the period on levels

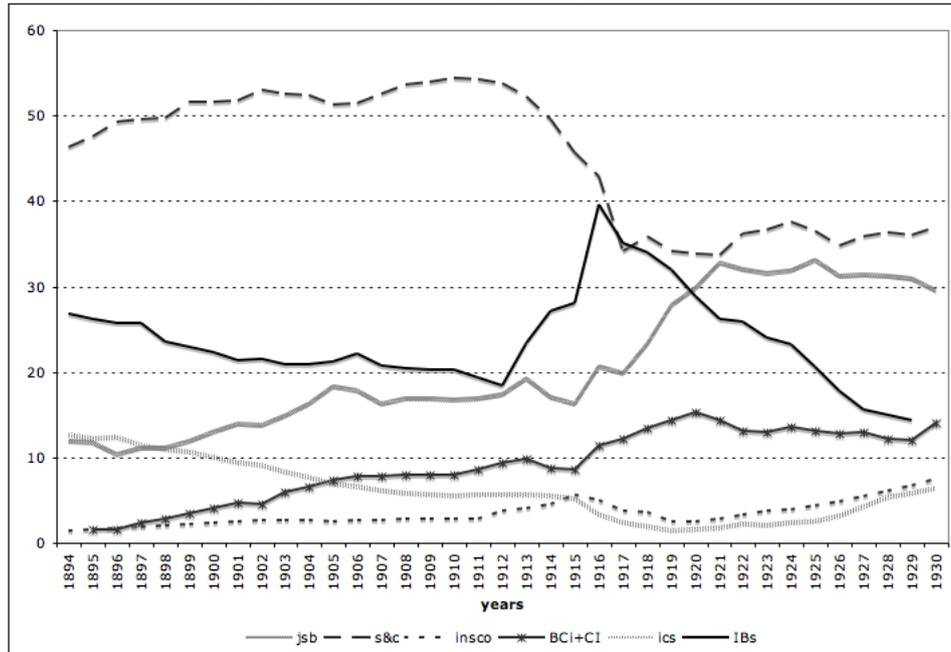
²⁰F. Bonelli (ed.), *La Banca d’Italia dal 1894 al 1913. Momenti della formazione di una banca centrale*, Rome-Bari: Laterza, 1991.

²¹On the constitution of the two new banks see Confalonieri, *Banca e industria in Italia 1894-1906*, vol. 2; P. Hertner, *Il capitale tedesco in Italia dall’Unità alla prima guerra mondiale: banche miste e sviluppo economico italiano*, Bologna: Il Mulino, 1984.

²²See for instance J.S. Cohen, ‘Financing industrialization in Italy, 1894-1914: The partial transformation of a late comer’, *Journal of Economic History*, 27 (1967), pp. 363-82; G. Mori, ‘L’economia italiana dagli anni ottanta alla prima guerra mondiale’, in *Storia dell’industria elettrica in Italia*, vol. 1, G. Mori (ed.), *Le origini 1882-1914*, Bari: Laterza 1992, pp. 1-106; C. Fohlin, ‘Relationship banking, liquidity and investment in German industrialization’, *Journal of Finance*, 53 (1998), n. 5, pp. 1737-58, and Ead., ‘Capital mobilization and utilization in latecomer economies: Germany and Italy compared’, *European Review of Economic History*, 2 (1999), pp. 139-74.

²³G. Toniolo, *An economic history of liberal Italy, 1850-1918*, London-New York: Routledge, 1990; G. Federico and G. Toniolo, ‘Italy’, in R. Sylla and G. Toniolo (eds.), *Patterns of European industrialization: the nineteenth century*, London-New York: Routledge, 1991.

Figure 2: System components, 1895-1930



Note: banks' liabilities as a percentage of total system liabilities

Source: see Fig. 1.

around the 5 or 6 per cent of the entire system, the two big Milanese banks surpassed them already in the first years of the new century, growing quite fast – in spite of the crisis of 1907 – to a share of about the 15 per cent in 1920, then consolidating their share in the system around the 12-13 per cent throughout the decade. The late 1910s and the 1920s were also the period during which joint stock banks at large, for the first time, underwent a significant increase of their share, almost reaching that of the non-for-profit institutions, that on the contrary experienced a remarkable drop from an average of about the 50 per cent before 1914, to about the 34-35 per cent in the late 1910s and in the 1920s.

However, the still very relevant share of the credit system liabilities held by non-for-profit institutions and by note-issuing banks remained an important constraint to the growth of joint stock banking, and especially of universal banks²⁴. These latter did develop branch banking and the collection of deposits, but they suffered a fierce competition from, especially, non-for-profit institutions. Figure 3 and 4 respectively plot the amount of deposits and of correspondents and current accounts held by different institutions in the 1890-1930 period, calculated as the ratio to their respective total liabilities. Both charts show these data for

²⁴Issuing banks maintained the right to behave as commercial banks, thus offering credit facilities to the public, till the promulgation of the banking reform in 1936.

the two big universal banks, and for the three major components of the credit system, savings banks (savb), coop-banks (coopb) and joint stock banks (jsb).

As it emerges from Fig. 3, non-for-profit institutions, namely savings banks and coop-banks, were the only components of the system able to raise significant amounts of deposits, and, moreover, they succeeded in maintaining their deposits to liabilities ratio very stable in time, especially as savings banks are concerned. Both joint stock banks and Comit and Credit, instead, clearly found more difficult to collect savings from the public. Quite interestingly, then, is the fact that the deposits to liabilities ratio of joint stock banks fell sharply in 1900 after a significant ten-year trend of growth, and never recovered. On the contrary, after a period of relative stability on values of about the 30 per cent on average, their deposits to liabilities ratio steadily decreased further to levels near the 20 per cent.

