The State as a Risk-bearer? Corporate Finance and Economic Policy in Italy, 1965-1992

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Abstract

Starting in the late 1960s, the capital structure of Italian companies got heavily tilted towards debt. In explaining this development, the paper advances two interconnected topics. It contends that through active policy-making, business and state financial circuits were increasingly amalgamated. During the stagflation crisis of the 1970s and 80s, the dire straits of companies were associated with an increase in the savings rate of private households. Due to the architecture of the separated banking system, a gap between savings and investments was observed: due to the decreasing trust in the sustainability of companies and the rising inflation, savers did not engage in long-term obligations. This situation was to be overcome through a proactive state intervention, firstly via the extension of subsidized credit schemes, later via the intermediating role of treasury bills, so that private investments increasingly relied on public support. Consequently, the incentive structure in corporate decision-making strongly favoured external capital. Nevertheless, the archival material from the Bank of Italy, the business association Confindustria and the protocols from the Senate show that this solution was never truly preferred. As a second subject, the paper shows how from early on decision-makers engaged in discussions about a re-enforcement of the market for equity capital. This led to a process of policy-reconfiguration during the 1980s, which foreshadowed the institutional reforms of the early 1990s. In this vein, the new, source-based perspective allows for a reassessment of state action patterns in a phase of economic transformation and helps to analyse the Italian varieties of capitalism under historical contingency.

1. Introduction

Investments in the preservation, expansion and improvement of the capital stock are fundamental for the competitiveness of any economy. Therefore, a company's ability to finance new projects is a topic of particular interest for economic researchers.[1] This paper investigates the Italian system of corporate finance from the late 1960s to the early 1990s from a historical point of view. These decades have often been described as a period of "missed opportunities" concerning economic reforms in the country.[2]

On the surface, this also holds true regarding financial sustainability. As early as 1977, Italian companies had accumulated an unusually high debt ratio of 83.4% (see Figure 1, capital structure of Italian firms, 1964-1977). The main aim of this study is to explain the drives behind this peculiar capital structure, expanding existing research in economic history. In particular, scholars such as Giuseppe Conti,[3] Giandomenico Piluso[4] or Salvatore La Francesca[5] have studied the role of the Italian financial system during and after the "Golden Age" via the role of specialised credit institutions. Nevertheless, the premises for decision-making by contemporary actors have remained puzzling. Therefore, the article takes an additional turn by assigning a strategic role to political governance within the institutional context. It does so by contextualizing and systemizing

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[1] For instance: M. O'Sullivan, "Finance and Innovation", in J. Fagerberg, D.C. Mowery (eds.), *The Oxford Handbook of Innovation*, Oxford, 2006, pp. 240-265.

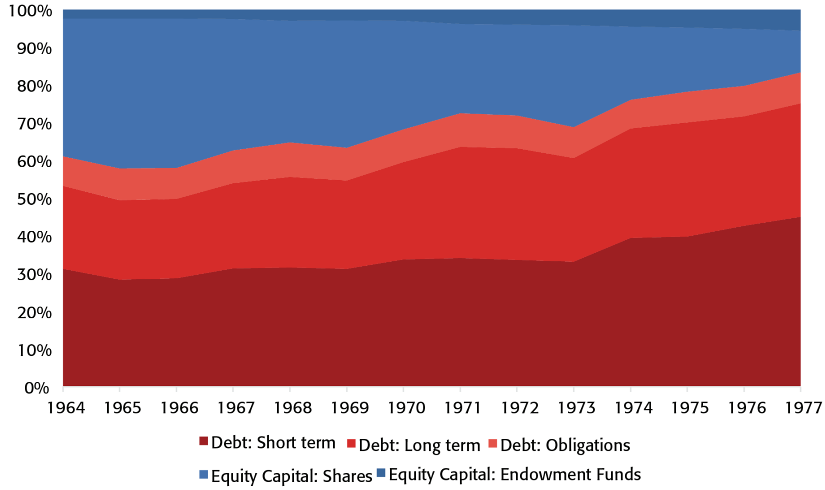
[2] F. Amatori (ed.), *L'approdo mancato: Economia, politica e società in Italia dopo il miracolo economico*, Milan, 2017; S. Michele, *Occasioni mancate. Economia e politica in Italia dagli anni '60 a oggi*, Rome and Bari, 2000.

