

The Consequences of the Crisis of 1929 on the Italian Banking System

1. Awareness of the Crisis

Only towards the middle of May 1930 did discussions about the crisis in Italy begin. On outlining to the House the economic situation in the world's leading countries the Minister for the Corporations the Hon. Bottai admitted that it would be "absurd to expect that only Italy was able to enjoy a favourable economic situation. "We too", he confessed, "have our own difficulties, our own problems and our own crisis".¹ In Italy, too, the fall in prices had in fact brought about "a difficult situation", especially in the raw materials and primary products sector and in that of agricultural produce. Hence "a marked reduction in the farming community's purchasing power had ensued" with repercussions on home trade, as shown by the fall in consumption indices and in the industrial situation. Seven months after the American Stock Exchange crash, Italian industry manifested uncertainty and sluggishness in its business activities and an increase in the bankruptcy rate, as well as in dishonoured bills, along with "a definite increase in unemployment".²

Economic difficulties at home were inextricably associated with those of foreign accounts. Even if imports and exports had fallen as a consequence of the crisis, the trade balance continued to register a marked deficit, which was not cancelled out by the so-called 'invisibles' in the balance of payments.

The flow of tourists reflected the precarious conditions of the world economy, while the Italian migration flow, which was already in decline on account of the well-known American laws of 1923-24, had undergone further contraction. Emigrants' remittances, albeit calculated at fifteen hundred thousand million lire, especially those paid into the post-office savings banks, had recorded substantial reductions. Freight volumes had also decreased. The crisis in maritime cargoes caused by the disparity between world tonnage supply and the continued fall in the volume of sea traffic did not inspire any real hopes, considering also the drop recorded in the export of wheat from the centres of production overseas. In order to redress the deficit in the balance of payments the Note-Issuing Bank had no alternative but to resort to its reserves,³ which continued to fall during the crisis, dropping from 12,454,000 lire in 1927 to 10,472,000 lire in 1929, to touch 6,175,000 lire in 1934, without, however, weakening the lire. The impact of the reserves on money circulation was almost always greater

¹ A.P., *Camera dei Deputati, Discussioni*, 20 May 1930, p. 2750.

² *Ibid.*

³ F. Guarneri, *Battaglie economiche fra le due guerre*, (Milano: Garzanti, 1953), pp. 170 ff.

than 50%, occasionally touching 67%, and at its lowest fluctuated around 47%,⁴ a percentage much higher than that required by the famous Peel Law, and was accounted for only by the rigorous defence measures adopted by the government to keep the exchange rate unimpaired, which was fixed on the basis of a pound sterling being equivalent to ninety lire, and also by defending it when, as happened in September 1931, sterling had been considerably devalued.

2. The Economic Crisis was no Novelty in Italy

When the crisis exploded in October 1929 the Italian economic system had been in serious difficulties for some time, at least since Mussolini had held the Pesaro Talks on 18 August 1926. The tough deflationary policy which from that time onwards was beginning to be felt, had upset the development outlook based on the failure of a trend towards a general increase in prices. The adoption of the "quota novanta" had been converted into "the fall in the prices of land, building, goods, and stocks and shares, dealing a severe blow to agriculture and industry", wherefore, although trying to play down the negative effects deriving from the devaluation of money, the banking system arrived on the eve of the 1929 crisis, just like the rest of the national economic system, that is to say "tired, worn out and oppressed".⁵

All the banks had proved to be affected by the crisis to varying degrees, but the more seriously affected ones, partly on account of their size, were the two mixed banks, namely *Banca Commerciale Italiana (Comit)* and *Credito Italiano (Credito)*. As early as 1927 the former had already shown real "concern for [its] economic progress", "bank mergers" and the drop in the income of its branches, as a result of which it was contemplating closures and dismissals. This was already happening at other banks, and the following year precautionary measures were stepped up.⁶

Nor was *Credito* any better off. Through an agreement with the Ministry of Finance in December 1927 *Credito* had managed to improve the state of its liquidity by issuing several million lire in state bonds. In 1928 a search was underway to find the most suitable ways "for disinvesting the Bank's holdings", and in June 1929 brains were being racked over the expediency of creating a holding company, that is to say a finance company, whether to transfer "[its] main, most secure and stable profit-sharing company", so as to put on the market "all the shareholdings transferred to the holding company", in the form of shares and bonds and easy securities, implementing, that is to say, a securitization settlement of the shares possessed.

⁴ Cf. R. De Mattia, *I bilanci di emissione italiani dal 1845 al 1936. Altre serie storiche di interesse monetario e fonti*, (Roma: Banca d'Italia, 1967), pp. 458-460.

⁵ F. Guarneri, *op.cit.*, p. 308.

⁶ A. Confalonieri, *Banche miste e grande industria in Italia 1914-1933*, Volume I, p. 476.

Thus a few days later *Ageva* was created in Milan, a Securities Management Company with a capital of 5 million lire, later increasing to 200 million.⁷

In its attempt to stop the disintegration of the industrial system and the breakdown of financing banks the government had tried to revive the CSVI (*Consorzio Sovvenzioni su Valori Industriali*). This has been set up in 1914 and although barely active during the war it had played a significant role from the post-war period⁸ onwards in supporting industries undergoing financial setbacks. The CSVI had then operated actively until 1933, considered as "our real and proper industrial credit institution", being in a certain sense "clandestine" and "*ante litteram*".⁹

However, the *Istituto di Liquidazione*, a public authority, was created by Law Decree n. 1832 of 6 November 1926 to counter the consequences of deflation and was provided with modest capital resources which were subsequently considerably increased. All the assets, debits guarantees, privileges and any other claims borne by the suppressed Special Division of the CSVI had been transferred to this institution which had been a leading actor in a number of very important interventions on behalf of several financial and credit institutions and large companies. The *Istituto di Liquidazione* was to be gradually faded out without taking on further liquidations, through the ceasing of activities, credit settlements and cash conversions, and the debts inherited from the Special Division of the CSVI owed to the Bank of Italy.

The Institution was to be dissolved as soon as the debts had been paid off. In the years 1927-30 the debts, albeit considerable (1,274 million lire), were still only a part of the inherited debt.¹⁰ In the meantime the banking system had continued to deteriorate.

3. The First Breakdowns

As early as 1927 several banks had been forced to merge in order to survive. This was the case for *Banca Depositi di Brescia* and *c/c Maxola e Perlasca*; *Banca Biellese* (of Biella) as well as *Banca della Penisola Sorrentina*, taken over by *Banca Agricola Italiana* (BAI).¹¹ Other banks, including a large number of Catholic banks, were on the brink of being put into liquidation, while their leader *Credito Nazionale*¹² was in fact liquidated. Bank mergers and closures intensified in 1928. During the year the cooperative *Banca di Trento* and *Banca Cattolica Trentina* merged into *Banca del*

⁷ *Ibid.*, pp. 670-671.

⁸ *Ibid.*, pp. 369-372

⁹ *Ibid.*, p. 386.

¹⁰ *Ibid.*, pp. 400 ff.

¹¹ *Pro-memoria* [by Riccardo Gualino] dated Rome, 14 October 1929 in G. Guarino - G. Toniolo (eds.), *La Banca d'Italia e il sistema bancario 1919-1936*, (Laterza, 1993), pp. 598-599, 601-602.

¹² *Ibid.*, p. 60

Trentino e dell'Alto Adige.¹⁵ *Piccolo Credito di Ferrara* closed down completely, while *Banca Marchigiana di Ancona*¹⁶ went on to merge with *Banca delle Marche e degli Abruzzi*. With regard to the Roman *Banca Regionale* its merger into *Banco di Santo Spirito*¹⁷ was decreed at the close of 1928, to commence from the following 1 January.

In the meantime the situation of the Catholic banks had become increasingly precarious. On 3 April 1929 *Piccolo Credito di Cuneo*¹⁸ collapsed and ceased business, being one of about 50 banks forming part of the Italian Banking Federation.¹⁷ But in the opinion of the Undersecretary for Finance, Ettore Rosboch, at least another nine banks were about to follow the same fate. If that had happened, there would not have been any shortage of "repercussions on the banks of the neighbouring regions now in serious financial difficulties, which still managed to keep going despite tremendous difficulties only because they were sustained by the hope of a general rescue".¹⁸

Rosboch informed Mussolini that "the collapse of one of the Venetian and Amelian banks" would have brought about "within a short time the subsequent collapse of the sixteen financially-ruined Catholic banks of North Italy and of Emilia, which taken together had a thousand million lire in deposits". Yet he excluded "the rescue of all the 19 Catholic banks in financial difficulties".

He proposed to "let the five banks in the greatest financial difficulties collapse (Padua, Rovigo, Trieste, Piacenza, Milan) together with the two Piedmont banks (Turin, Aosta) associated with the [bankrupt] *Piccolo Credito di Cuneo*", and to rescue the other financially-ruined ones through a merger with the more solid banks, favouring, on this occasion, the 15 confederate banks "so as to form more solid institutions ... to prevent setbacks and dangers". He added that the work of recovery could be carried out through *Istituto Centrale di Credito*. This had been set up in December 1928 and, once it had been properly reorganised,¹⁹ it was committed to solving the problem of the Catholic banks undergoing financial difficulties.²⁰

Convinced that this was the right approach, Stringher would have liked D. Menichella, the then-director of *Banca Nazionale di Credito*, to be at the helm of the new bank. But Menichella declined the offer, saying that he did not have any knowledge of, or relationship with, the Catholic environment

¹⁵ Confalonieri, *op. cit.*, vol. II p. 295.