Comit and Credit too, show a positive trend till 1908, just to stabilize in the early 1910s, and to fall below the 20 per cent after the war. What seems to emerge from Fig. 3, then, are the difficulties the two big banks had in collecting deposits during their first years, most probably because of the dominant position of non-for-profit institution in this field; moreover, the war seems to have interrupted the previous growing trend for good, since in the 1920s their deposits to liabilities ratio stabilized on the pre-1907 average values. Both big universal banks and joint stock banks in general, indeed, heavily substituted deposits with correspondents and current accounts, partly coming from inter-bank foreign loans, especially in the case of Comit and Credit (Fig. 4)²⁵.

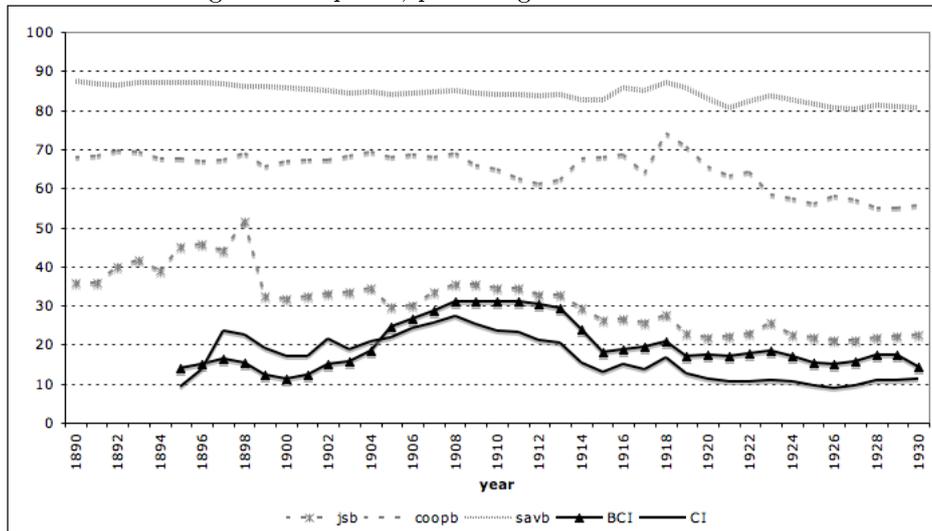
Fig. 4 confirms the important break represented by the war: all system components show an increase in their respective current accounts to liabilities ratios. This is true, for instance, even in the case of savings banks, where correspondents and current accounts were traditionally a very marginal means of collecting funds: before 1914, in fact, the ratio did not exceed the 1 per cent – and was on average about the 0.5 per cent – but then, during the 1920s, it jumped to about the 4 per cent on average, with peaks as high as 5-5.5 per cent.

Before the war, ratios concerning joint stock banks and the big two universal banks show an opposite trend to deposits, at least till the crisis of 1907. On the contrary, after the crisis, correspondents and current accounts ratios start growing very fast. In the case of joint stock banks, after having almost double between 1906 and 1920, the ratio stabilizes around the 50 per cent of liabilities.

Data on Comit and Credit are very telling about the kind of funds the two banks could rely upon and were able to raise in significant amounts. Indeed, while before 1907 they succeeded in developing – at least to a certain extent

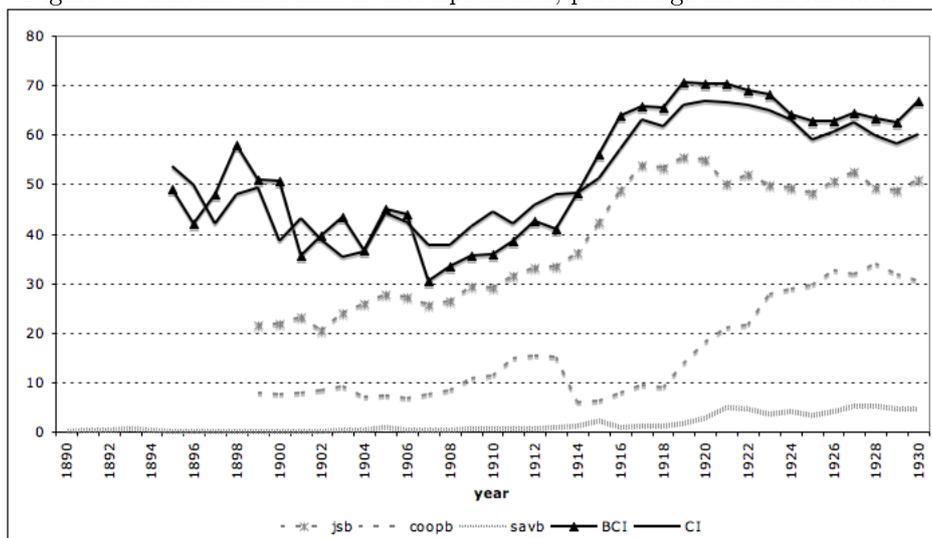
²⁵On the foreign inter-bank collection by Comit and Credit see Confalonieri, *Banche miste e grande industria in Italia, 1914-1933*, Milan: Banca commerciale italiana, 1994.

Figure 3: Deposits, percentage of total liabilities



Source: calculations on F. Cotula et al., I bilanci delle aziende di credito, 1890-1936, Rome: Laterza, 1996; Brambilla, Affari di banche.

Figure 4: Current accounts & correspondents, percentage on total liabilities



Source: see Fig. 3.

– their deposits, the crisis, and, moreover, the war are likely to have lessened their ability to do that, explaining the U-shaped curve in the correspondents and current accounts to liabilities ratio (Fig. 4). The ratio, in fact, started growing from the late 1900s just after the crisis, to peak just at the end of the conflict, in 1919-20. During the 1920s, it stabilized on values well above the 60 per cent on average (or about 20 points above the average of the pre-1908 period), denoting a worsening in the two banks financial structures.