[3] G. Conti, "Le banche e il finanziamento industriale", in F. Amatori, D. Bigazzi, R. Giannetti, L. Segreto (eds.), *Storia d'Italia, Annali 15: L'industria*, Turin, 1999, pp. 441-504.

[4] G. Piluso, "Gli istituti di credito speciale", in Ibid., pp. 505-547; G. Piluso, "Deregulation, Regulatory Convergence, or Escaping from Inefficiency? The Italian Financial System in the 1970s-1980s", in A. Drach,d Y. Cassis (eds.), *Financial Deregulation: A Historical Perspective*, Oxford, 2021, pp. 139-162.

[5] S. La Francesca, "Sistema bancario e mercato obbligazionario in Italia nella seconda metà del Novecento", in G. De Luca, A. Moioli (eds.), *Debito Pubblico e mercati finanziari in Italia. Secoli XIII-XX*, Milan, 2007, pp. 699-711; Ibid., *Storia del sistema bancario italiano*, Bologna, 2004.

Figure 1
Capital structure of Italian firms, 1964-1977



Source: Senato della Repubblica, VII Legislatura, 5ª Commissione, *Indagine conoscitiva sul finanziamento delle imprese industriali in Italia*, Resoconto 37ª seduta, Rome, 25 January 1979, p. 1360.

the functioning of the Italian financial system in the second half of the twentieth century through the lens of new primary sources, whereby it can draw on existing theoretical research from business economics and political sciences. Based on a fresh, theory-driven and source-based analysis to study the conditions of corporate finance, the paper develops two interwoven arguments.

First, in line with the existing literature, it contends that business and state financial circuits, hitherto separated by the system's design, were increasingly amalgamated during the 1970s and 80s. This explains not only the sharp increase in corporate debt but also in sovereign debt. The process rested upon the institutional setting of the Italian economy, and especially the structure of the banking system, which was created in the aftermath of the Great Depression. The banking law of 1936 introduced a functionally separated and highly specialized financial structure that was unable to provide the necessary funds when the demand for capital grew substantially since the late 1960s. As it was difficult to redirect resources from the increased savings rate of private households into new investment channels, proactive public efforts in economic policy-making concentrated on bridging this gap, hoping to re-establish trust in the solidity of investments in Italian firms. More and more, these policies pushed the state into the role of an economic risk-bearer and made indebtedness much more profitable than operations on the already undeveloped stock market.

Secondly, in contrast to previous findings, it shows that this process was very critically evaluated by public decision-makers from an early stage. As early as in the late 1960s, there was a very high awareness regarding the problems associated with the indebtedness of Italian companies. Key actors repeatedly emphasized the lack of venture capital, and since the 1980s they undertook various initiatives to soothe this problem. In this vein, a new approach towards financial stability and regulation emerged, preparing the institutional makeover of the 1990s.

In dealing with these subjects, the paper relies on archival material from three different actors: The Senate; the Bank of Italy; and Confindustria, a big and influential business association. The evaluated sources thus comprise some of the most important policy-making institutions. Within the Senate, the focal point rests upon the consultation conducted repeatedly to discuss the state of corporate finance in Italy. These protocols not only document the importance of the topic for contemporary legislators, but also the scope of the policies envisioned to resolve the capital crunch. Similarly, the Bank of Italy was not only influential in economic analysis but also administered a great set of policies relating to corporate finance.[6] Finally, the material from Confindustria represents the interests of the Italian industry, which was closely intertwined with political structures.[7]

[6] For an introduction on the role of the Banca d'Italia see A. Gigliobianco, *Via Nazionale. Banca d'Italia e classe dirigente; cento anni di storia*, Rome, 2006, pp. 262-354; G. Piluso, "Reshaping the external constraint. Franco Modigliani, Tommaso Padoa-Schioppa and the EMS, 1977-1993", in *History of Economic Thought and Policy*, no. 9/2, 2020, pp. 97-119.

[7] For instance, Guido Carli became president of the association in 1975, after serving 15 years as central bank governor. On the political role of Confindustria see V. Castronovo, *Cento anni di imprese. Storia di Confindustria 1910-2010*, Rome and Bari, 2010.