¹⁶ G. Guarino-G. Toniolo (eds.), *op. cit.*, pp. 569-571.

¹⁷ Stringher to Mosconi, Rome, 22 December 1928, *Ibid.*, pp. 569-571.

¹⁸ *Ibid.*, p. 574 n.

¹⁹ The list of the banks adhering to the Federation may be read in *Ibid.*, pp. 526-527.

²⁰ Rosboch to Mussolini, Rome, 9 April 1929, *Ibid.*, pp. 574 ff.

²¹ *Ibid.*, pp. 577-579.

²² *Ibid.*, pp. 62-63.

and, that anyway he considered the task impossible, in view of "the technical difficulties the project presented", and for which large sums would have been required to cover the losses.²¹

4. Banca Agricola e Commerciale del Mezzogiorno (BACM)

At the beginning of 1929 the financial setbacks and bankruptcies of the Catholic banks were also affecting South Italy. Apart from minor local banks like *Società Bancaria Abruzzese* and *Cassa del Piccolo Credito Salentino* in Lecce,²² many banks closed down their businesses including *Credito Meridionale*,²³ a Catholic bank created in 1921 following the merger between *Banca di Credito Popolare di Terra di Lavoro* in Caserta and *Banca Cattolica del Sannio* in Benevento. With its collapse *Credito Meridionale* dragged *Banca Cattolica di Calabria* in Cosenza in its wake – taking possession of its majority share holding – as well as *Banca Regionale di Sicilia* in Palermo and *Credito Pugliese* in Bari.²⁴ To these we may also add the closure of *Banca Popolare di Campobasso* and *Banca Meridionale di Credito* in Bari. On the whole closures affected some 500 banks with over 250 million lire in deposits.²⁵

Faced with the spread of financial bankruptcy, the government received a proposal to set up *Banca Agricola e Commerciale del Mezzogiorno* (BACM) with a fund of 30 million rising to 50 million lire which was provided by the Bank of Naples (Banco di Napoli). The bank was to have independent management, with the objective of "recovering and coordinating the business of the small banking institutions in the Mezzogiorno".

The BACM started its activity in July 1929, and, besides merging the already-mentioned *Credito Meridionale*, it reorganised *Banca del Sud*, *Banca Popolare di Napoli*, *Alfedena e Caiazzo*. The banks affected totalled 363, including main branches and subsidiaries with some offices operating inside other banks like the Bank of Naples. The BACM proceeded to rationalise the banks that were to be merged or brought into line by closing a substantial number of bank outlets and reducing them to a very low number.

Not all the banks in a precarious financial state were merged or brought into line by the BACM. Some, whose conditions were desperate were left to their own fate, including *Banca Regionale Pugliese*, *Banca Popolare di S. Giorgio Magno*, and *Cassa Agraria di Avellino*.

²¹ *Menichella to Stringher*, Rome, 12 May 1928, *Ibid.*, p. 533.

²² Regarding Catholic Banks in the Italian Mezzogiorno cf. L. De Rosa, *Storia del Banco di Roma*, (1983).

²³ *Relazioni del ragioniere Emilio Punturieri sulle Banche Cattoliche*, Rome, April 1928 in G. Guarino - G. Toniolo (eds.) *op. cit.*, pp. 526-527.

²⁴ *Stringher to Volpi*, Rome, 7 February 1928: "L'ispezione al Credito Meridionale evidenzia una situazione d'estrema gravità", *Ibid.*, pp. 505-516.

²⁵ Cf. L. De Rosa, *Il Banco di Napoli tra fascismo e guerra*, (Napoli, 2005), p. 189.

The creation of the BACM was not a good venture for the Bank of Naples. The work of recovering and rationalising the South Italian credit system that the BACM had set itself resulted in huge losses. In the year 1933 alone, BACM losses reached 11 million lire. But even worse were the figures for 1934 since, by the end of that year, losses amounted to around 15.5 million lire. From the records it is not possible to establish with any certainty the extent of losses at the end of 1935. The fact that the Bank decided to proceed with the takeover of BACM with effect from 1 May 1936, suggests that its entire capital had been eaten up by losses.²⁶ However, had the Bank of Naples not taken it over and had BACM been burdened with its losses, the only way out would have been to take its books to the bankruptcy court. What needs to be emphasised here is that in the Central-North of Italy credit recovery and the concentration of several banks were not carried out at the expense of the local banks but by the state. In the South of Italy, by contrast, it was the Bank of Naples that was burdened with responsibility for the crisis that had overwhelmed the local banking system. That this was the government's policy in the matter also emerges from the cases of *Cassa di Risparmio Salernitano* and *Monte di Pietà di Cagliari*.

What had brought Cassa di Risparmio Salernitana into crisis had been the worsening agricultural situation and the difficulties into which the local industrial sector had fallen.

In the course of 1930 the number of deposits had almost halved, so that at the beginning of 1931 there was widespread fear of a sudden possible financial crash that would deal a serious blow to the banking system and especially to that of the savings banks. Mussolini himself took an interest in this situation, and urged the Bank of Naples to take over the Savings Bank before its collapse. The Bank's attempts to avoid another conspicuous loss have been related elsewhere, but it was not possible. Even if a contribution had been made by the Association of Saving Banks,²⁷ the merger was not a matter for the Bank of Naples, and the loss that ensued easily exceeded 3 million lire.²⁸

In 1931 the Bank of Naples had to take over *Monte di Pietà di Cagliari*, which was rife with losses and on the brink of collapse.²⁹ granting 3 million to cover the Monte's losses the *Istituto di Liquidazione* had specified that the grant was made "on condition that the takeover of the Monte by the Bank of Naples would follow".³⁰ But that was not the end of the story. The fall in the price of cereals and those of other foodstuffs had seriously affected the sav-

²⁶ At the end of 1938, from the liquidation account the losses proved to be close to 80 million lire. Cf. L. De Rosa, *Il Banco di Napoli*, *op. cit.*, pp. 306-307.

²⁷ L. De Rosa, *Storia delle Casse di Risparmio e della loro associazione, 1822-1950*, (Roma-Bari: Laterza), pp. 270 ff.

²⁸ *Idem*, *Il Banco di Napoli*, *op. cit.*, pp. 310 ff.

²⁹ *Ibid.*

³⁰ A. Confalonieri, *op. cit.*, p. 408.

ings banks, especially in the South. The savings banks of Puglia, Molise, Campania and Basilicata had been those more seriously affected, and between 1928 and 1929 the situation of many had already appeared at risk. To prevent their collapse from creating panic among savers of other institutions, the government had urged the Bank of Naples³¹ to merge into its own savings bank, the saving banks of Bari, Andria, Barletta, Casamassima, Cassano, Cassano Murge, Lucera, Santeramo in Colle, Isernia, Moliterno, Piedimonte d'Alife, Forino, Muro Lucano and Marsiconuovo. The Bank of Naples had been forced to accept.³² Apart from the problems it created the merger proved certainly quite painful and turned into a considerable loss.³³

5. The Catholic Banks

We have spoken of the risk of collapse that many Catholic banks were facing, and that if the entire system was not to collapse – and it seemed that Mussolini did not want this to happen³⁴ – it was necessary to give practical implementation to the newly-constituted *Istituto di Credito Centrale*. For it to operate, the Holy See, the Italian government and the Bank of Italy agreed upon ways and means of cooperation and bodies with whom to cooperate, while loans were granted to it both by the Holy See and by the Bank of Italy.³⁵

However, setting up the new bank required more time than might have been supposed. In order to intervene on behalf of any one bank, it was necessary to examine and evaluate the nature and prospects of its individual fixed assets, and to establish, even approximately, the liabilities threatening each of them, including all the operations actively involving the bank, especially considering that, in the case of the Venetian banks, the Catholic Banks were going through one critical period after another.³⁶ It thus becomes clear why only in the second half of 1930 was it possible to arrive at the decision to merge some of them, but not all of them, into *Banca Cattolica del Veneto*.³⁷ Others, like *Credito Veneto*, *Banca della Venezia* and *Credito Polesano*, had to be left to their own devices.

³¹ Cf. Royal Decree, 25 April 1929, n. 905.

³² L. De Rosa, *Storia delle Casse*, op. cit., pp. 269-270.

³³ L. De Rosa, *Il Banco di Napoli*, op. cit., p. 155.

³⁴ G. De Rosa, *Una Banca cattolica fra cooperazioni e capitalismo. La Banca Cattolica del Veneto*, (Roma-Bari: Laterza, 1991), pp. 160-161.

³⁵ The Holy See granted a loan of 50 million for a period of 6 years at 2%; the Bank of Italy granted a loan that soon reached 90 million lire at 1.5%. Cf. *ibid.*, pp. 580-591, 723. The Bank of Italy however, refused to guarantee the reimbursement of the loan of 50 million lire to The Holy See. Cf. *Stringher to Mussolini*, 25 April 1930 (*ibid.*, pp. 584-585).

³⁶ Cf. G. De Rosa, *Una Banca cattolica fra cooperazioni e capitalismo*, op. cit., p. 160.

³⁷ i.e. the Cattolica di Udine, the Cattolica di Atestina d'Este, the Cattolica di Pieve del Cadore, the Banca Provinciale di Udine, the Banca Feltrino, the St. Liberale, the Banca Provinciale di Belluno, etc., *ibid.*, pp.166-167.