The issue represented by joint stock banks' ability to raise resources emerges even more clearly from Figure 5. Here, liabilities of the system's components are classified according to the contestability of the different intermediaries. Non-contestable intermediaries - that is state-owned banks, coops and savings banks, special credit institutions – represented shares well above the 50 per cent of the entire system for almost the whole period here considered. Their growth started at the very beginning of the period, in the aftermath of the mid-1870s crisis, showing a short-lived slowdown only during the brief period between the war years and the mid-1920s; afterwards, their share in the system experienced an even more sustained growth that peaked in the aftermath of the 1930s crisis and the following restructuring of the financial and credit system²⁶. Moreover, taking into consideration the share of issuing banks – that remained quite relevant even if it decreased during the long run – makes it clear how room left to joint stock banks' development was extremely reduced. That is to say, joint stock banks, and especially big universal ones, had but very little possibilities to raise funds by means of mergers and acquisitions, simply because there were but limited preys available. This notwithstanding, Comit and Credit tried to overcome the relative shortage of funds by gradually setting up and organizing a network of daughter banks, mainly situated in the area between Milan and the Ticino, in southern Switzerland, though with minor success as for their overall ability to increase deposits²⁷.

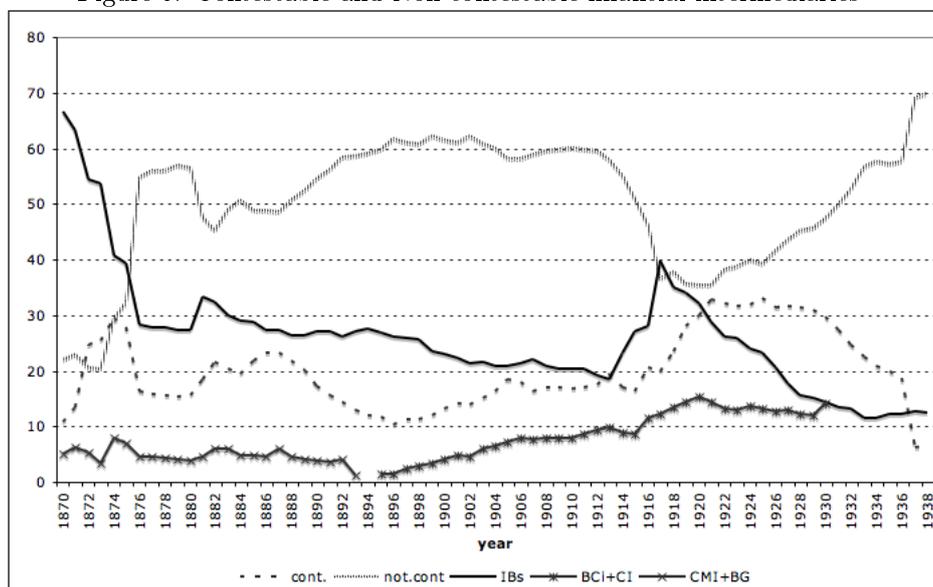
Turning to their activities, a comparative analysis on big investment banks in Italy, France and Germany has shown as Comit and Credit tended to depart from the 'classical' pattern of universal banking represented by big German banks²⁸. They in fact seem to have developed different strategies to assure 'permanent' investments to industrial companies. In Germany the legal context provided several measures to discourage speculative behaviours: higher face value of stocks; a clear separation between common and privileged stocks; a balance of power between managing bodies – such as the board of directors and the executive board (*Vorstand*) – on the one hand, and controlling bodies –

²⁶It has been calculated that from 1936 onward, and till the mid-1990s, almost the 70 per cent of the credit system was represented by non-contestable intermediaries.

²⁷Confalonieri, *Banche miste e grande industria*.

²⁸C. Brambilla, *Affari di banche*.

Figure 5: Contestable and Non-contestable financial intermediaries



Note: banks' liabilities as a percentage of total system liabilities.

Contestable intermediaries: joint stock banks

Non-contestable intermediaries: state-owned banks, savings banks, coop-banks, special banking institutions (Ics)

Source: see Fig. 1.

such as the supervisory board (*Aufsichtsrat*) and the auditors appointed by local authorities – on the other; wider information on companies situation and deeds; and more precise provisions on managers' responsibility in case of frauds²⁹. By putting their own representatives in supervisory boards, German banks had a pretty effective means for overseeing and monitoring debtors, thus strengthening their ability to promote 'permanent' capital investments and guaranteeing for effectual intermediation between savers and investors. The new law on stock exchange of 1896, then, having banned future contracts for most securities and assured a stricter supervision over the stock exchange, brought a large share of security trading 'inside' the banks, hence fostering a stricter control by banks over the market, which enhanced their ability to assure long lasting commitment in industrial companies' financing. In Italy, the legal framework shaped by the commercial code of 1882 left important issues, such as that of the protection of minority shareholders' and creditors' rights, or that of full information disclosure, still unresolved; moreover, the stock markets were smaller and more

²⁹Kuhn, *A comparative study*, pp. 69-85; Vivante, 'Per la riforma'; W. Rathenau, 'Le società per azioni. Riflessioni suggerite dall'esperienza degli affari', *Rivista delle società*, 5 (1960), pp. 912-47; C. Fohlin, *Finance capitalism and Germany's rise to industrial power*, Cambridge: Cambridge University Press, 2007.

volatile, characterised by higher speculative behaviours that discouraged the diffusion of ‘permanent’ investments³⁰. In such a context, then, Italian banks tried to cope with information asymmetries and to strengthen their position as creditors and/or minority shareholders first and foremost by acquiring enough voting rights in general meetings as to assure themselves one or more seats in the board of directors of the debtor companies and getting effective supervision over them³¹.

