

Italian credit cooperatives from 1918 to 1945

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ABSTRACT. This essay outlines and analyzes the evolution of the Italian credit cooperative system during the first half of the twentieth century. The analysis is conducted through a study of the documents from the archives of the Bank of Italy and through an analytical review of the contribution of other authors. In the interwar period, the entire Italian banking system went through a financial crisis that led to a legislative reorganization that has profoundly changed its inner structure. During this “dark period”, the credit cooperatives suffered from several internal structural weaknesses and from the overall weaknesses of the economy. This has resulted in, amongst other things, a substantial contraction of the cooperative credit system. Here it is claimed, in spite of the mentioned difficulties, the result of this process has been the gain in credibility of the Italian credit cooperatives, even beyond the rural world. This vitality has allowed the Italian credit cooperatives to stand on an equal footing with other credit institutions.

Introduction

“FAR FROM BEING AN OBSOLETE TYPE of credit institution, the *Cassa Rurale* may, for many years to come, provide the rural population with useful banking services, albeit only those strictly necessary.”¹ At first sight, this statement – expressed at a crucial juncture for the economic reconstruction of a country profoundly damaged by Fascist economic policy and the ravages of the Second World War – may seem simply an officious

1. “And in view of the agrarian reform”, the report continued, “which will bring amongst other things a large number of new agricultural credit transactions for small sums, as well as more long-term land credit operations, the Casse Rurali, by virtue of their economic size and facilities, could at least in part satisfy demand for loans on advantageous conditions on the part of smallholders and independent farmers” (ASBI: fondo 23, n.18, fasc. 6: Report entitled: *Le Casse Rurali nel 1947-1948*, January 13, 1949).

defence of a particular type of bank that had been subject to radical retrenchment in the previous period. But in a phase when, despite its difficulties (Fiocco 2004), Italy was regaining confidence and initiating the process that would produce the 'economic miracle' (Zamagni 1992), this assessment was not made by the executives of the cooperative banking system. Rather, it was an assertion in early 1949 by the Bank of Italy, which was not only the country's issuing bank but also the supervisory authority for its entire banking system (Contessa, De Mattia 1993). In the previous period, in fact, the Italian central bank had stressed the marked decline in cooperative credit and the disappearance of a large number of small rural banks unable to withstand the 'Great Depression' – not least because they had been weakened organizationally by the Fascist regime's deliberate curtailment of their coordinating bodies.

In its *Relazione sull'attività del Servizio Vigilanza* issued on 18 February 1947, the Bank of Italy had insisted that "the main problem of the rural banks is their very survival", adding that "once numerous and flourishing, these institutions are now in constant decline"² If we consider the figures on the number of rural banks that were operative in 1928 – which according to the Bank of Italy amounted to 2,440 (*Relazione* 1928, pp. 54-55) – we can understand the Supervisory Authority's pessimism in 1947, given that by that year the number of banks in operation had shrunk to just 817 (*Relazione* 1947, p. 170). [Table1]

Over a period of twenty years, amid the general collapse of the Italian credit system, two-thirds of the rural banks had disappeared.³ The collapse was of such magnitude that, from the mid-1940s onwards, the Governor

2. ASBI, fondo 23, n.16, fasc. 4, *Relazione sull'attività del Servizio Vigilanza nell'esercizio* 1946, 18 February, 1947.

3. Detailed analysis of all the reports produced by the Servizio Vigilanza della Banca d'Italia from 1927 onwards shows that between 1928 and 1947 some 66.5% of the Italian rural banks on the ministerial register had closed down, mainly with voluntary liquidations but in some cases because of bankruptcy or takeovers by other banks. In parallel, 65.8% of all credit institutions had ceased operations, given that of 4,197 registered in 1928, only 1,434 had survived to 1945. See ASBI, fondo 23, n. 11 – 18.

of the Bank of Italy no longer included figures on small-scale cooperative credit among the statistics accompanying his annual reports (*Relazione* 1944, pp. 87-88; *Relazione* 1945, pp. 220-229; *Relazione* 1946, pp. 313-317; *Relazione* 1947, pp.278-293). And yet there is no doubt that the rural banks had performed a crucial role in Italian agriculture – especially that part of it consisting of an extensive system of small-to-medium owners – slowly achieving the rationalization objectives set at the end of the nineteenth century (Cafaro 1999; Cafaro 2001). Indeed, after recording the lowest level of small-scale cooperative credit at the end of World War II, the Bank of Italy had spoke of its revival, and emphasised – as we have seen – its importance for the economic recovery of Italy's rural areas.

It is evident from this preliminary outline that, in just over half a century Italy's rural banks had experienced both marked expansion and contraction, which did not signify drift but simply phases in their development. They played a major role in the development of numerous small and medium-sized enterprises, not only rural ones, and contributed significantly to Italy's economic recovery in the 1950s (Cafaro 2001, pp. 408-495).

It is therefore worth reconstructing – on the basis of studies published in recent years (Zaninelli 1996, Leonardi 2000, Cafaro 2001) and analyses of documents held in the Bank of Italy's archives, now nearing completion – the fortunes of the Italian cooperative system between the wars. This is of undoubted interest, when results of great importance were achieved, tarnished only by a period when the entire Italian banking system not only suffered economic-financial turmoil but also underwent legislative reorganization that profoundly changed its characteristics (Colajanni 1995, La Francesca 2000, Della Torre 2000, Polsi 2001). The fact that after a 'dark period' (Leonardi 2005, pp. 333-336) the rural banks – now cooperative credit banks – were able to gain credibility outside the strictly rural world and grow to a size that enabled them to stand on an equal footing with the other credit institutions is striking evidence of their vitality. It is also seen in the renewal of external relations after the forced isolation of the Fascist period, which took the form of joint

ventures with the European cooperative credit system. More recent years, therefore, have seen the completion of a cycle whereby the Italian cooperative credit banks have returned to the mainstream, whence they originated in the second half of the nineteenth century (Koch 1991).