The fate of *Piccolo Credito Novarese*, however,³⁶ was different, and was taken over by *Banca Popolare di Novara*.³⁷

The Bank of Italy did not appear to be completely satisfied with the way the bank's operations were going. "The Catholic Banks", it observed, "have created this central body just as they wished, and in order not to take on negative responsibilities which could harm progress, the government has quite rightly granted its authorisation. But it is certain that the situation is not essentially changing, and those Institutions that have a balance "in deficit" that cannot be remedied will not be able to survive for long".³⁸

The Bank of Italy also levied serious criticism at the rural savings banks which were generally under Catholic influence and which were beginning to disintegrate. The *Istituto di Liquidazione* had to intervene to cover the losses of 18 rural savings banks in Istria.³⁹ In the continental Mezzogiorno the expenses and losses that the Bank of Naples had to incur in 1931 for the takeover of the agrarian savings banks and the local wheat agencies were such that the allocated funds of some 5 million lire were insufficient. It was reconstructed but it was still insufficient.⁴⁰

Taken together the Bank of Italy generally considered the rural savings bank to be "administered by incompetent people, while [they had] gathered considerable deposits, employing them without much real reassurance, or transferring them in their turn to religious institutions". This was a state of affairs which, according to the Bank of Italy, was to be kept under surveillance, as it led to bankruptcies that could upset "entire country-towns, as happened at Bagnoli in Turin".⁴¹

Despite these criticisms, Mussolini, who evidently intended to give proof of his loyalty towards the Lateran Treaty which he had signed with the Holy See in 1929, passed a decree on 31 December 1930 that completely changed the responsibilities formerly assigned to it and authorised the Liquidation Institution to carry out a series of disinvestment operations on behalf of banking institutions for covering their losses. To this end he allotted 90 million lire to the central credit institution of the Catholic banks which was to be paid back according to the terms agreed upon with the Issuing Bank, in addition to other considerable sums in favour of other Catholic banks, including *Banca Popolare di Novara*, *Banca delle Marche e degli Abruzzi*, *Banco di Santo Spirito*, *Istituto San Paolo di Torino*, *Banca Provinciale di Rovigo* and *Banca del Trentino e dell'Alto Adige*.⁴²

³⁶ *Ibid.*, p. 170 ff.

³⁷ Cf. G. Guarino - G. Toniolo (eds.), *op. cit.*, pp. 744-746.

³⁸ Note from the Bank of Italy, dated 1930, *Ibid.*, pp. 722-724.

³⁹ A. Confalonieri, *op. cit.*, p. 408.

⁴⁰ L. De Rosa, *Il Banco di Napoli*, *op. cit.*, pp. 239-240.

⁴¹ Draft of the Bank of Italy, dated 1930, G. Guarino - G. Toniolo (eds.), *op. cit.*, pp. 722-724.

⁴² Decree by the Head of Government, dated 31 December 1930, *Ibid.*, pp. 736-739.

6. Banca Agricola Italiana

Apart from favouring the Catholic banks the *Istituto di Liquidazione* intervened to cover losses or to make contributions to merging banks in financial difficulties, on behalf of other banks, such as *Banca Nazionale dell'Agricoltura*, *Banca Toscana*, and *Banca Nazionale del Lavoro*.⁴⁵ But the major upset in which the Liquidation Institution was involved, and for which it undertook to repay 1,146 million lire⁴⁶ with a resolution dated March 1931, was that of the Turin *Banca Agricola Italiana* (BAI). Within a few years, the bank had established itself unscrupulously throughout Italy through bank takeovers with low profitability, opening up headquarters, main offices, subsidiaries and temporary offices. Like other banks it did not escape the crisis and at the end of 1929 was burdened by frozen assets for some 950 million lire and losses assessed at about 495 million lire⁴⁷, with very little liquidity at its disposal.

Although the government and the Bank of Italy had intervened in that very year 1929⁴⁸ and again in 1930,⁴⁹ the conditions of the BAI had not improved. Indeed, they had rapidly worsened especially after the fall of R. Gualino, who had been its chief proprietor.

Aware of the repercussions Gualino's fall would have throughout the country, Mussolini acted to prevent the public from perceiving the gravity of the situation and gave orders to transfer assets and liabilities to the Liquidation Institution, which, however, not being authorised for banking practice, could not have borne the network of branches and their activities on its own shoulders.⁵⁰ Thus it was established that the 422 branch offices would be distributed among several banks. In this regard the Bank of Naples declared itself ready to take over the branches situated in the continental Mezzogiorno and in Sardinia. But it was not easy to assign the remaining branches.

The economic crisis had gone from bad to worse. Bankruptcy declarations had increased from 8,000 in 1926 to 25,000 in 1932. The number of disputed bills increased from 650,000 in 1925 to 1,617,000 in 1932.⁵¹ *Istituto San Paolo di Torino*⁵² was especially determined not to heed the government's invitation. Yet in the end, albeit under protest, like other banks it had taken the

⁴⁵ A. Confalonieri, *op. cit.*, pp. 408-409.

⁴⁶ *Ibid.*, p. 409.

⁴⁷ Cf. *Pro-memoria* of [Riccardo Gualino], 14 October 1929 in G. Guarino-G. Toniolo, (eds.) *op. cit.*, pp. 397 ff.

⁴⁸ *Conversazioni tra il Ministro delle finanze, la Banca d'Italia e Gualino*, Rome, 29 October 1929, *Ibid.*, pp. 608-613.

⁴⁹ *Azzolini to Mosconi*, Rome 23 October 1930, *Ibid.*, p. 614.

⁵⁰ *Mosconi to Azzolini*, 26 March 1931, *Ibid.*, pp. 615-617.

⁵¹ A. De Stefani, *Baraonda bancaria*, (Milan: Borghese Editions, 1960), p. 532.

⁵² On the distribution of bank offices and the difficulties encountered among the various credit institutions. Cf. L. De Rosa, *Il Banco di Napoli*, *op. cit.*, pp. 210-211.

BAI's banking activities upon itself and took over those located in Piedmont and in Liguria. In return, however, it obtained considerable benefits, the same as those that had later been granted to the other banks that had agreed to take over the BAI's banking activities.

The only bank that did not have any incentive to and had to incur the full cost of the BAI rescue by taking over 27 branches and 147 correspondence offices was the *Banco di Napoli*.⁵³

Minister Mosconi unscrupulously justified such treatment by claiming that the conditions of the banks which had received incentives were different from those of the *Banco di Napoli*, a difference that Mosconi, evidently intended either consciously or unconsciously to remove. And that is not all! That he intended to burden the Bank with other responsibilities emerges from the correspondence between him and Azzolini in February and March 1931. Mosconi claimed that he should obtain greater advantages from the Bank of Naples. In fact he expressed his disappointment because the bank had refused to offer "a token of goodwill for taking over the BAI".⁵⁴

7. The Difficulties of *Comit* and *Credit*

1931 was the year in which the national banking system showed ominous signs of a general breakdown. In July Toeplitz had informed Azzolini about *Comit*'s difficulties.⁵⁵ But the situation worsened during the summer, especially after the German moratorium, the collapse of *Credit-Anstalt*⁵⁶, the Hungarian and German banking crisis and the fall in sterling. The finance market crisis took on "an increasingly marked character". *Comit*'s shares recorded a decline as did those of *Consorzio Mobiliare Finanziario* (Comofin) which possessed a large part of the *Comit* shares; pressure on *Comit*'s finances became heavier and its liability towards the Bank of Italy took on exceptional and preoccupying forms. Toeplitz recounts that at that point he decided to go to Mussolini and to explain the situation to him in private. This was 26 September 1931.

Toeplitz writes: "I explained the situation to him in its totality, including the part that was the most delicate for us, that is to say the indirect financing of our [*Comit*'s] capital". Mussolini "immediately understood that it was necessary for us to take appropriate action, and he declared himself willing to do whatever was necessary. He asked that a programme and an exact appraisal of the

⁵³ *Ibid.*, pp. 211-212.

⁵⁴ *Ibid.*

⁵⁵ The managing director of *Comit*, Giuseppe Toeplitz, to the Governor of the Bank of Italy, Vincenzo Azzolini, Milan, 1931 in G. Guarino-G. Toniolo (eds.), *op. cit.* pp. 746-747.

⁵⁶ The *Credit-Anstalt* crisis was already publicly known at the beginning of 1931. cf. A. Schurbert, *The Credit-Anstalt Crisis of 1931*, (Cambridge University Press, 1991), pp. 4 ff.

situation be prepared" Toeplitz duly prepared these and after some weeks returned to Rome, and showed them to Mussolini. The programme he presented became the subject of considerable discussion and was modified considerably⁵⁷ but it put *Comit* on safe ground. Toeplitz made it clear that *Comit* did not achieve "complete reconstruction" and ensured "a liquidity coefficient" such as was not to be found "in any other important bank in the world". By transferring it to *Sofindit* (*Società finanziaria industriale*)⁵⁸ it got rid of "all its portfolio of quoted stock and industrial stock, with the exclusion of its bank holdings, gilt-edged state securities and those guaranteed by the state, and its industrial bonds" worth a total amount of about 4,000 million lire.⁵⁹

Mussolini, who was the first signatory of the Agreement, having approved the text of the official statement, authorised its release to the press which *Comit* made public on 3 November 1931. In giving news of the agreements reached,

⁵⁷ Taking part in deciding it were the Minister of Finance Antonio Mosconi, the Governor of the Bank of Italy Vincenzo Azzolini, the President of *Comit*, Ettore Conti, Giuseppe Toeplitz himself and Ugo Baracchi Director of the Rome representation of *Comit*. The text of the Convention agreed upon between *Comit* and the government dated 31 October 1931 and signed by Mussolini and the participants in its formulation is reproduced in its entirety in G. Guarino-G. Toniolo (eds.), *op. cit.*, pp. 756-761.