This practice implied however a careful tuning in order not to excessively burden banks’ securities portfolios, hence endangering their own liquidity. And indeed balance sheets data suggest that Italian great banks did not maintain significantly higher participations in industrial companies than German ones. What, on the contrary, seems to differ Italian banks’ balance sheets from the others, is the amount of contangos (*riporti*) and, especially, of third parties’ securities deposits (*conti titoli*), this latter being very tiny in French banks and absent in German ones. Comit and Credit securities deposits, on the contrary, amounted on average to two thirds or even more of their total assets³². In most French banks contangos amounted to small proportions of total assets, while on average German ones invested more on them, but still to a lesser extent than Comit and Credit. Between the 1890s and 1914, the Italian big banks invested on average the 16-17 per cent of their assets in contangos, that is to say about one third more than their German counterparts³³. Through contangos and securities deposits Italian banks could acquire proxy voting rights, a strategy that enabled them to maintain and extend supervision and control over companies, hence securing their position as creditors or minority shareholders, at a fraction of the cost that they would have had to bear for taking stakes in them.

The international liquidity crisis of 1907 hit the Italian stock exchanges fiercely and hampered the development of Italian financial markets, that never recovered completely nor grew broader till the last decades of the twentieth century, and left industrial capital supply entirely on the shoulders of the banks³⁴.

³⁰Brambilla and Conti, ‘Informazione e regole contabili’, G. Siciliano, *Cento anni di borsa in Italia*, Bologna: Il Mulino, 2001; S. Baia Curioni, *Regolazione e competizione. Storia del mercato azionario in Italia (1808-1938)*, Bologna: Il Mulino, 1995.

³¹Indeed, interlocking directorates were a practice Comit and Credit widely used. See F. Pino, ‘Sui fiduciari della Comit nelle società per azioni, 1898-1918’, *Rivista di storia economica*, n.s, 8 (1991), n. unico, pp. 115-48; C. Fohlin, ‘Fiduciari and firm liquidity constraints: the Italian experience with German-style universal banking’, *Explorations in Economic History*, 35 (1998), n. 1, pp. 83-107; M. Vasta and A. Baccini, ‘Banks and industry in Italy, 1911-1936. New evidence using the interlocking directorates technique’, *Financial History Review*, 4 (1997), pp. 139-59.

³²In some years they even exceeded total assets; Brambilla, *Affari di banche*, Appendix, tables 1-15.

³³*Ibidem*

³⁴F. Bonelli, *La crisi del 1907 una tappa dello sviluppo industriale in Italia*, Turin: Fondazione Einaudi, 1971; Siciliano, *Cento anni di borsa*; A. Confalonieri, *Banca e industria in Italia dalla crisi del 1907 all’agosto del 1914*, Milan: Banca commerciale italiana, 1982.

That had relevant consequences on the universal banks ability to fulfil their functions while preserving their own liquidity and ‘freedom of movement’, since it compelled them to higher commitments towards industrial financing, and hence to eventually accept heavier portfolios of securities and illiquid loans, a fact that would have soon determined an involution in universal banking patterns.

Roaring Twenties? The involution in investment banking patterns after the war

The crisis of 1907 spotlighted the fragility of the Italian financial system and inspired the debate on the issues of industrial financing and banking stability that took place between 1909 and 1914, involving both industrialists and academics³⁵. Meanwhile, the idea that a better protection to depositors was needed began to emerge, and proposals for new legislation aimed at regulating and supervising deposit-taking institutions were presented in 1908 and again in 1913, though without success³⁶. It was only in 1926, however, that a new comprehensive legislation was eventually introduced³⁷. Debate on industrial financing underlined the need for steady investment flows to the industrial sector and concerns about the increased difficulties banks had in asset liability management following the crisis, that left capital markets even more fragile than before. A new scheme in industrial financing began then to emerge, pointing to the creation of special credit institutions (Ics) aimed at providing long term investments to specific industries, those characterized by the highest capital intensity, the longest investment depreciation, and differed profitability, thus relieving banks of at least the most illiquid share of their credits. Though the first of such institutes – Csvi – was created in 1914³⁸, it was only after the war that their activities started eroding universal banks’ scope. Alberto Beneduce, a technocrat near to Nitti³⁹ and to the director of the Banca d’Italia, Bonaldo Stringher, promoted the constitution of several other special credit institutions,

³⁵Confalonieri, *Banca e industria in Italia 1907-1914*, vol. 2; C. Pace and G. Morelli (eds.), *Origini e identità del credito speciale*, Milan: Angeli, 1984.

³⁶Bonelli, *La Banca d’Italia dal 1894 al 1913*. In the 1908 proposal, banks would have been required to create two distinct sections in order to separately manage ‘savings’ and ‘commercial’ deposits, with the prohibition to use the former for long term lending. The following project, in 1913, envisaged the introduction of liquidity and reserve ratios, and of supervision on deposit-taking institutions.

³⁷G. Guarino and G. Toniolo (eds.), *La Banca d’Italia e il sistema bancario, 1919-1936*, Roma-Bari: Laterza, 1993.

³⁸Created by the Banca d’Italia, it discounted one signature industrial bills, making thus possible to rediscount them at the note-issuing banks, and so monetizing industrial credit; A.M. Biscaini, P. Gnes, A. Rosselli, ‘Origini e sviluppo del Consorzio per sovvenzioni su valori industriali durante il governatorato Stringher’, *Bancaria*, n. 2, 1985.

³⁹A leftist liberal with background in economics and finance, Nitti served as minister of Agriculture, industry and commerce in 1911-14 and as minister of the Treasury in 1917-19, then as Prime minister for few months in 1919.