The self-help model that made cooperative credit the pivot of an entire system of societies, operating in both the areas of consumption and of production, originated in Germany, from where it spread throughout Europe, including Italy. A system that made credit the focus of cooperative activity was undoubtedly a novelty. The self-help system, that had begun in the mid-nineteenth century and then spread widely through Europe after the Rochdale Pioneers of 1844, saw a redefinition of consumption as the starting point for the development of other forms of cooperation (Holyoake 1918; Hasselmann 1968, Birchall 1994; Hickey Sansò 1995).

By contrast, after a careful analysis of the Rheinland's agricultural system, which consisted of small and medium-sized farm businesses, the burgmaster Friedrich Wilhelm Raiffeisen (Koch 1991; Klein 1997; Klein 1999) realized – as did a liberal economist with legal training, Hermann Schulze-Delitzsch (Schulze Delitzsch 1987, Mandle, Swoboda 1992, Wagner 2000) – that lack of capital prevented the poorer classes from freeing themselves from a state of economic, and therefore social, marginalization. Both men therefore set about creating cooperative credit societies based on the concept of mutual self-help. The bodies they created – *Volksbanken* the former, *Darlehenskassen-Vereine* the latter – issued personal credit for even small sums. This should have considerably improved the living conditions of those who joined these associations in order to use their credit intermediation services, which were otherwise unavailable to economically vulnerable subjects. The model devised by Raiffeisen and Schulze viewed credit cooperatives as the central elements of a complex system of societies operating in both the retail and manufacturing/processing sectors (Engelhardt 1977, Faust 1977, Hasselmann 1984, Aschhoff, Henningsen 1985, pp. 15-34).

In post-unification Italy, the problem of credit for agriculture, especially where it was based on small farms, was largely unresolved, and it hampered the growth of the agricultural economy (Muzzioli 1991). Self-financing was impossible for the majority of small farmers. Moreover, given the characteristics of financial flows in the country – the scant attractiveness of investments in agriculture as opposed to government securities – very little remained to finance the agricultural sector (Zaninelli 1968). These various factors stimulated attempts to rationalize the organization of production, amongst other things, by introducing cooperation (Boettcher 1974, Werbert 1981, Hasselmann 1984). Moreover, as the situation deteriorated further, a number of philanthropic initiatives were undertaken, in different sectors and with different aims, to ease the plight of weaker sections of the population (Pecorari 1995; Zalin 1997, pp. 1-29).

The period saw various people performing a cultural role that was certainly of national importance, although their actions had most impact on the country's civil, social and economic development.⁴ Outstanding among them was Luigi Luzzatti, a man of great personal prestige and highly influential in Italian society, and not just because of his promotion of Schulze's people's banks. In 1864 Luzzatti founded the first cooperative bank in Italy in Lodi. The *banche popolari* rapidly spread through the country: there were 124 in 1878, with about 100,000 members, although, as Luzzatti himself pointed out, these were mainly small entrepreneurs in the manufacturing and commercial sectors, as well as in agriculture and the public administration (Ballini, Pecorari 1994; Luzzatti 1997; Pecorari 2003).

However, people's banks were not the best way to revive Italian agriculture, nor to rescue the weakest section of rural society from marginalization. It was then that interest in Italy turned to the strategy pursued by the less well-off peasants in the Rheinland Westerwald: the piloting

4. Particular mention should be made of Alessandro Rossi and his schemes to resolve the conflict between capital and labour.

and creation, of large cooperative associations (Aschhoff, Henningsen 1985, pp. 15-34). The cooperative credit institutions devised by Raiffeisen did not normally issue bills of exchange or grant mortgages. Instead, for the first time in Italian rural areas, they introduced loans based on trust in the borrower, whose guarantee to the institution consisted of his business and a surety. The promoters of the Italian rural credit unions relied on this system to overcome the resistance of small farmers who still regarded credit as a form of usury. It was evident that broad sectors of the rural population could benefit from the credit which the Raiffeisenian system granted on trust, without bureaucratic complications and for periods even longer than a year. This kind of credit would encourage farmers to pursue economic and social growth in a context of evangelical solidarity (Werbert 1981).

An anomalous feature in Italy was that a self-help organization based on declaredly Christian principles was not initially promoted by some organization of the Catholic Church, which was ubiquitous in the rural areas, but by the members of a fundamentally secular school of thought⁵ and indeed primarily by a Jew, Leone Wollemborg. After Wollemborg had established the first Raiffeisen-type credit union in Italy in 1883 at Loreggia, a farming community close to Padua, he set about promoting the cooperative credit system throughout the rural areas of Italy (Marconato 1984). The availability of small loans for the purchase of cattle, rather than for stocks or for expansion, was perceived by the most vulnerable farmers as a means to achieve real improvements in their circumstances. This concern for the weakest members of rural society heightened the interest of Catholics in the credit union system. Thereafter credit cooperation spread through the rural areas of Italy much more rapidly than before. Indeed the Church's interest gave astonishing impetus to the spread of credit unions in Italy (Cafaro 2001, pp. 93-115).

5. The 'Lombardy-Veneto' school's analyses of the problems affecting rural society led it to adopt the cooperative doctrines of Schulze-Delitzsch and Raiffeisen.

Interest in Raiffeisenian mutualism was further reinforced by the realization that the credit unions were the first step towards a more complex mutualist and solidarist organization, which, although still inspired by cooperation, would perform a rationalizing role in numerous branches of the rural economy. The proliferation of credit unions in rural areas, together with their increasing operational incisiveness, galvanized the weak and fragmented energies of peasant society. The success in Italian rural areas was a significant innovation in the credit system, but in parallel with commercial distribution as well, with the consequent improved allocation of resources in areas that were traditionally considered marginal to development.