The article proceeds as follows: the second section provides an overview of the main methodological framework while section three sketches out the structure of the Italian industrial and banking landscape at the end of the 1960s. In so doing, it lays the basis for sections four and five, which respectively analyse the policy reaction to the inflationary periods of the 1970s and embed these actions within the context of the international financial situation. Section six investigates the role of sovereign debt in the financial system. Sections seven and eight then trace the efforts to reinforce the role of equity capital and the legislative provisions, which accompanied new forms of financial models during the 1980s. Some conclusive remarks close the paper.

2. Methodological Context

To assess the resources at hand, the paper considers two theoretical frameworks. First, it delves into the theory of corporate finance within business economics. This research was pioneered by Franco Modigliani and Merton Miller who showed that, under perfect market assumptions, a business would always face the same capital costs – regardless of whether it sells shares or takes on debt.[8] Yet both authors and their successors underlined that information asymmetries, transaction costs, insolvency risks and other factors serve to blur this assumption in practice. As suggested by the trade-off theory, firms face an optimization problem when making decisions about their best capital structure. Adherents of the pecking order theory, in contrast, underline that the sale of equity capital usually implies a reduction of internal decision-making authority, so that debt is preferred over stocks and internal financing over debts.[9] Both

[8] F. Modigliani and M. Miller, "The Cost of Capital, Corporation Finance and the Theory of Investment", in *The American Economic Review*, no. 48/3, 1958, pp. 261-297.
[9] For younger contributions see H. Ai, F. Murray, A. Sanati, "The Trade-off Theory of Corporate Capital Structure", in *Oxford Research Encyclopedia of Economics and Finance*, Oxford 2020, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3595492 (last ac-

theories will be instrumental in scrutinizing the role of policy choices for increasing corporate indebtedness.

Economic historians have contended that these considerations are subject to historical developments. Changing institutional and political environments affect economic performance and lead to country-specific differences in financial systems.[10] In principle, therefore, it is not straightforward to assume that the increasing debt-ratio of companies was indicative of a poor economic situation in general. While most of the existing research agrees that the Italian economy was in decline since the 1970s,[11] it has been shown that companies in high-tech sectors did significantly better than those operating with low technology, suggesting that the situation was at least ambivalent.[12] Yet for the historical analysis, it is important to note that contemporaries also had a very pessimistic view of the economic situation, a premise that must serve as a basis of the source analysis:

> "It has to be noted that while in the 1960s the evolution of the financial structure of enterprises was the physiological consequence of a process of industrial growth, in the 1970s pathological factors of falling profit rates, related to the increased weight of labour and raw material costs, took over."[13]

Observations on the Italian financial system have also influenced the literature on Varieties of Capitalism (VoC), which serves as a sec-

cess 3 April 2023); A. Miglo, "A New Capital Structure Theory: The Four-Factor Model", in *MPRA Paper* no. 105102, Munich 2021, https://mpra.ub.uni-muenchen.de/105102/ (last access 3 April 2023).

[10] As pioneered by A. Gerschenkron, *Economic backwardness in historical perspective. A book of essays*, Charlestown, 1962. See also R.G. Rajan, L. Zingales, "What Do We Know about Capital Structure? Some Evidence from International Data", in *The Journal of Finance*, no. 50/5, 1995, pp. 1421-1460; A. Demirgüç-Kunt, R. Levine, *Financial Structure and Economic Growth*, Cambridge, 2001.

[11] R. Gianetti, M. Vasta, "The historiography", in Ibid. (eds.), *Evolution of Italian Enterprises in the 20th Century*, Heidelberg, 2006, pp. 1-14.

[12] M. Vasta, "Firm performance (1900-1971)", in R. Gianetti, M. Vasta (eds.), *Evolution of Italian Enterprises in the 20th Century*, Heidelberg, 2006, pp. 153-190.