Table 1: Special credit institutions

Institution	Promoter	Year	Aims & functions
Csvi	Bank of Italy	1914	Refinancing banks; industrial financing (short-medium term)
Crediop	Government (Beneduce)	1919	Public works and infrastructures long term financing
Spv-Csvi (later Ist.Liq)	Bank of Italy	1922	Bail outs of Ansaldo and Banco di Roma
Icipu	Government (Beneduce)	1924	Public utilities long term financing
Istituto di Liquidazioni	Government	1926	Sell back industrial participations to private capitals
IMI	Government (Beneduce)	1931	Long term industrial financing
IRI sez. finanziamenti	Government (Beneduce)	1933	Medium-long term industrial financing

each one devoted to a peculiar end or sector⁴⁰. Beneduce’s basic idea was to raise savings for investments through the placement of state-guaranteed bonds issued by specialized credit institutions; these latter would have invested such funds in mortgage loans to industrial and public utilities companies. The objective was twofold: solving the mismatch between assets and liabilities typical of universal banking and channelling savings towards productive investments through the progressive development of a wide bond market, without effects on money supply⁴¹.

During the war, Italian industrial apparatus experienced a significant growth, especially in heavy industries related to the war effort and to the production of weapons and ammunitions, such as steelworks, shipbuilding, automotive and engineering, chemicals. Often, the development of big business led to the formation of big, vertically integrated, industrial groups, emphasizing the oligopolistic features of many industries. That process was financed by large universal banks, whose liquidity constraints were relaxed thank to the Banca d’Italia and to the

⁴⁰Crediop (1919) and Icipu (1924) financed, respectively, public works (infrastructures) and public utilities; Credimare (1928) committed to shipbuilding financing; P.F. Asso and M. De Cecco, *Storia del Crediop. Tra credito speciale e finanza pubblica 1920-1960*, Roma-Bari, Laterza, 1994. On Beneduce see F. Bonelli, ‘Alberto Beneduce’, in A. Mortara (ed.), *I protagonisti dell’intervento pubblico in Italia*, Milan: Angeli, 1984, pp. 329-56; and M. Franzinelli and M. Magnani, *Beneduce. Il finanziere di Mussolini*, Milan: Mondadori, 2009.

⁴¹For a long run perspective on ‘Beneduce institutes’ and on industrial credit in Italy in the 20th century see G. Piluso, ‘Gli istituti di credito speciale’, in F. Amatori et. al. (eds.), *Storia d’Italia*, Annali, 15, *L’industria*, Turin: Einaudi, 1999, pp. 505-47.

tools it put in place to guarantee the stability of the system⁴².

At the end of the conflict, industrial enterprises had to face a number of issues. On the one hand, they had to cope with gigantism problems, overproduction and difficult reorganization processes; on the other one, alternate short cycles affected their financial structure, strengthening their dependence from universal banks. The banking crisis and the financial turmoil of the immediate post-war years, to which the hostile takeover attempts on the two big Milanese banks by industrial groups were not extraneous, eventually resulted in the failure of two of the big universal banks⁴³. Hence, Comit and Credit, that successfully rejected takeover attempts by, respectively, the Ansaldo group and the Fiat-Snia groups, strengthened their primacy as the Big Two, increased industrial financing and market activities, as well as their role as organizers of big business corporate governance⁴⁴. To win the battle on their own control, the two Milanese banks assigned their own equities to *ad hoc* holding companies⁴⁵. These latter were owned by the banks themselves, directly and through ‘allied groups’ – i.e. industrial concerns linked to the banks – and were also committed to intervene on financial markets to sustain the course of banks’ stocks. Although, as mentioned, that enabled the Big Two to successfully reject hostile takeovers, and to prevent further raids by outsiders, it led to the virtual disappearance of their capital and to the removal of any form of effective control on bank managers’ conduct and activities⁴⁶.

⁴²During the whole war the Banca d’Italia ensured a discount window to the banks, while the Csvi discounted paper not eligible to be directly discounted at the banks of issue. See Biscaini, Gnes, Rosselli, ‘Origini e sviluppo del Consorzio’.

⁴³Banca Italiana di Sconto (Bis), the youngest and weakest of the big banks, strictly linked with the Ansaldo group through interlocking shareholdings, failed in 1921 and was liquidated; Banco di Roma, the third bank of the country for dimension, pursued a too fast and unwise expansion during the previous years and got virtually insolvent by 1922: it was eventually rescued in 1923 by the Banca d’Italia, probably worried about the consequences its fall could have had on the stability of the system after the failure of the Bis. On these episodes see A.M. Falchero, *La banca italiana di sconto 1914-1921. Sette anni di guerra*, Milan: Angeli, 1990; Confalonieri, *Banche miste e grande industria*; G. Toniolo, ‘Italian banking, 1919-1939’, in C. Feinstein (ed.), *Banking, Currency and Finance in Europe between the Wars*, Oxford: Clarendon Press, 1995; P. Sraffa, ‘The Bank Crisis in Italy’, *The Economic Journal*, 32 (126), 1922, pp. 178-97.

⁴⁴Confalonieri, *Banche miste e grande industria*; G. Mori, ‘Le guerre parallele. L’industria elettrica in Italia nel periodo della grande guerra (1914-1919)’, in Id., *Il capitalismo industriale in Italia. Processo di industrializzazione e storia d’Italia*, Roma: Editori Riuniti, 1977.

⁴⁵The two holding companies set up by Comit and Credit were, respectively, Comofin and Cofina.