Development of the credit system in the post-war period

ALTHOUGH THE WAR AND EVENTS during the post-war period did not interrupt the activity of the Italian credit unions, they certainly altered its nature (Degl'Innocenti 1977, pp. 273-338). Inflation, war profits and post-war reconstruction were all factors that increased bank deposits, but they were not off-set by enough investment. The credit system, however, was not uniformly affected by these factors (which were, in any case transitory). Hence the rural credit unions, which certainly did not participate in the management of surplus war profits, saw their deposits significantly increase too (Cafaro 2001, pp. 253-257). The management of Italian cooperative credit institutions found they had to divert profits into bond purchases and inter-bank deposits, a phenomenon which culminated in 1921 (Ruggieri 1989, pp. 41-43).

The Italian cooperative system, in all its variants, underwent marked expansion during the period (Fornasari, Zamagni 1997, pp. 107-112). Significant impetus was given to the numerical growth of the various types of cooperatives, as well as to the birth of new enterprises operating in the 'new provinces', where they had come into being under Habsburg rule (Klauhs Auner 1969, Karner 1978). This was anything but a

marginal phenomenon, given that the Trentino-South Tyrol region had the largest concentration of cooperatives in Europe (Leonardi 1996; Leonardi 2003), and the Giulia region was significantly well-endowed as well. As regards cooperative credit alone, the Trentino-South Tyrol region had 282 Raiffeisenian social credit unions (Leonardi 1986), while the Giulia region had 2004, of which 113 operated in rural areas of Slovenia (Waltrisch 1987; Bof 1996).

During this rather chaotic period from a financial point of view, the credit system appeared to be disproportionate to the country's economic needs. The rural credit unions, almost all of which were made up of single banks, had participated in the expansionary wave with the creation of new societies. At the beginning of the 1920s, the number of small cooperative credit institutions in the country reached its maximum which, despite the unreliability of quantitative surveys, can be estimated at more than 3,000⁶. Nor, therefore, were the rural credit unions immune from what one leading financial figure at the time called "a banking shambles"⁷ which jeopardized the assets of numerous savers. In a climate of fierce competition and of banking improvisation, various credit and finance intermediaries collapsed, and although some of them were saved – most notably the *Banco di Roma* (De Rosa 1993, vol. II, pp. 339-345) – numerous others were forced into liquidation, causing huge difficulties for large and small economic operators (Cotula, Spaventa 2003, Toniolo 2003, Polsi 2000).

However, the political climate in the country was changing, and after the upheavals immediately after the war, which had nevertheless seen increased democratic participation in the workings of the institutions, a shift in authority was taking place (De Felice 1981). With the advent of Fascism and its transformation into a regime, policies on cooperation

6. The figures for the early 1920s vary from the 2,594 rural credit unions surveyed in 1915 – to which should be added, in 1919, the 486 institutions in the 'new provinces' – and the total of 3,080 of the immediate post-war years (Agnoletto 1996).
7. The expression was used by Alberto De Stefani, Minister of Finance in Mussolini's government from 1922 and 1925 (De Stefani 1960).

– that affected credit cooperatives in the same way as the other institutions – radically changed.

In effect, although the Fascist regime's policy regarding cooperative organizations, and the credit unions in particular, was ostensibly favourable to them, in practice it sought to weaken their mutualist and solidarist principles (Cordova 1979). The regime adopted a *dirigiste* stance towards rural credit unions, its aim obviously being to transform them into credit institutions like any other, and to sever their roots in the local community, which, in fact, constituted their principal strength (Sapelli 1979).

The Fascist legislation largely emptied the Raiffeisenian cooperative movement of its original spirit. The voluntary and gratuitous cooperation undertaken to achieve community growth was gradually replaced by an organization motivated solely by utilitarian criteria. The members of the rural credit unions found themselves dealing with organizations whose structure was apparently the same as it had always been, but which, in fact, had radically changed in nature. Indeed, numerous members began to harbour suspicions towards their societies because of the decline in the spirit of self-help and solidarity and their concomitant shift to 'political' goals that were alien to the traditional political culture of the farming community (Leonardi 2005, pp. 191-195). The changes under way, moreover, were promoted by a rhetoric entirely at odds with the peasant lifestyle and obviously driven by interests outside the cooperative sphere.

Amid severe difficulties for Italy's entire banking system, the second half of the 1920s saw a marked curtailment of cooperative credit. In many cases, this was a direct consequence of the collapse of the local Catholic banks on which the majority of the credit unions in the country relied. And then a series of insolvencies among regional banks caused severe financial difficulties for the numerous rural credit unions which had traditionally entrusted their surplus deposits to those institutions. It consequently became evident that, in the absence of proper coordi-

nation and technical guidance, the rural credit unions were liable to suffer irreparable damage (Cafaro 2001, pp. 270-272).

In the meantime, Fascism was engulfing every variant of Italian cooperation, based on a programme which was divided into various phases. The first involved elimination of the manifold forms of cooperation, and in parallel their organizational and ideological incorporation into the regime, following the purging of Catholic and socialist organizations. The regime's intention was then to retrench the cooperation system, expand the social basis of cooperatives, and enhance areas which were useful for its political and social ends. Finally, the regime intended to endow the cooperative movement with a legislative and bureaucratic apparatus which would fully serve its own purposes (Veneruso 1986).

The rural credit unions during the 'Great Depression'

It was, therefore, in a situation in which the legal and organizational framework was profoundly changing that the small cooperative banks had to face the financial difficulties caused by the failure of numerous local banks, a deflationary crisis and the 'Great Depression'.