[13] Appunto inviato al Ministro del Tesoro prof. Stammati, Rome, 20 October 1977, in: ASBIT (t), Banca d'Italia, Direttorio - Ciampi, pratt., n. 203, fasc. 1, sfasc. 18, pp. 1-2, cit., p. 2.

ond framework. This research schematizes different types of capitalist systems based on the nature and internal coordination of the markets surrounding a firm. While the main assumption is a distinction between liberal and coordinated market economies,[14] various other subtypes were endorsed, such as "mixed market economies" in the Mediterranean region. Here, a focus lies on the state's duty to stabilize economic conditions: "[P]rocesses of adjustment are frequently dependent on the gate-keeping role of the state."[15] Furthermore, John Zysman had identified a third, state-based and more interventionist type with public control over wide parts of the economy.[16]

In the area of financial markets, liberal and coordinated market economies differ mainly in the role of banks: while in the first case, they primarily serve as a market platform for trading risk capital, in the second case they take on the classic role of intermediaries that accept deposits and pass them on to borrowers in a discretionary manner. Italy has been characterised as a highly bank-based country.[17] Nonetheless, this distinction becomes relevant primarily from the 1980s onwards, and the more recent emphasis on banks as platforms overshadows the lasting importance of classical bank activities during the twentieth century all over the world. In addition, it was argued that, if anything, both forms of finance should be regarded as complementary rather than substitutive.[18] Finally, there

[14] P.A. Hall , D.W. Soskice, "An Introduction to Varieties of Capitalism", in Ibid. (eds.), *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage*, Oxford, 2001, pp. 1-68.
[15] Ó. Molina, M. Rhodes, "The Political Economy of Adjustment in Mixed Market Economies: A Study of Spain and Italy", in B. Hancké, M. Rhodes, M. Thatcher (eds.), *Beyond Varieties of Capitalism*, Oxford, 2007, pp. 223-252, cit. p. 228.
[16] J. Zysman, *Governments, Markets, and Growth: Financial Systems and Politics of Industrial Change*, Cornell, 1983.
[17] G. Jackson, R. Deeg, "From Comparing Capitalisms to the Politics of Institutional Change", in *Review of International Political Economy*, no. 15/4, 2008, pp. 680-709.
[18] J.L. García-Ruiz, M. Vasta, "Financing firms: Beyond the dichotomy between banks and markets", in *Business History*, no. 63/6, 2021, pp. 877-891; K. Mettenheim, "Back to Basics in Banking Theory and Varieties of Finance Capitalism", in *Accounting, Economics and Law*, no. 3/3, 2013, pp. 357-405.

have been calls for greater attention on the state's role as a regulator.[19] Taking these perspectives into account, this paper adds another layer to VoC literature by highlighting the transformative character of capitalist systems. In doing so, it introduces historical contingency to the analysis of the Italian Varieties of Capitalism by focusing on agency in decision-making processes within an evolving institutional framework.

3. The Italian Industrial and Financial Structure

3.1 Enterprises

Towards the end of the 1960s, the Italian industrial landscape was characterized by a strong dualism between big industrial conglomerates and small-scale industries with few employees.[20] Whilst small and medium enterprises (SMEs) were generally in private hands, most big industrial firms – with prominent exceptions like FIAT, Pirelli or Montedison – were grouped in state holdings. Of these, the Istituto per la Ricostruzione Industriale (IRI), created in 1933, is the best-known example. In the 1970s, around 600 companies of various kinds were organized under its banner. Furthermore, during the post-war decades, the energy group ENI (1953) and the industrial group FIM (1962, from 1967 EFIM) were founded under state ownership with 275 and 127 member companies, respectively. They were joined by the energy company ENEL, nationalized in 1962.[21] These groups became symbols of the Italian economic miracle and the success of the industrial system created by Alberto Beneduce and Do-

[19] V.A. Schmidt, "Putting the Political Back into Political Economy by Bringing the State Back in Yet Again", in *World Politics*, no. 61/3, 2009, pp. 516-546.
[20] On this dualism see especially M. Rota, *Sviluppo industriale e dualismo economico in Italia nella seconda metà del XX secolo*, Soveria Manelli, 2008. On the Italian industrial landscape more generally: R. Gianetti, M. Vasta, *Storia dell'impresa italiana*, Bologna, 2012.
[21] Appunto inviato all'on. Luigi Preti, Ministro delle Finanze, Rome, 11. August 1970, in ASBIT (t), Banca d'Italia, Direttorio - Carli, pratt., n. 70, fasc. 2, sfasc. 1, pp. 1-86, esp. pp. 4-5. See also Giannetti, Vasta, 2012, pp. 200-206.