⁴⁶In 1924 Credit had to counter a new raid by Gualino (Snia): all managers and middle managers (from managing directors to the last branch office’s cashier) resigned simultaneously compelling Gualino to withdraw; UniCredit Historical Archives (Uha), *Minutes of the Board of directors*, 28/4/1924; letters of resignation are preserved in Uha, Direzione Centrale (Dc), Segreteria Alta Direzione, Cassaforte riservata della Dc, 42, *Credito Italiano – Avv. Gualino (assalto 1924)*. A description and discussion about changes in universal banks ownership structures and its consequences are in S. Battilossi, ‘Did governance fail universal banks?’, *Economic History Review*, 62, SI, 2009, pp. 101-34; on financial holding companies in the 1920s see S. Battilossi, ‘Banche miste, gruppi di imprese e società finanziarie (1914-1933)’, in G. Conti and S. La Francesca (eds.), *Banche e reti di banche nell’Italia postunitaria*, Bologna:

As Fig. 3 and 4 show, banks' ability to raise deposits deteriorated during the 1920s, endangering their liquidity and compelling them to heavily rely upon inter-banking accounts, especially foreign ones, exposing them to the steep oscillations that characterized international liquidity during the decade. In fact, archive records show that both banks collected between one third to one fifth of their correspondents and current accounts from abroad. Foreign funds were crucial especially to Comit, where they represented a relevant share of the bank's resources as soon as 1922, and accounted for about the 35-38 per cent of total collection between 1923 and 1926. Moreover, in 1925, Comit had to face an important withdrawal of foreign funds and turned to the Banca d'Italia, obtaining advances as large as the 30 per cent of its total collection. During the second half of the 1920s, big universal banks found increasingly difficult to maintain their own liquidity owing to both the continuing haemorrhage of foreign funds and the deflationary downturn caused by the return of the lira to the gold standard, in 1926-7⁴⁷. Over those same years, a new Banking Act was enacted, introducing relevant changes in the institutional framework⁴⁸. Till then, banking regulation had concerned the banks of issue alone, while commercial banks had been subject to the commercial code as any other company: for the first time, then, the 1926 legislation provided a regulatory regime to the entire system. First, it overcame the long-lasting question of note-issuing, granting the monopoly on the issue of money to the Banca d'Italia; recalling the failed projects of 1908 and 1911-13, then, the new regime recognized the protection of savings as a matter of 'public interest', and it imposed to all banks capital adequacy ratios, limits to credit to any individual customer, the formation of reserves. The new legislation also introduced supervision by the central bank through direct inspections at the banks, and periodical, standardized reports of their balances. Nevertheless, no provisions were introduced on interlocking and pyramidal shareholdings, nor on the role of groups and syndicates as it emerged in bank-industry relations after the war, basically coming too late to modify the course of universal banks' behaviour and the involution in their pattern⁴⁹.

Facing the turbulent and adverse environment of the post-war decade, in fact, big universal banks tried to strengthen their position as creditors and shareholders by forming pyramidal groups and interlocking syndicates in order to enhance

Il Mulino, 2000, pp. 307-52.

⁴⁷Confalonieri, *Banche miste e grande industria*, pp. 560-70 and 738-43.

⁴⁸Battilossi, 'Did governance fail', p. 110, notes how the introduction of the new legislation, aimed at avoiding further banking crises and at fostering the stability of the credit system, was related to the government's worries about the 'viability of the restored Gold Exchange Standard'.

⁴⁹A. Gigliobianco et al., 'Innovation and Regulation in the Wake of Financial Crises in Italy (1880s-1930s)', in A. Gigliobianco and G. Toniolo (eds.), *Financial Market Regulation in the Wake of Financial Crises: The Historical Experience*, Workshops and Conferences, n. 1, Rome: Banca d'Italia, 2009, pp. 45-73.

their market power and to secure control over industrial enterprises, quickly transforming into bank-holding companies at the head of financial-industrial groups⁵⁰. Indeed Comit and Credit did not exploit the stock exchange boom of 1922-1925 to withdraw industrial participations, but rather to gain higher profits from syndicates and market activities. Both banks, then, favoured concentration and cartels formation as means to strengthen companies and to ease monitoring and control on companies, industrial groups, and on whole industrial sectors. That was especially the case of metallurgical and electrical industries, as witnessed, for instance, by the fierce struggle that oppose Comit and Credit in their endeavour to gain control over Bastogi, a quasi-bank holding company and a coffer of electrical companies relevant stocks. Fights for Bastogi control were eventually stopped in 1926, when Beneduce imposed on Comit and Credit to jointly run the holding company⁵¹. Often competing fiercely to get rich affaires and to obtain exclusive relations with customers, Comit and Credit greatly enlarged their securities portfolios, though they then concealed the bulk of these holdings filling out-of-balance ‘special accounts’ and daughter financial companies’ portfolios with industrial stocks⁵².

Increasing commitment towards industrial financing prompted big universal banks to find new tools in order to gather information about their customers and to improve their screening and monitoring abilities over borrowers and participated enterprises. Along with interlocking directorates and monitoring of customers’ cash flows through supply of day-to-day banking services⁵³, from the 1900s Comit and Credit began developing other strategies to supervise customers and strengthen their ability to collect private information about debtors.

Comit organized a first nut of an industrial technical department, Credit relied upon expertise of some of its board members, namely Pirelli, an engineer who run the first and most important rubber company in Italy, and Castelbolognesi, a banker with a long experience on international financial markets

⁵⁰In the words of Raffaele Mattioli, Comit’s managing director after 1933, this interlocking shareholding between banks and industrial groups assumed the characters of a ‘monstrous siamese twinship’, see R. Mattioli, ‘I problemi attuali del credito’, *Mondo Economico*, n. 2 (January 13th), 1962.