⁵⁸ Previously known as *Società Industriale Italiana* and as *Società Industriale Italiana Cisalpina* (v. Confalonieri, *op. cit.*, vol II p.479) *Sofindit*, with a capital of 10 million lire was part of *Comit* (*Relazioni di Toeplitz al Cons. di Amm. della Comit*, Milan, 3 November 1931, in Guarino-Toniolo (eds.), *op. cit.*, p. 764); to mobilise *Comit* its capital was first increased to 100 and then to 300 million lire. Having acquired *Comit*'s fixed assets, *Sofindit* was then sold entirely to a group of industries and to several banks associated with *Comit*, to close the operation in question with *Società Commerciale d'Oriente*, which, in turn had obtained them from *Comit*. In short *Comit* became owner of *Sofindit* with a stake of 300 million lire "as a residual of [its] enormous stake in industrial shares". Having received the 300 million *Sofindit* was to have acquired the shares of *Consorzio Mobiliare Finanziario* (*Comofin*), which possessed most of *Comit*'s shares. For the above-mentioned parcel of shares obtained from *Comit*, *Sofindit* paid a thousand million lire in advance, enabling it to reduce its debt to *Comit* from about 4 to about 3 thousand million lire. *Sofindit* was to obtain the thousand million in question from "special government provisions", and from a securitised credit company which was being set up and whose bonds *Sofindit* would apply for to obtain further financing.

The bank in question (*Istituto Mobiliare Italiano*, IMI) was, in fact, set up (by royal law decree 13 November 1931 n. 1398 and 4 December 1931) with the task of making loans, on real security-type guarantees, to industrial enterprises, and possibly investing in the company. Public and private insurance, credit and public law bodies (cf. I. De Rosa *Storia delle Casse di risparmio*, *op. cit.*, pp. 274 ff.) all provided its capital worth 500m lire. And that was not all. In addition *Comofin*'s capital was to be increased and supplied by the same investors involved in the *Sindacato per acquisti e vendite di azioni Comit*, which was to be wound up and was to hand over to *Comofin* both the new shares and the 300 thousand shares already in its possession. *Comofin* would therefore find itself in possession of some 1,300 thousand shares. For this operation *Comofin* would issue bills on behalf of *Sofindit* of up to 800 m lire, renewable for up to 5 years every four months, which the Bank would discount, against the deposit of a million *Comit* shares as surety. (c.f. *Relazione* ..., *op. cit.*, pp. 761-768).

⁵⁹ Cf. Agreement between Banca Commerciale Italiana, the Government and the Bank of Italy on 31 October 1931 signed by Mussolini, Mosconi, Azzolini, Conti, Toeplitz, Baracchi, in G. Guarino-G. Toniolo (eds.) *op. cit.*, p. 759.

the statement⁶⁰ stipulated that the reconstruction of *Comit* should come about in such a way as to avoid any danger of pressure on the market, without incurring losses, with stability in placing investments, and with ensured financing over a long period of time, together with autonomy of operations. However, less than a month had passed when Toeplitz complained of a 29% reduction in supply, with prospects of further reductions. Only a few had believed in a lasting rescue plan. "Regrettably", he wrote, "the accuracy of the statement is questioned. They are discussing in the coffee bars what is going to happen next". But he added that he considered it "an illusion to suppose that the published statement would yield a lira's worth of benefit, keeping [*Comit*] on a limited budget, with the risk within a few days "of having to beg some cheque-bearer to report back again a few hours later".⁶¹ And while he allowed the value of the share parcel transferred to *Sofindit* to grow from 3,850 to 4,036 thousand million lire,⁶² Azzolini informed Mussolini that, apart from the one thousand million lire provided by the *Istituto di Liquidazione*, the Bank of Italy had discounted *Comofin* bills for 800 million and furthermore, had outstanding bills to pay on *Comit* worth about a thousand million lire of a purely financial nature.

And all this had been "carried out for higher reasons of general interest", without necessarily adversely affecting the Bank of Italy's assets.⁶³

Toeplitz had been wrong to state that it would be the newly-constituted IMI that would come and rescue *Comit*. In his inaugural speech delivered on 5 December 1931 the company's President, Mayer, did not brook any ambiguity: rather, he stated in no uncertain terms that IMI had been created "healthy and vital" and should continue as such and that it was not IMI's job "to correct the errors or solve other people's problems, to make changes through complicated and dangerous financial operations on the basis of undertakings whose figures have for various reasons been miscalculated".⁶⁴

With IMI exonerated from the bank rescue operations, the responsibility for this burden ended up by falling on the *Istituto di Liquidazione*, and consequently on the Bank of Italy. Meanwhile, the intervention on behalf of *Comit* drove many other banks to turn to Mussolini for help.⁶⁵ Confirmation of this is to be had in a decree issued by Mussolini dated 31 January 1932, whereby in addition to the thousand million lire for *Sofindit*, which would be transferred to *Comit*, he authorised operations on behalf of other banks whose names he indicated, together with the amount of help granted to them.⁶⁶

⁶⁰ That was signed by the members of the entire *Comit* Admin. Board. Cf. *Relazione ...*, pp. 766-768.

⁶¹ Toeplitz to Azzolini, Milan, 20 December 1931, in Guarino-Toniolo (eds.), pp. 788-770.

⁶² *Ibid.*, p. 759.

⁶³ Azzolini to Mussolini, 8 January 1932, *Ibid.*, pp. 770-772.

⁶⁴ Cited in G. Lombardo, *L'Istituto Mobiliare Italiano, Modello istituzionale e indirizzi operativi: 1931-1936*, (Bologna: Il Mulino, 1998), p. 45.

⁶⁵ De Stefani, *Barondata bancaria*, *op. cit.*, p. 539.

⁶⁶ The decree appears in G. Guarino-G. Toniolo (eds.), *op. cit.* pp. 772-776.

The *Comit* rescue operation had just begun when the situation regarding *Credito Italiano* came to the forefront. At the end of 1930 it had proved to be considerably encumbered, so much so that the bank's directors had considered doing away with the status quo by setting up the *Società Finanziaria Italiana* (SFI)⁶⁷ on 27 January 1931. In agreement with Mosconi and Azzolini, and with an agreement⁶⁸ of the type stipulated with *Comit*, signed on 20 February 1932, they transferred industrial holdings and *Credito Italiano's* own shares to the SFI valued at around thousand million lire, with an assumed loss of 460 million lire, 330m of which were covered by the *Istituto di Liquidazione*. Market trends had not favoured SFI during the course of 1931; and with the fall in quotations, the friends of *Credito Italiano*, the underwriters of SFI capital had incurred a severe loss, and had recorded a loss of the 1,230,000 *Elettrofinanziaria* shares that SFI possessed. Added to the fall in *Elettrofinanziaria* share value were the repercussions of the crisis on the shipping agencies, major shipyards, metal and engineering workshops and textile mills⁶⁹ which also belonged to the SFI, whose losses could still be accurately calculated, but which would also finish up chargeable to *Credit*, since SFI did not possess the means to cope with them. In short, *Credit* pressed for help to be approved on behalf of the companies listed above.⁷⁰

8. In Search of Liquidity

In 1931, at the peak of the bank crisis, the government and the Bank of Italy had continued to uphold the credit restrictions in force at that time.⁷¹ These restrictions were causing continuous contractions in the fiduciary deposits that had decreased from 9,813m lire at the close of 1929 to 9,484m lire by the end of 1931, so that in the single year 1931, the fiduciary deposits had dropped by more than a thousand million lire. Even more marked was the reduction in the balances of correspondent current accounts which between 1929 and 1931 had fallen from 20,577m to 17,147m lire with a loss of some 3,500m lire in two years.⁷²

With the gradual shrinking of the financial means at their disposal the banks found themselves in a cleft stick, in that they were involved in credit

⁶⁷ The capital had been made up of contributions from the companies close to *Credit*, i.e. *Banca Nazionale di Credito*, Edison, Feltrinelli, Pirelli, La Centrale, etc. Cf. G. Torriolo, *Crisi economica e smobilizzo pubblico delle banche miste* (1930-1934), in *idem.*, *Industria e banche*, *op. cit.*, p. 303.

⁶⁸ G. Mori, *Nuovi documenti sulle origini dello "Stato industriale" in Italia*, in *Il capitalismo industriale in Italia*, (Rome: Editori Riuniti, 1977), pp. 300-305.

⁶⁹ *Pro-memoria del Credito Italiano*, Milan, 17 February 1932, *Ibid.*, pp. 777-781.

⁷⁰ Toeplitz to Azzolini, Milan, 7 October 1931 in *Ibid.*, pp. 747-751.

⁷¹ *Mercato monetario e banche in Italia in 1931*, in *Minerva Bancaria*, September 1932, pp. 430-435.