The first critical phase had coincided with the already-mentioned failure of numerous local banks between 1921 and 1923, and it proceeded until the enactment of the banking law of 1926 which, for the first time in Italy, subjected all banks to special surveillance and control by the Bank of Italy. From 1927 onwards, central-bank surveys furnish quantitative data which depict in detail the collapse of cooperative credit during the period.

A second factor that impacted negatively on the Italian credit system in its entirety, and therefore also on the rural credit unions, was the radical deflationary measure undertaken by the government in order to stabilize the lira by means of massive revaluation. In a country like Italy where, despite the progress brought by industrialization, rural areas were still very important, the fall in prices caused an evident deterioration in

the economic conditions of the farming population which was unable to withstand a market with decreasing returns. Alongside the deflationary crisis, moreover, the collapse of various banks on which the rural credit unions relied had damaging repercussions.

After 1928, the combined impact of these difficulties caused a slump in Italian cooperative credit, which forced many institutions to close, a trend that ended only after the Second World War. When the first wave of liquidations subsided in 1927, it was followed by the effects of the deflationary crisis and the closure of a growing number of small cooperative banks, a phenomenon which grew to enormous proportions with the advent of the 'Great Depression'.

The figures are little less than catastrophic (see Table 1). As mentioned, between 1928 and 1947 some 67.9% of the Italian rural credit unions closed down, added to which was the collapse of 65.8% of all the credit and finance intermediaries operating in the country. If we consider that the total number of banks in the country fell from 4,197 in 1928 to 1,434 in 1945 – a decrease of 2,763 units – we must also consider that 58% of the banks that ceased operations consisted of 1,600 rural credit unions.⁸ Data collected by the *Servizio Vigilanza* of the Bank of Italy show even more clearly the magnitude of the decline in cooperative credit between the end of the 1920s and the Second World War. In absolute values, in 1929 deposits and savings at the 2,210⁹ rural credit unions amounted to 1,311.9 billion current lire, whilst in 1937 deposits and savings at the 1,170 in operation had fallen to just 718.7 billion lire.¹⁰ Then, in 1942, owing to inflation,

8. Calculations based on annual reports by the Governor of the Bank of Italy: 1927-1945.

9. In fact, the *Servizio Vigilanza* of the Bank of Italy recorded 2,429 rural credit unions, but only 2,210 of them were in operation, because 219 were in the process of settling with creditors on liquidation (ASBI, fondo 23, n.11, fasc.2, sottosc.1, March, 03, 1929).

10. In 1937 there were 1,748 registered rural credit unions, but only 1,170 were reported by the *Servizio Vigilanza*. Hence 578 were in liquidation (ASBI, fondo 23, n.13, fasc.4, Relazione per il 1937, March 1938). However, according to figures set out in the annual report by the governor of the Bank of Italy, the number of registered rural credit unions was again 1,748, but 1,202 of them were active, so that the number in liquidation was 546 (Relazione 1938, pp. 173-182).

savings increased and deposits at the 911 active rural credit unions rose to 1,343.7 billion lire.¹¹ In relative terms, although of paramount importance in rural areas, the specific weight of the cooperative credit system was inevitably limited, compared to the credit system as a whole. In 1929, of the 38,393.1 billion lire made up of fiduciary deposits in the overall banking system 3.4% were received by the rural credit unions, the percentage progressively fell until in 1942 it accounted for 1.5% of the 842,414 billion lire deposited in Italy's banks (see Table 2).¹²

From every point of view, therefore, the cooperative credit system was going through a particularly difficult period. As has already been emphasised, there were numerous reasons for its retrenchment. These ranged from organizational factors to political and institutional factors which were evidently averse to a cooperative system that was at odds with the regime's hegemonic aims, as well as being obviously dependent on an economic system hit by the 'Great Depression' which was causing one of the severest crises in the twentieth century.

The question arises as to the intrinsic capacities of the cooperative credit system to cope with the combined impact of events, which extended beyond a specific economic context to involve Italian society in its entirety, including the many small rural communities in which the Raiffeisenian credit unions operated. In other words, we must verify the effectiveness of the organizational and managerial instruments available to cooperative credit to handle an exceptionally big crisis.

Examination of the financial decisions made by the rural credit unions during the years of the 'Great Depression' shows that they lacked corporate stability. Proof of this is provided by the collapse of numerous insti-

11. With respect to the 911 rural credit unions in operation, there were 1,223 registered, so that 312 were in the process of being liquidated (ASBI, fondo 23, n.15, fasc.2, sottosc.1, 11.01.1943, *Relazione* 1943, pp. 150-157).

12. *Relazione* 1931, pp. 121-127; *Relazione* 1932, pp. 117-123; *Relazione* 1933, pp. 127-138; *Relazione* 1934, pp. 155-166; *Relazione* 1935, pp. 175-186; *Relazione* 1936, pp. 221-232; *Relazione* 1937, pp. 153-164; *Relazione* 1938, pp. 173-182; *Relazione* 1943, pp. 150-157.

tutions after 1930, which is clear evidence of the excessive indulgence shown by the administrations of the credit unions towards the loan requests made by farmers. The deterioration of the economic situation was seen in the sudden fall of prices, wages, employment (and therefore production) in rural areas as well. The inability to sustain productive activity in the presence of lower prices inevitably increased the indebtedness of rural communities. This in turn led to the tying-up of conspicuous resources of the rural credit unions, which impeded the prompt liquidation of assets in cases of panic among the depositors, and prevented many credit unions from meeting demands for redemption (Leonardi 2005, pp. 203-204).

The closure of the branches of numerous local and regional banks, as well as the liquidation procedures that ensued, blocked all relations between these banks and their corresponding institutions (Caroleo 1979). Consequently, the monetary means deposited by the rural credit unions at these banks remained unavailable, even for very long periods, while awaiting legal identification of the debts of the banks undergoing liquidation and the subsequent settlement with creditors. Not even the withdrawal by some rural credit unions of deposits made at savings banks, nor the advances (of modest amounts) that the latter were willing to grant, averted the failure of numerous credit unions, both in small villages and in relatively large towns.