⁵¹Bastogi was a former railways company, that after railways nationalisation in 1905 had become a sort of investment bank specialized in mechanical and electrical industries. When in the mid-1920s fights for its control were transforming in an endless war threatening the power industry and its stability, Beneduce succeeded in imposing a collaboration agreement to all contenders, transforming Bastogi in the ‘clearing house’ of Italian financial interests, a role later performed by Mediobanca; G. Piluso, ‘Lo speculatore, i banchieri e lo stato: la Bastogi da Max Bondi ad Alberto Beneduce (1918-1933)’, *Annali di storia dell’impresa*, vol. 7, Bologna: Il Mulino, 1991, pp. 319-73; and G. Piluso, ‘Un centauro metà pubblico e metà privato. La Bastogi di Alberto Beneduce a Mediobanca’, *Annali della Fondazione Luigi Einaudi*, vol. 26, Turin: Fondazione Einaudi, 1992, pp. 347-392.

⁵²Careful analysis of archive records allowed Confalonieri, *Banche miste e grande industria* to map quite well, even if not exhaustively, their participations and the structure of their financial and industrial ‘groups’. See also Battilossi, ‘Did governance fail’, fig. 1, p. 112.

⁵³Pino, ‘Sui fiduciari della Comit’; Vasta and Baccini, ‘Banks and industry in Italy’.

and in chemical industry. In 1915, then, Credit hired Lodolo, an electrical engineer with a relevant experience in electrical plant building and management, as general director responsible for its electrical and industrial *affaires*. Lodolo flanked Orsi as managing director in the 1920s, being especially committed to the creation of Credit's electrical group and with its financial and industrial organization⁵⁴. At Comit, a metallurgical engineer, Tansini, was hired in 1900 and flanked by Adamoli, a bank officer since 1898 and an expert in accounting and financial mathematics⁵⁵. In 1907, they were both transferred to the newly organized Technical industrial office, Tansini being the director. This office was the core of what soon became a Technical financial office aimed at the financial and technical supervision of financed and participated enterprises.

From the late 1920s it employed several young engineers and accountants, that would have worked under the direction of Di Veroli at the bank's industrial holding Sofindit to reorganize industrial companies belonging to the 'Comit group' and to coordinate the work of the bank's officers in the boards of those companies⁵⁶. During the 1920s, the two banks' technical and financial departments, however organized, flanked their managers in securing control over relevant companies and industries. The Big Two tried to impose sound financial criteria to participated companies, too, sometimes suggesting plant reorganizations and shaping holding structures, merging plants and companies to obtain more 'rational' sectoral organization, especially in metal works and mechanical engineering, electricity, gas, and chemicals. Besides, over the mid-1920s, both banks charged either their financial departments or single officers with the study of new forms of holding companies, after the example of American investment trusts, in order to implement them in Italy and to unburden their distressed balances of industrial participations, in the attempt to regain liquidity, but these projects never came to life⁵⁷.

Especially from the second half of the 1920s, owing to the deflation following to the restored convertibility of the lira at 'quota 90', the Comit and Credit

⁵⁴C. Brambilla, 'Lodolo, Alberto', mimeo, 2004. At Credit an industrial department gradually emerged in the 1910s and 1920s, devoting itself mainly with the collection of information on debtor companies. Credit also published reports on major companies (*Notizie statistiche*).

⁵⁵He taught Banking practice at Bocconi University from 1904 to 1907; G. Montanari, 'Introduzione', in Archivio Storico B.C.I., *Società finanziaria industriale italiana (Sofindit)*, Milan: Banca commerciale italiana, 1991, pp. I-LI.

⁵⁶On Sofindit engineers see F. Ricciardi, 'Gestione e riorganizzazione industriale durante la crisi: da Comit a Sofindit (1930-34)', *Archivi e imprese*, n. 18, 1998, pp. 291-343. Their activities were especially devoted to the reorganization of steel works, telephone and electrical holdings and gas companies (Terni, Ilva, Sip). After 1933 this group of experts was transferred to Iri where they went on working on the same tasks. Many of these young engineers became directors and managers in Iri's participated companies in the late 1930s, often continuing their job also in the 1950s; A. Mortara (ed.), *I protagonisti dell'intervento pubblico in Italia*, Milan: Angeli, 1984.

⁵⁷A few of these studies are still in the records of the Big Two's archives; see for instance Uha, Dc, Affari Finanziari, *Investment Trust (schema)*.

had to cope with conflicting objectives: managing depreciating portfolios which threatened their own liquidity, on the one hand, and sustaining enterprises suffering the effects of deflation, on the other. When the Great depression reached Italy in 1930-1, already weakened great banks were fiercely hit by both deposit withdrawals and securities' falling prices, whose combined effects threatened their very existence. Toeplitz and Orsi – managing directors of Comit and Credit, respectively – search for government intervention, asking for liquidity injections and trying a financial reorganization able to preserve their institutes' role both as great banks and as centres of the Italian financial capitalism.

Between 1931 and 1932 banks were refinanced twice and their participations formally sold to *ad hoc* financial holdings, still owed and controlled by the banks. Finally, when at the beginning of 1933 Beneduce, acting as the plenipotentiary of the government, imposed a radical reorganization, culminated in 1934 in the agreements among the three major banks, the Iri, the Banca d'Italia and the government itself, Comit, Credit and Banco di Roma passed under Iri's control, along with their financial holdings and industrial participations⁵⁸. The Banking Act of 1936 ratified those agreements, explicitly forbidding industrial participations to commercial banks and entrusting specialized credit institutions (Ics) with medium and long term industrial credit⁵⁹. Comit, Credit and Banco di Roma, now state-owned banks through Iri, became 'banks of national interest', preserving their nationwide network of branches and granting short term credit to (mainly large) firms⁶⁰.