nato Menichella. During the Golden Age, they became the main actors of the Italian entrepreneurial state.[22]

These holdings faced the biggest difficulties when economic deceleration, primary cost shocks and capital shortages began to weaken the Italian economy from the late 1960s onwards. When attending the special investigation of the Italian Senate in 1979, Carlo Azeglio Ciampi, the Bank of Italy's head from this year, underlined that "[...] there is a general decline in financing, but it is very strong for public enterprises; less strong for major private enterprises and even less for smaller private enterprises."[23] This put decision-makers in a difficult position. Selling equity capital to private investors was not feasible for political reasons, and outside credit became relatively expensive. The state thus began subsidizing its companies temporarily, hoping that a better economic performance would follow suit. However, as early as 1966 central bank governor Guido Carli wrote to Aldo Moro, minister of the Treasury, that the public grants were counter-productive to the Bank of Italy's efforts to reduce inflation. Also, Carli added, such grants worsened an existing crowding out effect that the restrictive monetary policy had on private investment.[24] In a similar vein, Siro Lombardini, an economist and member of the Senate for the Christian Democrats, asked his colleagues: "Hasn't the state marginalized banks from the process of financing businesses precisely when bank intermediation would be able to fulfil its tasks more efficiently than the state?"[25] In a Varieties

[22] On the particular role of state participations see: F. Amatori, "IRI: financial intermediary or entrepreneurial state?", in *Financial History Review*, no. 27/3, 2020, pp. 436-448; F. Barca, S. Trento, "La parabola delle partecipazioni statali: una missione tradita", in F. Barca (ed.), *Storia del capitalismo italiano*, Rome, 1997, pp. 185-236, esp. pp. 185-209.
[23] Senato della Repubblica, VII Legislatura, 5ª Commissione, Indagine conoscitiva sul finanziamento delle imprese industriali in Italia, Resoconto 37ª seduta, Rome, 25 January 1979, cit. p. 1328. Ciampi was the Bank's general director when giving the speech, and became its governor later that year.
[24] Appunto inviato all'on. Aldo Moro, Presidente del Consiglio dei Ministri (tramite il dr. Giuseppe Manzari), Rome, 28 February 1966, in ASBIT (t), Banca d'Italia, Direttorio - Carli, pratt., n. 60, fasc. 5, sfasc. 14, pp. 1-16.
[25] Senato della Repubblica, VII Legislatura. 5ª Commissione, Indagine conoscitiva sul

of Capitalism-framework, therefore, there was a preference for a bank rather than a state-based system. Public allowances thus gained traction, but not enthusiastically.

Moreover, private companies did not fail to underline that they, too, had financial difficulties. Gianni Agnelli for instance, managing director of FIAT and member of the Senate, complained that there were no practicable ways to utilize the high savings rate for investments. Rather than buying obligations, the only veritable choice for households was between real estate and government bonds. At the same time, the stock market had been "massacred" by previous policies, after which "[we] pretended perhaps to revive it when it was unfortunately already in a coma."[26] But the big companies also shied away from the stock market for internal reasons. Equity trading by private and public companies was limited due to their respective ownership structures, where neither the state nor the big mutual shareholders wanted to give away too much room for manoeuvre. Consequently, the formation of big business groups had been preferred over Chandlerian M-form corporations, which continued to influence financial structures in the second half of the twentieth century.[27]

Despite growing in relative economic importance during the 1970s, small and medium-sized private companies had similar misgivings. The high savings rate, as Confindustria pointed out, led to a chronic undercapitalization. Therefore, the capital structure of most firms was inherently weak, with a high debt ratio, low self-financing resources, and few endowments of venture capital.[28] Over-

finanziamento delle imprese industriali in Italia, Resoconto 32ª seduta, Rome, 21 November 1978, cit., p. 1155.

26 Senato della Repubblica, VII Legislatura. 5ª Commissione, Indagine conoscitiva sul finanziamento delle imprese industriali in Italia, Resoconto 3ª seduta, Rome, 21 July 1977, cit. pp. 85-86.