⁷² See Toeplitz's letter to Azzolini, Milan, 7 October 1931, in G. Guaino-G. Toniolo (eds.), *op. cit.*, pp. 249-750.

operations as well as in industrial investments, but were unable to carry out either. They thus remained immobilised as the business firms were not only in no position to honour the maturity dates, but being hit by the crisis they also began knocking at the doors of the banks for further credit and financing.⁷³ And the banks – fully aware of the fact that, if they had insisted on claiming their credit back or had refused to grant further credit, they would have made the life of the firms they had financed more difficult, and perhaps forced them to go into liquidation, with the consequent reduction or loss of their credit – often finished by granting new credit. The problem of liquidity had become an ever rising necessity. The rush for collecting funds between 1930 and the first half of 1932 is thus accounted for, with the result that the old cartel of banks⁷⁴ which had regulated the credit market for more than a decade could no longer stand its ground, and was abolished as early as 1930. With this obstacle out of the way, ruthless inter-bank competition made it difficult for the old control to be replaced by a new one before 1 July 1932.

During the three years or so that the interregnum lasted, the frenetic search for customers and deposits had become almost obsessive. “They had reached the point”, it was observed, “where the money deposited in the banks by the customer saver passed from one bank to another lured by continuous offers that were ever more attractive, and enticed by every kind of inducement”.⁷⁵

The crisis was hardly reassuring for savers. In fact to protect their deposits a good many savers left the mixed banks, all of which, especially *Comit* and *Credit*, were considered to be completely tied up in their financing of industry and hence exposed to serious risks, not to mention the private banks which, unlike the public banks, provided no guarantee of total creditworthiness. Some of the deposits were transferred either to the bank departments which were considered safer, or towards more lucrative financial investments.⁷⁶ Considerable financial means came to the state from the post-office savings banks, into which a large part of private savings flowed, attracted by their greater profitability, as well as by the security guaranteed by their public status.⁷⁷

The end of the old bank cartel did not affect all the credit institutions. It certainly benefited the ordinary saving banks, which showed a marked increase in their deposits during the crisis, albeit to a lesser degree than that of post-office savings, and which between 1928 and 1934 rose from some 17,000

⁷³ The cartel was partially suspended in 1929. The banks that had joined it undertook not to renew the cartel in the form in which it had been designed, Cf. M. Abrate, *op. cit.*, p. 48.

⁷⁴ Cf. *il secondo cartello bancario e il mercato del denaro*, in *Minerva Bancaria*, October 1933, p. 493.

⁷⁵ T. Cotula *et al.*, *I bilanci delle aziende di credito 1890-1936*, (Roma-Bari: Laterza, 1993), pp. 757, 771.

⁷⁶ L. De Rosa, *Storia delle Casse di risparmio*, *op. cit.*, pp. 232 ff.

⁷⁷ Cotula *et al.*, *op. cit.*, p. 763.

m. to about 21,000 m. lire.⁷⁶ Progress was also shown to have been made by the big public banks. For example, through the creation of time deposits the Bank of Naples doubled the number of its deposits within the same period of time.⁷⁷ But the growing influx of money deposits did not always receive an enthusiastic welcome. Rather than indicating a favourable situation for business, this influx signalled the slowing down of production activity and confirmed the depression in the stock markets. Requests for investment credit were very modest, and the little interest shown in drawing up middle-to-long term loans remained typical throughout all the years of the crisis. In 1930 "the enormous imbalance between extremely plentiful supplies of money for short-term investments and money available for commercial and international types of investments"⁷⁸ was emphasised. It was only in 1930 that some sign of change was noted when a modest supply of capital towards the newly-formed companies was recorded. 1934 proved a much better year when progress was shown in national industry.

As a matter of fact the government had tried to stimulate investment during the last few years of the crisis. Redevelopment and rehabilitation may serve as a good example since they required enormous sums of finance which the State – a prisoner of its own continual defence of the lira and belonging to the so-called "gold bloc" – did not possess. The considerable increase in post-office savings, and therefore in the DD and PP Funds, albeit for the most part pouring into the Treasury,⁷⁹ had in fact to provide for too many public-type needs that were mostly destined for redevelopment and land reclamation. The government thus needed to create other sources of revenue. In order to finance the various forms of redevelopment and reclamation, rather than allocating the entire sum required in each budget, the government resorted to allocating annual instalments that were discountable at banks, thereby allowing expenditure to increase. At the same time, since the greatest amounts of savings available were found deposited in the ordinary savings funds in addition to those in post offices, the government encouraged these to be used in financing land redevelopment and reclamation elsewhere. The initial reaction of the savings banks, as stressed earlier, was by no means enthusiastic in that they feared that such financing would be converted into

⁷⁶ Banco di Napoli, *Relazioni del Consiglio generale per il 1932*, (Naples, 1933), p. 57.

⁷⁷ G. De Capitani d'Azago, *Cenni sulla situazione della Cassa di risparmio delle province lombarde al 31 agosto 1930*, in Archivio Centrale dello Stato (ACS), Segreteria particolare del Duce (SPD), busta 1070, fasc. 209, 251.

⁷⁸ P. F. Asso, *Gli anni tra la guerra* in M. De Cecco-G. Toniolo (eds.), *Storia della Cassa Depositi e Prestiti*, (Roma-Bari: Laterza, 2001), pp. 259 ff.

⁷⁹ L. De Rosa, *Storia delle Casse di risparmio*, *op.cit.*, pp. 260 ff.; A. Di Crollanza, *La politica dei lavori pubblici*, in "Analisi di economia", (Milano: Università Bocconi, 19 October 1930), pp. 59-65, and September 1931, pp. 171-172; L. De Rosa, *Banche e lavori pubblici in Italia fra le due guerre (1919-1939)*, (Milan: Giuffrè, 1979), pp. 296 *et seq.*

substantial long-term investments, but they eventually had to succumb to pressure from Mussolini and take on the financing as requested, which still required considerable sums of money.⁸²

The government had also looked for alternative ways of stimulating investments in production. In agreement with the Bank of Italy, it had resorted to tampering with the official discount rate (ODR). On the 3 March 1930 the ODR had first been reduced from 7% to 6.50%; later, on the 24 April to 6% and to 5.50% on 19 May. Yet despite such a marked reduction, the demands for loans continued to be few and far between, and investments further declined.⁸³

If the 1931 mid-European bank crises and the fall in the pound sterling during the same year had not occurred, ODR would likely have undergone further variations. But the 1931 banking and monetary events urged the government, which was now bent on defending the value of the lira, to bring the ODR back again to 7% on the 28 September 1931: quite a high rate which did not stimulate economic recovery. Moreover, "competition for buying up pre-existing deposits" with "the offer of alternative rates that sometimes even reached 6½," caused serious damage, which Azzolini had no choice but to bring to the government's attention. Indeed, he stressed that with business being scarce and good investments difficult the credit firms "were forced to chose between undergoing considerable losses for the excessive cost of the money collected and risking new long-term investments at rates of interest of 10 or 12% that were ruinous for customers." Moreover, in Azzolini's opinion "The policy of high interest rates on deposits affected growth and brought about considerable competition to investments in state bank and industrial securities with depressing consequences on the stock market."⁸⁴ Hence the government's decision to restore the bank cartel, which in fact came about on 1 July 1932. But the new cartel was not always observed.⁸⁵ Various expedients were devised to avoid it, and "nearly all the banks"⁸⁶ resorted to this aim.

In the meantime the Bank of Italy, which had already reduced the ODR to 5% in May 1932 reduced it further to 4%, and then later in January 1933 to a level equal to, or very close to, that of the major European issuing banks, while the discount rates and the sums brought forward by the banks fell at the same rate. The government took advantage of this drop in the interest rate, which it had deliberately prepared for two important operations, namely

⁸² Cotula *et al.*, *op. cit.*, pp. 87 *et seq.*

⁸³ Azzolini to Mosconi, Rome, 22 February 1932, in G. Guarino-G. Toniolo (eds.), *op. cit.*, pp. 782-783.

⁸⁴ Azzolini to Mosconi, Rome, 22 February 1932, in G. Guarino-G. Toniolo (eds.), *op. cit.*, pp. 782-783.

⁸⁵ Cf. L. De Rosa, *Il Banco di Napoli tra il Fascismo e la guerra*, *op. cit.*, pp. 222 *et seq.*

⁸⁶ Cf. the Pesaro Branch Manager of the Bank of Italy's letter to the Governor Azzolini, Pesaro, 15 February 1935, in Archivio Storico della Banca d'Italia (ASBI), Fondo 20, Serie I, N. 825.0, F 1, SF. 0, Doc. 0 pp. 102-103.

the issue of Treasury Bonds at 4% and reducing the interest paid on the national debt from 5% to 3.5%.

The two operations made in January and November 1934 brought about a smaller amount of liquidity by the end of the year. But having for the most part achieved its objective of reducing the burden of public debt in the meantime, the government allowed the ODR to rise again from 3% to 4%.