Conclusions

Modern banking arose in Italy from the 1860s, following shortly the emergence of investment banking in Continental Europe around the mid-nineteenth century. As elsewhere in Europe, the new banks were aimed at financing public utilities

⁵⁸E. Cianci, *Nascita dello stato imprenditoriale in Italia*, Milan: Mursia, 1977; G. Toniolo, 'Crisi economica e smobilizzo pubblico delle banche miste (1930-1934)', in Id. (ed.), *Industria e banca nella grande crisi 1929-1934*, Milan: Etas, 1978, pp. 284-352; G. Rodano, *Il credito all'economia. Raffaele Mattioli alla Banca commerciale italiana*, Milan: Ricciardi, 1983; and Confalonieri, *Banche miste e grande industria* reconstructed in details all complex passages of these events. Here it suffices to say that the intervention by the state through Imi (1931) and Iri (1933) had a double objective: not only preventing the failure of the three most important banks, which controlled about the 48 per cent of joint-stock industrial companies, but also to rescue the Banca d'Italia, that, as lender of last resort, had found itself creditor towards the industrial sector for sums equal to about the 54 per cent of the whole monetary circulation.

⁵⁹S. Cassese, *Come è nata la legge bancaria del 1936*, Spoleto: Banca nazionale del lavoro, 1988; Id., *È ancora attuale la legge bancaria del '36? Stato, banche e imprese pubbliche dagli anni '30 agli anni '80*, Rome: NIS, 1987.

⁶⁰Confirmations of a praxis of medium and long termism by these banks through the roll over of short credits are in C. Brambilla, 'Le banche miste dopo la crisi e il risanamento (1933-1939)', *Archivi e imprese*, n. 18, 1998, pp. 345-87; and in A. Gigliobianco, G. Piluso, G. Toniolo, 'Il rapporto banca-impresa in Italia negli anni Cinquanta', in F. Cotula (ed.), *Stabilità e sviluppo negli anni Cinquanta*, vol. 3, *Politica bancaria e struttura del sistema finanziario*, Rome-Bari: Laterza, 1999, pp. 225-302.

and other capital intensive industries, characterized by differed profitability and high degree of risk. Between the unification of the country and the crisis of the early 1890s, big banks supported a first wave of investments that mainly interested infrastructures, while later on they were able to foster the first wave of industrial growth, occurred between the late nineteenth century and the first world war.

Through the whole period, the affirmation and consolidation of investment banking took the form of an evolutionary process of innovation during which big banks – inspired first to French and later to German experiences – tried to find out their own pattern and to root in a newly emerging financial system, tweaking to the developments of markets and institutions, as they gradually came forth, mainly in response to crises. Nevertheless, financial innovation was not always attended and steered by ‘regulative’ and ‘institutional’ innovation, thus compelling banks to adapt their strategies to the specific kinds of guarantees and risks they can rely upon and have to cope with. That affected the composition of the set of activities, the peculiar ‘crafts’, they could opt for performing their allocative functions. In Germany, for instance, the choice for universal banking found support in the evolution of the institutional and legal framework: on the one hand, policies of the central bank were aimed at protecting banks from overly sharp fluctuations and shocks; on the other, legislation on companies and on the stock exchange enhanced banks’ ability to manage riskier activities. In Italy, instead, the institutional framework proved unable to sustain and foster the widening of credit and capital markets and to promote the integration of a segmented system⁶¹, hence preventing banks from specializing, as happened in France, but also to adopt a ‘classic’ universal banking pattern, as in Germany⁶².

Data on liabilities of the system’s components, in fact, show how difficult it was for big joint stock banks to grow larger and to raise funds, and how they suffered competition from non-for-profit segments. Furthermore, contestable intermediaries were but a residual part of the credit system, that was indeed dominated by non-contestable institutions, hence even worsening the ability of big universal banks to develop and to adopt less riskier attitudes. In addition, Italian banks had to cope with a legal system that neither enhanced minority shareholders’ rights – providing, for instance, for stronger controlling bodies and institutions as in Germany – thus limiting information disclosure by companies,

⁶¹On the segmentation of the Italian banking system see G. Conti, ‘Le banche e il finanziamento industriale’, in Amatori et. al. (eds.), *Storia d’Italia*, Annali, 15, *L’industria*, Turin: Einaudi, pp. 443-504; and G. Piluso, ‘Mercati settoriali e squilibri regionali nella formazione di un sistema bancario in Italia (1860-1936)’, in G. Sapelli (ed.), *Capitalismi a confronto: Italia e Spagna. Atti del secondo seminario internazionale di storia d’impresa*, Soveria Mannelli: Rubbettino, 1998, pp. 83-157.

⁶²M. De Cecco, ‘La «Protezione del risparmio» nelle forme finanziarie fasciste’, *Rivista di storia economica*, n.s., 3 (1986), n. 2, pp. 237-41.

nor limited the speculative attitudes and prices' volatility of the stock exchanges. All that led to higher grades of opacity as for investment projects' quality and industrial undertakings' performances, and to higher degrees of risk connected with capital investments.

As a consequence, Italian great banks, whose monitoring and controlling strategies implied the acquisition of larger voting rights, were more exposed to liquidity risks and to financial crises, as the experience of Credito Mobiliare Italiano and Banca Generale showed. New universal banks addressed these issues trying to overcome credit markets segmentation by developing stable relations with European great banks and bankers, and to minimize their commitments towards industry by relying upon proxy voting, as large shares of securities deposits accounts and contangos in their balance sheets show, thus developing a distinctive universal banking pattern. Though these strategies proved effective in the medium term, they tended to improve capital markets weaknesses and instability, and after the 1907 crisis shook the system, banks' involvement in industrial companies grew, leading to their transformation in quasi-financial holdings during the 1920s and eventually to their failure at the end of the decade.

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