It is therefore worth investigating the operational mechanisms of the cooperative credit system in order to explain the weaknesses revealed by the series of exceptional economic and financial events that occurred during the 'Great Depression'.

Firstly, structural weakness in the Raiffeisenian cooperative banks derived from what had been a strength in their pioneering stage: their willingness to accommodate even members without liquidity. However, their substantial lack of means, and their modest assets structure, were undoubtedly a drawback at this particularly critical juncture. Owing to the ways they were set up and run, the rural credit unions were financially

'light'. They had little capital because subscription fees were purely symbolic, and their reserve funds also tended to be rather short. Corporate analyses have shown that the ratio between shareholders' equity and deposits was very low, between 2% and 3% (Leonardi 2002, p. 244). This meant that there was practically zero coverage of lending transactions by shareholder equity, and that the main source of financing – besides loans on current account from other banks – consisted of savings deposits.

Moreover, the credit unions had only limited reserve funds because their annual profits were extremely modest. This was due to their policy of maintaining narrow margins between their lending and borrowing rates, so that they could extend credit to their members on favourable conditions, while at the same time ensuring sufficient safeguards for deposits. Except in cases of statutory non-compliance, they endeavoured to avoid all speculative operations. Although they retained their operating profits, their contribution to the creation of reserve funds was extremely limited.

This structural weakness was obviated to some extent by the unlimited liability of members for initiatives undertaken by the credit unions, which – as mentioned – was one of the founding principles of the Raiffeisenian system (Leonardi 2000). The limited need to cover equity, moreover, was justified from the credit unions' point of view by the relative security of their loans, in that the borrowers enjoyed the full confidence of the administrators. The system had worked very well in periods of stability, as is borne out by numerous experiences during the *belle époque* (Leonardi 2003). But amid the widespread insolvency of the Italian economic system in the early 1930s, the problems connected with the scant capitalization of the cooperative credit societies became dramatically apparent. Faced with the combined difficulties of creditor insolvency and insistent demands for repayment by debtors, the rural credit unions were unable to resort to their own assets for the liquidity they needed.

A second weakness was the lending policy adopted by the rural credit unions. The policy had two principal shortcomings: the first was the

concentration of risk in lending transactions; the second was a substantial, sometimes excessive, benevolence in granting loans and requesting their repayment. All the rural credit unions restricted their operations to the municipality in which they were located, where the number of local businesses was small and everything was rendered public. Consequently the credit unions were largely unable to differentiate risks qualitatively. Hence, because loans were concentrated in a clearly restricted context, it was not possible to dilute their risks across different geographical areas. At the same time, the focus on a restricted group of economic operators, most of them engaged in livestock farming, as well as some artisans, meant that there was very little diversification of risk.

As a result, when a local enterprise was in distress over a long period, the financial equilibrium of the rural credit unions revealed its fragility, for these small banks were unable to make up for losses in other areas or from clients engaged in other forms of production. Inspection of the asset side of the union balance sheets shows the small number of short-term government securities, and at the same time the amount available on current account at other banks. This means that both liquidity and low-risk items were extremely limited. The credit unions thus fulfilled their mission of making available to their members the resources whose administration had been entrusted to them. But in pursuit of this mission, some administrators, under pressure to improve their profit and loss accounts, agreed to finance high-risk initiatives by members (Cesarini 1968, p. 93).

On the other hand, the fact that the credit unions' operations regarded a limited area and the presence of a small group of members gave them substantial protection against competition from other credit intermediaries. Moreover the fact that borrowers were all known personally to the administrators and were generally of proven trustworthiness, together with the credit unions' policy of not financing large-scale or risky economic initiatives, meant that, in conditions of general economic stability, the likelihood of crisis was extremely limited. However, when

economic tensions and difficulties arose in the credit unions' sectors of business, because their operations were largely restricted to the collection of savings and the granting of credit to members, they were unable to replace credit losses with other types of revenue, such as dividends on government bonds or other securities, or rents on property (Leonardi 2005, pp. 207-210).

The administrators usually granted loan requests by members, even when the company's financial situation should have counselled caution. Hence, during the years of deflationary crisis, and especially in 1927, although the Italian economic system was still far from the recession that was to strike it in the early 1930s, amid evident signs of difficulty the rural credit unions continued to give loans even in risky circumstances. In keeping with their mission, they tried in every way to satisfy their members' demand for credit. This behaviour was also justified by the greater indulgence traditionally shown by credit unions towards their members, considering their lesser likelihood of obtaining credit elsewhere (Cesarini 1968, p. 94; Leonardi 2002, pp. 234-242). However, it jeopardized the financial solidity of these small banks, which would soon see their liquidity diminish dramatically.

The presence of managerial anomalies, therefore, undermined the solidity of the small banks. The excessively generous granting of loans, and the sometimes exaggerated indulgence shown towards debtors, exacted a high price for the rural credit banks when the crisis deepened. At the most critical moments, numerous credit unions lacked the necessary liquidity to meet pressing demands for the repayment of credit by depositors and other corresponding banks (Leonardi 2005, pp. 199-216). Moreover, loans had often been granted to the municipalities in which the rural credit unions operated. Because of their strictly local character, the rural credit unions were particularly sensitive to the financial needs of the municipalities, to which they granted large loans at times when funds were abundant, in some cases with particularly protracted repayment schedules. These, however, were operations

unsuitable for rural credit unions, which instead should have sought to avoid immobilizing the deposits entrusted to them for long periods of time, thereby removing resources from their natural function of supporting small farming and crafts businesses.