9. Towards Bank Nationalisation

Mussolini's intervention on behalf of *Comit* and *Credit* had seemingly slowed down its decline, although perhaps, as the ex-minister Alberto De Stefani⁸⁷ observed, by taking on most of its shares as security, such intervention had only aimed to worsen its conditions, so that it would be more easily swallowed up by the state. By mid-1932, *Comit*'s situation had certainly grown worse. Giovanni Malagodi noted that it could no longer even find a financial portfolio for formally discounting, producing revenue which would be used to cover the three days in advance of the maturity date, when they had to withdraw previously discounted bills from Via Nazionale [the Bank of Italy's headquarters].⁸⁸ The seriousness of the situation in this period is borne out by a letter written in June of the same year 1932 by the *Comit* representative at Rome, Ugo Baracchi, to Toeplitz. In preparing the paperwork for new funding to be accorded to *Comit* by the Bank of Italy, he informed Toeplitz of a frank discussion he had had with an executive of the issuing bank who had told him bluntly that he was misguided if he thought that it was "possible to tidy up the Bank [i.e. *Comit*] as required". They were looking for a new way of intervening, but up to that time had found nothing "because there were so many interests at stake, and finally because the company policy [was] not to take any initiative, the more so since the bank's situation was becoming so serious that they actually did not know what to do".⁸⁹

This outburst expressed the deep sense of unease pervading the Bank of Italy in that situation, which showed real concern "both for the type of operation as well as for the urgency with which they were faced". "*Comit*", Azzolini specified, "still needed considerable financial means. If it did not get them it might be driven to take desperate measures".⁹⁰

⁸⁷ A. De Stefani, *op.cit.*, pp. 521, 558 *et seq.*

⁸⁸ G. Malagodi, *Il "salvataggio" della Banca Commerciale nel ricordo di un testimone*, in G. Toniolo (ed.), *Industria e banca ecc.*, *op.cit.*, (Milan: Etas-libri, 1978), p. 272.

⁸⁹ Ugo Baracchi to Toeplitz, Rome, 25 June 1932 in G. Guarino-G. Toniolo (eds.), *op. cit.*, pp. 784-785.

⁹⁰ Azzolini to Mosconi, Rome, 3 July 1932, *Ibid.*, pp. 786-789; on *Comit*'s situation at the beginning of summer 1932. Cf. also G. Toniolo, *Crisi economica e smobilizzo pubblico delle banche miste (1930-1934)*, in G. Toniolo, *Banche e industria*, *op. cit.*, pp. 306 ff.

The Bank of Italy complained of being left alone to bear the pressure from the large banks – *Comit* and *Credit* – which began to press for rediscount operations. Having obtained the initial thousand million lire from Sofindin *Comit* had received nothing else. Sofindin restricted itself to paying “only the average interest yielded by the assets granted [to it].”⁹¹ By now the only source of funds was the Bank of Italy. On 26 June 1932 *Comit* representatives showed that “the situation of the Savings Bank [had been] reduced to 88 million lire on account of inevitable investments of 173 million which cannot be delayed”. By the end of June they had pressed for financial support “of not less than 200 million”. As Azzolini wrote to the Minister Marconi, he had been hesitant in agreeing. He became reconciled only because Mussolini had personally authorised him to do so. However, Azzolini complained that other bodies, and he was referring to IMI, “purposely created to lighten the complex situation did not offer any effective action”.⁹²

The biggest problem for *Credito Italiano* was SFI.⁹³ Through a secret agreement⁹⁴ between Azzolini, Mosconi and *Credito Italiano* itself, SFI had been granted an unprofitable loan of 330 million lire by the *Istituto di Liquidazione*. This was then passed on to *Credito Italiano* which became SFI’s creditor for another 680 million lire. As has been shown, the loan was actually a grant worth around 72% of the value of losses then envisaged for the securities that had passed to the SFI. It was said that the worse part of *Credit* investments had been transferred to the SFI. The better part, on the contrary, had been transferred to the *Credito Italiano*’s Banca Nazionale, which had ceased performing its bank activities and had turned into a financial *holding company*, adopting the name of *Società Elettrofinanziaria*, and underwriting the securities of the electrical, telephone and building industries. The initial value of this holding has been calculated at some 1,156 thousand million lire, which was increased to 1,342 thousand million, taking into account the value of the electrical securities, while its debt with *Credit* amounted to 1,100 thousand million lire.⁹⁵

⁹¹ Conti, *op. cit.*, p. 316.

⁹² Azzolini to Mosconi, Rome 3 July 1932, *Ibid.*, pp. 786-790. Also the President of *Comit*, Ettore Conti, like Toeplitz, later complained about “the non-functioning of that body, the IMI that was to substitute *Comit* in financing the industrial enterprises”. Cf. E. Conti, *op. cit.*, p. 316.

⁹³ The Italian Finance Company (SFI) was founded on 27 January 1931, and it received some of *Credito Italiano*’s industrial assets. According to Toniolo (*Crisi economica e smobilizzo pubblico*, *op. cit.* p. 303), these were the weakest assets, but certainly of no less interest to Feltrinelli, Pirelli, Motta and others. Amongst these securities were those of various manufacturing firms, shipping companies and *Credito Italiano* itself. The total value of the transfers was around 1,011 thousand million lire. Formally SFI was independent of *Credito Italiano*, and the effective value of its assets was judged to be around 550m, with liabilities for about 460 m lire”.

⁹⁴ *Ibid.*, p. 302.

⁹⁵ G. Toniolo, *op. cit.*, pp. 304, ff.

Apart from the 330 million lire received from the *Istituto di Liquidazione* and another 18 million obtained from the transfer of some firms on the part of the SFI, *Credit* was unable to gain any other advantages from SFI. Indeed, since it was committed to providing the above-mentioned companies with credit guaranteed by securities with a rate 1% lower than the official one it added losses to losses,⁹⁶ since the condition of the firms controlled by SFI deteriorated month by month. At times they were unable to pay their workers' wages. *Credit* tried to free itself from this suffocating burden, claiming that it would be "seriously compromised" if it did not make provisions to recapitalise "being unable to continue to live under the weight of a credit turnover that was expensive and which did not allow them any elasticity".⁹⁷ In the impossibility of arranging for SFI capitalisation and/or financing, since 1 May 1932 *Credit* had been trying to persuade Mussolini to make the *Istituto di Liquidazione* take over SFI, and the latter to transfer "its Elettrofinanziaria shares" to the "friends at *Credito Italiano*".⁹⁸ The financial situation had thus gone from bad to worse and this deterioration had been accompanied by two trends: 1) a sharp fall in productivity,⁹⁹ and 2) a rise in speculation on the lire, as witnessed by the increase in the supply of lire on foreign markets,¹⁰⁰ especially from September 1931, which soon turned into a continuous draining of reserves. In the first four months of 1932 the reserves had been so far depleted¹⁰¹ that there were serious concerns about defending the lira. Mosconi had, in fact, asked Azzolini "if he had considered the eventuality that the foreseeable rapid and total exhaustion of the equity reserves might necessitate introducing a second line in defence of the lira, by shifting the stabilisation peg and in view of such a possibility what... Azzolini could do to prevent such a setback which might turn into a rapid and potentially precipitous devaluation of the currency".¹⁰² These fears and uncertainties must have upset Mussolini considerably since, when told about them, he felt he had to make a public statement and remove all doubts. He did this in the most sensational way

⁹⁶ Cf. *Promemoria del Credito Italiano*, Milan, 8 February 1932, in G. Guarino-G. Toniolo (eds.), *op. cit.*, p. 780.

⁹⁷ *Ibid.*, p. 781.

⁹⁸ Carlo Feltrinelli and Carlo Orsi to Azzolini, Milan, 8 February 1932, in G. Guarino-G. Toniolo (eds.), *op. cit.*, p. 829.

⁹⁹ F. Guarnieri wrote (*op. cit.*, p. 298) that "at the end of 1932 the indices of industrial production, foreign trade, the price of goods, the trend of industrial stock, unemployment, state finance, the public debt, the balance of international payments, all reported a deterioration compared with the two previous years, and even raised doubts that the crisis had not reached rock bottom".

¹⁰⁰ The problem is fully dealt with in a letter by Azzolini to Mosconi in Rome 2 February 1931 in F. Cotula-L. Spaventa (eds.), *La politica monetaria fra le due guerre 1919-1935*, (Rome-Bari: Laterza), pp. 730-732.

¹⁰¹ Mosconi to Azzolini, Rome, 18 May 1932, 14 and 29 April 1932, pp. 733-734 and pp. 746-751.

¹⁰² Mosconi to Azzolini, Rome, 4 May 1932, *Ibid.*, pp. 758-759.

with an article written in *Il Popolo d'Italia*¹⁰³ in which he drastically claimed that "the world crisis would not be solved by drowning it in pulp".

At this point Mosconi's fate as Minister of Finance was sealed and he was gradually to realise that it was Azzolini who had informed Mussolini of his letter dated 4 May. It is difficult to say when and how such awareness dawned on him. If one considers the tenor of the letter he wrote on 6 July to Azzolini, it must be inferred that from the beginning of July at the latest his feelings towards him had profoundly changed. After several disagreements he asked him to "see to it that branches of the bank abstain[ed] from operations which had planted the seeds of sloth and immobility".¹⁰⁴ No less bureaucratic or critical was his subsequent letter dated 9 July which, following his earlier letter, posed a problem to which he was awaiting an answer, namely to know Azzolini's thoughts on technical checks and forecasts, it being understood that any decision regarding money matters were dictated by "political decisions".¹⁰⁵

In the meantime monetary policy was in the hands of Mussolini himself. This transpired from the letter he wrote to Azzolini in June urging him to increase the gold reserves by acquiring 1) gold even at a relatively high price, seeing that the government would guarantee the Bank of Italy for the sum of one million lire; 2) possibly even foreign gold; as well as 3) the 8-10 million lire in gold that the Bank of Naples still possessed; and 4) finally, buying up the gold of the various *Monti di Pietà*, with a locally drawn up agreement between the Directors of the *Monti di Pietà* and those of the branches of the Bank of Italy.¹⁰⁶ On 20 July 1932 Mussolini arranged for Mosconi's replacement by Hon. Guido Jung who, in an article published in *Il Popolo d'Italia* about a month before Mussolini's, appeared as a staunch supporter of defending of the lira, even at the cost of great sacrifice.¹⁰⁷

It is somewhat difficult to endorse what the former Minister Alberto De Stefani wrote with regard to the so-called Bencduce Plan. According to De Stefani, the Plan envisaged setting up the liquidation agency and the IMI through a separate division of the CSVI, thereby replacing government credit with private creditors. This meant that the Plan would operate in such a way as to get the state to cover industrial and bank liabilities and enable it to become "owner of the Company shares".¹⁰⁸ This is difficult to endorse because the special division was created when De Stefani himself was Minister of Finances, and because the IRI took ten years to set up and it was almost impossible during a dictatorship for a non-Fascist to plan with such confidence

¹⁰³ 12 May 1932.

¹⁰⁴ Mosconi to Azzolini, Rome, 6 July 1932, *Ibid.*, pp. 761-767.

¹⁰⁵ Mosconi to Azzolini, Rome, 9 July 1932, *ibid.*, pp. 761-762.

¹⁰⁶ Mosconi to Azzolini, Rome, 23 June 1932, *ibid.*, p. 763.

¹⁰⁷ i.e. 12 June 1932.

¹⁰⁸ De Stefani, *op.cit.*, pp. 559-560

a programme of financial and industrial nationalisation of the kind the IRI was later to create. It was more the sequence of events, amidst uncertainty, error and doubt, and the concept of the state's role in the economy that gained currency during the regime, which led IRI to adopt the solution it later chose.

The first of the mixed banks that referred to the new Minister was *Banco di Roma*, the only non-immobilised bank, thanks to its reorganisation in the immediate post-war period.¹⁰⁹ In fact, regarding discounts it had no liability with the Bank of Italy and its loans did not exceed 55 million lire, and were guaranteed by safe securities.

Banco di Roma wanted to present the new Minister with a request that it had already made to Mosconi in December 1930¹¹⁰ for authorisation to open a number of branches in several provincial capitals as well as to grant 50 million lire to the Inarco Electrical Company to finance the construction of several electrical plants.¹¹¹ But once again the request was unfavourably received. In the meantime the situation of the two other mixed banks grew worse.

In November Toeplitz communicated to the Minister that *Comit* had recorded an increase in losses and "a deterioration in the conditions of disequilibrium already pointed out,"¹¹² three weeks later on 16 December he returned to inform him of a further worsening in the bank's situation. The loss forecasts for the year had increased to about 80 million. The fact is that the deposits and the current accounts in Italian lire had "been falling constantly, except for a brief respite in the summer, with a total decrease of almost 2 thousand million lire, more than 26%". Thus in order to meet the huge demands for liquidity in the industries under its own and Sofidint's control, *Comit* had had to increase its liability towards the Bank of Italy, which rose during the first ten months of 1932 by more than 1.7 thousand million lire. Including discounts and advances, it now owed around 3.4 thousand million lire, without improving its liquidity. The problem was that the ordinary credit institutions were forced, on account of their reduced liquidity,¹¹³ to increase their debts with the Bank of Italy and thus to increase the cost of reserves. But what proposals did Toeplitz make when he had analysed the causes of the depression into which *Comit* had fallen?

¹⁰⁹ Cf. L. De Rosa, *Storia del Banco di Roma*, vol. II, pp. 198 ff.

¹¹⁰ Letter of the Banco di Roma to Minister Jung, Rome 4 August 1932, in G. Guarino-G. Toniolo (eds.), *op.cit.*, pp. 792 ff.

¹¹¹ *Promemoria del Banco di Roma per il governo e la Bank of Italy*, Roma, 19 December 1930 in G. Guarino-G. Toniolo (eds.), *op.cit.*, pp. 736 ff.

¹¹² *Promemoria della Banca Commerciale Italiana per Jung*, Milano, 14 November 1932 *Ibid.*, p. 803.

¹¹³ From the table set out in the *Promemoria* the constant decrease in the deposits of the ordinary banks is evident from 1930, as is the constant increase in those of ordinary savings banks and post-office banks. Cf. *Promemoria di Toeplitz a Jung*, Milan, 6 December 1932, *Ibid.*, pp. 804.

He demanded: 1) a reduction in interest rates enjoyed by the postal saving certificates;¹¹⁴ 2) the proper functioning of the intervention mechanism provided for by the 1931 Convention; 3) a distinct separation of *Sofindit* from *Comit*; 4) the reduction of its debt with the Bank of Italy; 5) the restoring of *Comit*'s economic account and measures to enable it to perform profitably in a competitive situation and to produce a dividend; 6) a reduction in industry's needs; 7) the proper functioning of IMI. He insisted that without the adoption of all these measures, they ran the serious risk that *Comit*'s loss of liquidity would increase, with serious repercussions on *Comit*, the Bank of Italy and the market in general.¹¹⁵

The problem to be resolved was that of industrial assets, since economic recovery and development depended on their unfreezing. And it was this compelling necessity that led Mussolini, Jung and Beneduce to set up IRI. Pasquale Saraceno, a reliable observer at the time, pointed out unequivocally that the credit situation of those years was not IRI's objective.¹¹⁶ IRI's principal aim was to restore Italian industry. It was set up between the end of 1932 and the beginning of 1933. According to Villari, at the beginning of January there was a meeting at Domodossola between Beneduce and Jung to define the company's structure and objectives,¹¹⁷ during which Beneduce (was to have) "practically guided Jung's hand". The initial draft was to be sent to Mussolini who, between the 9 and 10 January, would express his views and the second draft would be drawn up, with meetings and technical discussions becoming more frequent between the 12 and 19 January. And finally, apart from naming the new body the Institute for Industrial Reconstruction (IRI), its purpose was outlined, that is to say "the coordination, disinvestment and reorganization of industries which had suffered as a result of the crisis".¹¹⁸ Thus IRI came into being by Royal Decree (RDL) on 23 January 1933. It was divided into two sections: one for disinvestment the other for financing.¹¹⁹

This is not the place for dealing with IRI interventions regarding industry,¹²⁰ even if IRI immediately stepped into action by issuing an obligatory

¹¹⁴ The privilege of higher interest rates on deposits enjoyed by the Post Office Savings Banks was fiercely contested by the ordinary savings banks. Cf. L. De Rosa, *Storia delle Casse*, *op. cit.*, pp. 215 ff.

¹¹⁵ G. Guarino-G. Toniolo (eds.), *op. cit.*, pp. 813 ff.

¹¹⁶ P. Saraceno, *Donato Menicibella e l'IRI*, in *Donato Menicibella. Testimonianze e studi raccolti dalla Banca d'Italia*, (Rome-Bari: Laterza), 1986, p. 12.

¹¹⁷ Beneduce was at that time involved with the Italian delegation of the League of Nations. Cf. L. Villari, *Nuovi documenti storici della nascita dell'IRI*, in *Alberto Beneduce e i problemi dell'economia italiana del suo tempo*, (Roma: Atti della giornata di studio, Edindustria, 1985), pp. 87 ff.

¹¹⁸ *Ibid.*, pp. 88-89 and 92-103.

¹¹⁹ Cf. *Gazzetta Ufficiale*, 24 January 1933; the Decree was converted into Law 3 May 1933, n. 512.

¹²⁰ There is a great amount of literature on this. For a concise account, cf. P. Saraceno, *L'intervento dell'IRI per lo smobilizzo delle grandi banche: 1933-36*, in *Alberto Beneduce*, *op. cit.*, pp. 118 ff.; F. Cesarini, *Alle origini del credito industriale*, (Bologna: Il Mulino, 1982), pp. 77 ff.; L. Avagliano, *La mano visibile in Italia. Le vicende della finanziaria IRI (1933-1985)*, (Roma: Edizioni Studium, 1991), pp. 60 ff.

loan of one thousand million lire on behalf of the Disinvestment Section. On 28 January 1933, five days after the publication of the decree setting up IRI, the loan was underwritten by *Crediop*, which Beneduce, the president of IRI, managed himself.¹²¹

The disinvestment of the mixed banks began to be formulated in the second half of 1933 when the administrators of *Banco di Roma* – the President Antonio Stefano Benni, and the Managing Director Giuseppe Pietro Veroi – were summoned¹²² to the Ministry of Finance by Minister Jung. To their apparent surprise the two administrators saw themselves being ordered to sell to the government the 900 thousand loss-making shares in *Società Mobiliare Nazionale* forming most of the bank's capital.

De Stefani wrote that against this order "Benni and Veroi's well-founded objections and protests counted for nothing". Certainly, according to De Stefani's version, Minister Jung acknowledged that *Banco di Roma* was in a very healthy state quite unlike that of *Banca Commerciale* and *Credito Italiano*. It had no outstanding debts with the Bank of Italy and loans amounted to less than 55 million lire. Jung countered these arguments: "if I leave you free, after gagging the other two Banks [*Credito* and *Comit*] you will become arbiters of the Italian banking situation",¹²³ and again: "Let's begin with you, as you have nothing to reproach yourselves for. The bank has followed the orthodox way that has the full approval of the government. In the examination carried out by our officials of your budget and your operations, policies and circumstances have emerged that have enlightened us and served as a basis for establishing the line of conduct which will also be adopted with the other two major banks; therefore allow me in the name of the government to reject the resignations you have submitted and I beg you to remain in your respective offices and continue the excellent work you have hitherto carried out for the good of the national economy".¹²⁴ Thus the nationalisation of the large private bank got underway. And for its legitimation, both prior to and following nationalisation, a carefully planned smear campaign against the private bank was arranged, as was the custom of the regime.¹²⁵

This meeting was followed by others devoted to examining the bank's situation. In a note from the managing director Veroi, which is in the minutes of the meeting dated 19 December 1933 in which Azzolini, Beneduce and Menichella took part as well as Benni and Veroi, it is reported that "the gov-

¹²¹ On the underwriting of the loan, Cf. L. De Rosa, *Banche e lavori pubblici*, *op. cit.*, pp. 400-401.