Although the Bank of Italy inspectors carried out numerous enquiries into the formal and substantial validity of the guarantees covering credit-union loans to members, they must have frequently been negligent. There were cases where members, already heavily indebted to a rural credit union, acted as guarantors for other borrowers. Very large loans were guaranteed by only a single surety. There were defects in bills given in guarantee: bills were void, barred, incomplete or in some way irregular; and mortgages were granted to non-members, an extremely serious occurrence because it was contrary to the statutes of Raiffeisenian credit unions (Leonardi 2005, pp. 210-212).

Another critical factor that was rather commonplace in the Italian cooperative credit system, was the unsatisfactory training of bookkeepers and the scant experience of administrators. Although the distinctive feature of the administrative procedures of the rural credit unions in their early years was their simplicity, this could not justify their lack of managerial expertise. The bookkeeper was usually a person who had attended a training course on cash-desk operations organized by the bank coordinating body and, moreover, usually worked on a part-time basis, without the support of qualified accountants (who rarely sat on credit union boards), who should have supervised the bookkeepers. There is no doubt that this system reduced administrative costs, so that the credit-unions were able to charge interest rates particularly favourable to their members, reducing the margin between lending and borrowing rates to the minimum. But, in certain cases, especially when rural credit unions furnished ancillary services like tax collection, the bookkeepers had excessive workloads which resulted in errors and confusion (Leonardi 2002, pp. 124-126; Leonardi 2005, pp.212-214).

It should also be borne in mind that, although participation in the

democratic management of a cooperative bank was considered by Raiffeisen to be a central principle in the governance of social credit unions (Leonardi 2000), the members played only a marginal role in the management of their *casse rurali*. Attendance at the assemblies of individual cooperative banks was not always numerous, so that even the simplest and most immediate form of control over the administrators' work was often very scant. Although this behaviour was, on the one hand, indicative of a high level of trust in the administrators' conduct – trust that was often warranted – on the other, it was decidedly risky, especially in light of the unlimited liability that tied each member to the decisions taken by the rural credit union's administrators.

Moreover, the control exercised by auditors was not very effective, since they usually did no more than mechanically endorse the work of the administrators. And they rarely attended board meetings, although, according to the by-laws, they should have done so regularly. The auditors only examined the annual statement, whereas they should have extended their remit to the administration as a whole, exerting control over all aspects of management.

All these features had emerged in the cooperative credit system well before the onset of the 'Great Depression'. As result, failures of rural credit unions were already numerous in the second half of the 1920s. Liquidation procedures grew increasingly frequent because of the above-mentioned weaknesses undermining the system, but especially because the rural economic system was unable to withstand the impact of the depression (Leonardi 2005, pp. 214-217).

As the crisis worsened, the administrators of all the rural credit unions found themselves having to deal with a very serious problem. Faced with growing demands for repayment caused by the general panic, they were faced with a dilemma. On the one hand, they knew that withholding the repayment of deposits would exacerbate panic because they would be effectively declaring their banks' insolvency. By refusing demands for repayment, they would prevent liquidity from entering the economic

system, resources from circulating, business from recovering, and their depositors (who were also often debtors) from fulfilling their obligations. On the other hand, if they entirely acceded to demands for repayment, they would have to take action against their debtors in order to recover money put out on loan, and by doing so they would aggravate the crisis. The choice involved, not only economic considerations, but ethical issues too. The rural banks were aware that harmful consequences would ensue, whichever option they took.¹³

And, indeed, their decisions often had damaging consequences. In the difficult climate of the time, although some decisions rescued peasant families from situations of serious difficulty, they also caused the financial ruin of others. Generally speaking, following the decisions taken by the boards of individual cooperative credit unions, survival was only possible for the banks that were best administered, especially those that were financially most solid and whose operational decisions had been the most cautious.

That the wounds opened were particularly deep is seen in the accounts of the cooperative banks inspected by the Bank of Italy's *Servizio Vigilanza* (Leonardi 2005, pp. 188-332). Analysis of the assets and liabilities of the rural credit unions highlights two tendencies in the development of the crisis. On the one hand, there was a substantial increase in the credit unions' dependence on the banking system, owing to the fall in their deposits and the growth of overdrawn transfer accounts. The factors responsible for this were, on the one hand, an increase in interest costs, and on the other, the reduced financial independence of small banks. Moreover, the margins of security on loans had been reduced owing to the overall rigidity of loans granted to businesses. This was

13. The Governor of the Bank of Italy, Luigi Einaudi, in his report to the bank's general assembly of 31 March 1947, stressed that one of the reasons for the difficulties of numerous rural credit unions was "a lack of suitable administrators, who are difficult to find in small towns and villages, and even if they exist, are loath to take on the heavy responsibilities connected with the legal form (general partnership) prescribed for companies of this type" (*Relazione* 1946, p. 155).

matched by the difficulty of obtaining funds through savings deposits by traditional clientele, with a consequent worrying increase in the lending rate.

Although the 'over-commitment' of resources was largely due to the difficult economic circumstances of the time, it sometimes also resulted from an overly permissive assets management policy. The administrators of some credit unions were over-confident that the economic situation would soon improve. As a result, they did not implement the policy of progressive debt recovery that was, instead, absolutely necessary to avert the subsequent crisis.

The debacle of Italian cooperative credit in the second half of the 1920s and throughout the 1930s was therefore due to a rather complex set of causes to do both with the endogenous weaknesses of the credit union system and with external factors, of which the principal were the local effects of the 'Great Depression'. However, these two aspects should be considered jointly: the disruptive effects of the crisis cannot be understood without considering the workings and, above all, the weaknesses of the credit system. Although in periods of recession the credit system was obviously penalized, this does not mean that the collapse of the banking system, and of cooperative credit in particular, was entirely due to the 'Great Depression'. In his report to the general assembly of the Bank of Italy on 30 May 1940, the Governor, Azzolini, described the situation of cooperative credit as follows: "It is well known that in the final decades of the last century and in the first decades of the present one, there arose in Italy, in order to satisfy needs of various kinds, a large number of rural credit unions, and that the movement constantly drew new vigour from the favourable results achieved by the credit unions in the early years of their existence. However, owing to their scant assets or to imprudent administration, many of these banks found themselves in difficulty and were forced to begin liquidation procedures, so that the number of credit unions in operation began to decrease." (*Relazione* 1939, p. 83).