¹²² It has not been possible to ascertain the exact date of the meeting. De Stefani, who refers to its taking place, indicates 1932, but this must be an error in the light of the documents used in this text. The meeting certainly took place in the second half of 1932, cf. De Stefani, *op. cit.*, p. 515.

¹²³ De Stefani, *op. cit.*, pp. 515-519.

¹²⁴ *Ibid.*, pp. 520-521.

¹²⁵ Cf. L. De Rosa, *Storia delle Casse di risparmio*, *op. cit.*, ff.

ernment's directive" expressed by Jung was to arrive at "a total disinvestment in respect of assets and liabilities ... in keeping with the future banking policy of the large private banks... namely *Comit*, *Credito* and *Banco di Roma*".

In the meeting it was stressed that *Mobiliare* would come under the government's control to ensure that the directives were followed. The bank and its branches were also obliged to limit their business to purely banking operations and were forbidden to participate in industrial and commercial undertakings, to buy company shares and to finance companies or groups seeking majority shareholdings. These restrictions were imposed on all three banks.

The Minister's speech was followed by that of Beneduce, who in turn dwelt on the "basic concept of the measure and on the directives for bank work". Benni and Veroi could do nothing but agree with what Jung and Beneduce stated, putting forward certain reservations only on the proposal regarding the takeover of part of *Istituto di Credito Marittimo*. The meeting of 27 December¹²⁶ was followed by the signing of the agreement to hand over *Banco di Roma* to IRI on 6 May 1934; on 7 March it was the turn of *Credito Italiano*, and on 13 March that of *Banca Commerciale Italiana*. In this way the state had taken over possession and control of 94% of *Comit*, 78% of *Credit* and 94% of *Banco di Roma*.

In the meantime, again on 3 March, an official communication reported that the three large mixed banks – having become banks of ordinary credit – had "transferred to IRI all their industrial stock both in the form of shares as well as in the form of credit".¹²⁷ IRI also received the entire possessions, both assets and liabilities, of the Liquidation Agency which had been financed by the Bank of Italy, amounting to half of the currency in circulation, so that it was difficult, according to Donato Menichella, IRI's General Manager, to deal with "the problem of the banks separately from that of the Bank of Italy.

The *Istituto di Liquidazione* had organised its records so that it was not possible to determine the evaluation criteria of its Board of Directors which could serve as a basis for disinvestment negotiations. Therefore "at the beginning of its management IRI had to accept considerable disparity between the real and nominal values of the patrimony it had inherited".¹²⁸ In its 1934 budget, IRI's liabilities amounted to 11.5 thousand million lire,¹²⁹ while the amount of money in circulation amounted to 13,145 thousand million lire.¹³⁰

¹²⁶ *Appunto di Veroi*, Minutes of the meeting dated 19 December 1933 in G. Guarino-G. Toniolo, *op. cit.*, pp. 829-831.

¹²⁷ *Ibid.*, p. 853.

¹²⁸ M. Comci, *La regolazione indiretta. Fascismo e interventismo economico alla fine degli anni venti. L'istituto di liquidazione (1926-1932)*, (Naples: ESI, 1998), pp. 195-197.

¹²⁹ C.I. *Relazioni dell'IRI sul bilancio per il 1934*, in G. Guarino-G. Toniolo (eds.), *op. cit.*, pp. 856-857.

¹³⁰ De Mattia (ed.) *I bilanci degli Istituti di emissione*, *op. cit.*, p. 460.

With the transfer of the three major Italian banks to IRI the ground had been prepared for the 1936 bank law and above all for separating banks according to their functions. Some banks would perform short-term credit operations, others medium-long term, and so on. Amid liquidations, takeovers and mergers the number of banks operating throughout the country had in the meantime fallen considerably from 4,337 in 1927 to 4,050 in 1929 and 3,142 in 1934. Within seven years 1,195 banks had disappeared.

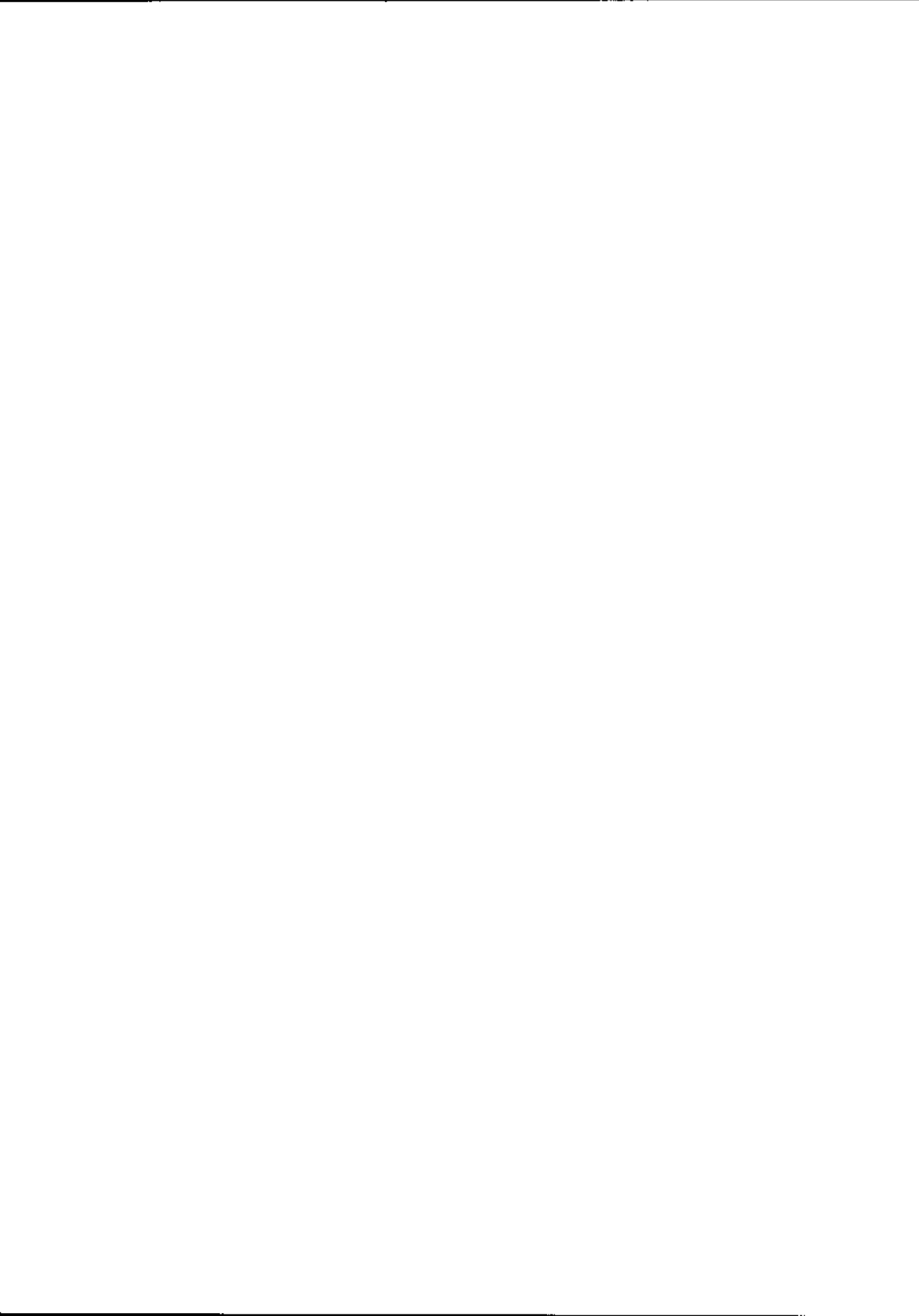
The biggest decline was in the joint-stock banks, whose number had fallen from 477 in 1927 to 443 in 1929 and 286 in 1934. The cooperative banks, too, had recorded a noticeable decline, falling from 662 in 1927 to 459 in 1934, and so the number of banking firms dropped from 378 in 1927 to 185 in 1929.¹³¹ The decrease in the number of banks was not always the outcome of economic and financial disasters: in the case of the savings banks, their decrease from 154 in 1927 to 104 in 1934 stemmed from the merger policy imposed by the government.¹³²

It is hardly necessary to add that it was not those who had erred but the country as a whole which would have to pay for the enormous waste of money that the most important part of the industrial and banking system, located in the Central-North of Italy, had caused.¹³³

¹³¹ M. Abrate, *Moneta e risparmio in Italia negli anni della grande crisi*, in G. Toniolo (ed.) *Industria e banca nella grande crisi 1929-1934*, (Milan: Etas-Libri, 1978), p. 51.

¹³² L. De Rosa, *Storia delle Casse di risparmio*, *op. cit.*, 240 ff.

¹³³ *Idem*, *La provincia subordinata. Saggio sulla questione meridionale*, (Rome-Bari: Laterza, 2004), p. 72.



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