Liquidation procedures raised further difficulties for an economy already on its knees. The payments the members of troubled credit unions were obliged to make to their banks' creditors, due to their unlimited liability had a major impact on their household budgets. They were forced to deprive themselves of important financial resources at the height of the crisis, and in the difficult years that followed, when liquidity became vital for economic recovery. Moreover, the frequent auctions held for the members of the credit unions to sell their goods and acquire some liquidity¹⁴ tended to devalue property in municipalities where the credit unions in liquidation were located: in fact, this forced supply was matched by extremely depressed demand (Ferri, Garofalo 1994). Furthermore, in several cases, the credit recovery procedure itself provoked conflicts, which entailed the compulsory winding-up of substantially healthy rural credit unions (Leonardi 2005, pp. 246-248).

The members of all the troubled rural credit unions found themselves with diminished resources because of the liquidation payments they had been forced to make. In addition, their land and buildings were worth substantially less than before the crisis. And then, if we consider that many small communities had lost the *casse rurali* on which they relied, the magnitude of the impact of the cooperative banks' credit crisis on the rural economy is apparent.

However, once the crisis had reached its height, solutions for recovery had to be sought and one of them was obviously cooperative credit. But besides restoring the country to economic and financial health, it was also necessary to heal the psychological wounds caused by the collapse of local financial systems.

In this extremely delicate operation, the rural credit unions, re-baptized 'rural and artisan banks' (*casse rurali e artigiane*), which had been uprooted from the movements that had given rise to them and incorporated into local fascist organizations (Cafaro 2001, pp. 325-353), could

14. It should be pointed out, however, that liquidators sought to reduce this type of operation to the minimum (Leonardi 2005, pp.242-256).

no longer count on their traditional banks of reference. Nor could they rely on the *Banca Nazionale del Lavoro*. The latter's attitude towards cooperative credit was certainly not supportive; on the contrary, it was covertly hostile, given its desire to replace rural banks in difficulties with its own agencies. This behaviour was stigmatized by the Bank of Italy itself, after its inspectors had reported the hostility of the *Banca Nazionale del Lavoro* towards the *cashe rurali*. In his report to the Governor on 14 August 1935, the director of the Trento Istituto di Vigilanza, citing a specific case, stated as follows: "I have already had occasion to report that the behaviour of the Banca Nazionale del Lavoro towards the rural banks is damaging and is such as to aggravate a crisis in confidence that, with such systems, will not be easily overcome" (Leonardi 2005, p. 249).

The report left no doubts about the matter: the institution that should have supported the rural banks was instead acting in ways that damaged them. There could have been only one reason for its behaviour: because the Banca Nazionale del Lavoro was unable to gain the confidence of businesses in numerous rural areas, and even less that of the small cooperative banks, it was endeavouring – with the evident support of the regime – to force the rural banks out of business so that it could move in to take their place. The manoeuvre was so blatant that, although it realized that the operation had the regime's support, the *Istituto di Vigilanza sulle Aziende di Credito* criticized it as detrimental to the equilibrium of the local economy, which had already been subject to heavy shocks.

Similar situations arose in the immediate post-war years, causing the Governor of the Bank of Italy, Luigi Einaudi, in a speech to the institute's general assembly on 31 March 1947, to rise to the defence of the rural credit banks: their "extremely useful function", Einaudi asserted, was being hampered by the unfair competition raised by larger-sized banks.¹⁵

Once the most turbulent phase of the crisis had passed, and the slow

15. With reference to the action by the Bank of Italy's *Servizio Vigilanza* in regard to the rural banks, Einaudi stressed: "the protection and assistance afforded to banks performing an extremely useful function in the collection of savings are often thwarted by the competition of better-endowed institutions." (*Relazione* 1946, p. 155).

recovery of numerous rural credit unions had begun – aided by prolonged liquidation procedures¹⁶ – the first signs of revival were apparent in the cooperative movement, and especially in the sector hardest hit by the crisis: namely credit. However, the recovery process was long and difficult. The *casse rurali* and the cooperative movement in general found it hard to regain their position in the economies of numerous rural areas after the severe blows dealt by the ‘Great Depression.’ Their slow recovery can be taken as reflecting the many rural areas in the country that laboured long to achieve economic revival.

A tangible sign that the tide was turning came at the end of the 1930s with the resurrection of a number of rural credit unions after they had been liquidated. In various respects, this anticipated developments that occurred in the climate of regained freedom and with the reopening of international markets that followed the war.

Concluding remarks

The credit cooperation system had certainly not exhausted its role. There were those who argued with conviction that their credit union should be re-created, despite the cost of redeeming its debts, and they did so notwithstanding the uncertainty caused by the war. Nor were these isolated cases: others cases occurred in the immediate post-war period and during the most dynamic years of the ‘economic miracle’ (Leonardi 2005, pp. 253-256, 331-332).

Although cooperation had been unable to counter effectively the gravity of the crisis (and indeed had been partly overwhelmed by it),

16. The liquidators were often chosen by the members of failed credit unions from among the previous administrators or, at any rate, from among persons close to the cooperative movement. They sought to cushion debtors against the more serious damage that accelerating the credit recovery process might cause. Liquidations, therefore, often proceeded rather slowly. The liquidators took pains to avoid large-scale legal proceedings against debtors in order to save on legal costs but also to lessen the sacrifices required of the local system over a longer period of time.

nevertheless it was believed that the system could develop modest resources, which otherwise would be marginalized by the market and its iron laws. After the dramatic events of the 1930s, the conviction grew that cooperation alone was not enough to counteract an economic phenomenon that was much greater than its capacity for action. But at that precise juncture the cooperative organization, despite its limitations, was able to protect the most vulnerable sections of the Italian agricultural economy. Accordingly, once the most difficult years of the crisis had passed, the intention was to give the cooperative system a leading role in bringing the economies of the country's marginal areas into the mainstream of modern economic development.

As the crisis deepened, the cooperative movement as a whole – and the cooperative credit system in particular – proved able to dampen the impact of a series of both economic and political destabilizing factors. Of course, it was evident that associations alone could not counter an economic, social and political collapse that greatly exceeded their capacities for action. During the most dramatic phase of the 'Great Depression', when various sectors of the Italian economy – especially small-scale farming and crafts – lost all their terms of reference, the cooperative organization (despite its limitations and the shortcomings of its administrators) was able to protect the most vulnerable elements of the local agricultural economy.

At the same time, despite the policy of the Fascist regime to bring all associations under its direct control, the majority of local cooperators remained firmly anchored to self-help principles and kept faith with the values of solidarity. The regime failed in its endeavour to replace voluntary and gratuitous Raiffeisenian cooperation for the good of the community with an organization which, although purportedly still cooperative in nature, was in fact purely utilitarian and served fascist purposes.

Neither the regime's policy of the 'stick', which defined the rural credit unions as "moth-eaten institutions that labour to survive", nor that of

the ‘carrot’ which termed them “vital local institutions as necessary as they are meritorious”¹⁷, were able to subdue cooperation and the cooperative credit sector, despite the impact of a succession of financial and economic shocks produced by the ‘Great Depression.’ Nor did the slump that affected the Italian economy in its entirety – ruining the credit system, and with it numerous *casse rurali*, and wreaking havoc with the country’s rural economy – break the rural population’s will to cooperate.

The sums that the members were forced to pay to redeem failed credit unions’ debts had created severe difficulties for farming households, just as losses of savings deposited in liquidated banks had impoverished numerous small businessmen. Restoring a climate of confidence, and reviving mutualism, when the wounds caused by the winding-up of failed societies had not yet fully healed, would have been extremely difficult. But rural society was convinced of the validity of the cooperative system and it believed that the events that had caused the liquidation of so many credit unions were contingent occurrences due, in many cases, to the flouting of essential by-laws or to scant participation in corporate governance.

Consequently, although the Italian countryside had suffered at first hand the costs and consequences of liquidation, it was generally still firmly in favour of cooperation. Indeed, in several regions of the country, especially in the north, the determination arose to reinstate the cooperative credit system, removing its fascist excrescences and restoring its mutualist and solidarist characteristics, in the conviction that it was essential for Italy’s economic renewal.

17. The quotation is from a speech delivered in November 1933 by the director of the Federazione Nazionale delle Casse Rurali, Gargiullo, to the 34th General Assembly of Trentino cooperative societies (Leonardi 2005, p. 335).

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APPENDIX

Italian credit cooperatives
from 1918 to 1945

Year	A. Registered Rural Banks	B. Rural Banks Operating	C. Registered Banks:Total	D. Banks Operating: Total	A/C %	B/D %
1927	2,220		4,055		54.75%	
1928	2,440	2,425	4,197		58.14%	
1929	2,429	2,210	4,079		59.55%	
1930	2,387	2,169	3,962		60.25%	
1931	2,318	2,031	3,708		62.51%	
1932	2,233	1,902	3,547	2,937	62.95%	64.76%
1933	2,158	1,681	3,296	2,661	65.47%	63.17%
1934	2,064	1,514	3,161		65.30%	
1935	1,979	1,377	3,043	2,241	65.03%	61.45%
1936	1,768	1,283	2,914	2,099	60.67%	61.12%
1937	1,748	1,202	2,804	1,970	62.34%	61.02%
1938		1,129	2,624	1,851		60.99%
1939	1,815	1,134	2,479	1,723	73.22%	65.82%
1940			2,351	1,653		
1941			2,225	1,568		
1942	1,223	911	2,099	1,493	58.27%	61.02%
1943		894	1,997	1,469		60.86%
1944		882	1,968	1,463		60.29%
1945	1,190	840	1,911	1,434	62.27%	58.58%
1946		844				
1947		817				

Source: own calculations based on data of the Rural Banks' Section of the Bank of Italy supervision office, concerning the period 1927-1949 (ASBI, fondo 23, n. 11-18, Relazioni annuali, 1927-1949).

Year	A. Rural Banks Operating	B. Total Deposits in Rural Banks in Millions of Lire	C. Total Deposits in the Entire Italian Banking System, in Millions of Lire	B/C %
1929	2,210	1,311,9	38,393,1	3.4170%
1930	2,169	1,249,9	38,747,0	3.2258%
1931	2,031	1,158,3	37,862,1	3.0593%
1932	1,902	1,060,1	37,527,0	2.8249%
1933	1,681	942,1	38,812,3	2.4273%
1934	1,514	893,7	38,733,0	2.3073%
1935	1,377	748,7	38,054,0	1.9675%
1936	1,283	755,0	39,633,6	1.9049%
1937	1,202	718,7	41,151,5	1.7465%
1938	1,129			
1939	1,134		46,378,6	
1940			54,821,3	
1941			69,669,5	
1942	911	1,343,7	89,414,0	1.5028%
1943	894			
1944	882			
1945	840			
1946	844			
1947	817			

Source: own calculations based on data of the Rural Banks Section of the Bank of Italy Supervision Office, concerning the period 1927-1949 (ASBI, fondo 23, n. 11-18, *Relazioni annuali*, 1927-1949).