27 A. Colli, A. Rinaldi, M. Vasta, "The only way to grow? Italian Business Groups in historical perspective", in *Business History*, no. 58/1, 2016, pp. 30-48. For these reasons, as the authors summarize, the Italian economy has also been described as a form of "capitalism without capital".

28 Appunto n. 8196, Schema ddl Minindustria per ricapitalizzazione imprese: osservazioni Comitato finanziario, Rome, 28 May 1984, in ASC / f. - Confindustria / ser. -

all, the trade with stocks or equity capital remained marginal due to the family-based or interlocking ownership structure. In line with the pecking-order theory, most enterprises thus began to resort to banks and external financing via the banking system.[29]

3.2 Banks

During the Great Depression, major industrial companies went bankrupt and were saved via nationalization. This process led to the creation of IRI and laid the foundations for the system of state-holdings. The same happened with banks. When the industry failed, so did its creditors, and the deposits of savers came into jeopardy.[30] In response, two decisive policies were enacted.

Firstly, most banking houses were nationalized and specialized according to the types of borrowers and duration of credits. The country's three biggest banks (Banca Commerciale Italiana, Credito Italiano and Banco di Roma) were organized under the purview of IRI. Their legal status defined them as "banks of national interest". This made them susceptible to political aims besides profit maximization. In particular, their business was directed towards big enterprises and those also operating within IRI. On the contrary, "public banks" were not organized as stock companies, but as statutory entities. They had similar political tasks, but a more diversified

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Banche - istituti di credito - società finanziarie / s.serie - Società finanziarie / 92: "Problemi Legislativi delle società da gennaio '81-85", cit. p. 1.
On the characteristics of SMEs in Italy see also: G. Conti, R. Giannetti, "PME et réseaux d'entreprises en Italie au XXe siècle", in *Entreprises et histoire*, no. 28/2, 2001, pp. 20-36; F. Lavista, "The medium-sized manufacturing enterprise (1927-81)", in A. Colli, M. Vasta (eds.), *Forms of enterprise in 20th century Italy. Boundaries, structures and strategies*, Cheltenham, 2010, pp. 248-217. SMEs in particular gained in relative economic importance compared to big business groups during the observed period.

[29] L. Enriques, G. Siciliano, M. Gentile, "La borsa italiana dal secondo Dopoguerra alle fine del Novecento. Fatti e interpretazioni", in *Rivista di Storia Economic*a, no. 27/3, 2011, pp. 409-429.

[30] E. Galanti, R. D'Ambrosio, A. Guccione, *Storia della legislazione bancaria, finanziaria e assicurativa. Dall'unità d'Italia al 2011*, Collana storica della Banca d'Italia, Venice, 2012, pp. 75-97.

group of customers. A third group of publicly owned banks consisted of a great variety of savings and postal banks, which mostly financed SMEs. Altogether, by the 1970s, around 75% of bank deposits were operated by institutions under public ownership. The last quarter mostly consisted of so-called ordinary credit banks, which were privately owned.[31]

Secondly, the law passed in 1936 strictly separated the retail and investment activities of banks. The above-mentioned banks, despite their statutory differences, were all grouped together as ordinary credit institutions and were only allowed to engage with consumer banking. They mostly administered checking accounts, while investment durations were limited to 18 months. That way, the law ensured that liquid accounts of private savers would not be exposed to excessive industrial risk taken on by their bank, as it happened during the Great Depression. For long-term corporate investments, a second type of banks were created: special credit institutions (*ICSs*). Usually, *ICSs* were affiliates of the ordinary credit institutions and shadowed their sector-oriented specializations. However, they were separated by their parent companies via institutional barriers and different sources of capital endowment. *ICSs* were financed by selling long-term obligations to private and public savers. With a duration of at least 18 months, their business model was laid-out for bigger industrial investments. One of the most important *ICSs* was Mediobanca, which was founded in 1946 with the participation of the three banks of national interest. Together with the investment consortium Istituto Mobiliare Italiano (IMI), founded in 1931, it was the most important investor for big industries and public holdings, and the only merchant bank in the financial system.[32] SMEs in con-

[31] Galanti, D'Ambrosio, Guccione, 2012, pp. 75-97 and pp. 119-135; La Francesca, 2004, p. 208. It has to be noticed that this shift was not only a technical problem, but also entailed a significant change in Italian economist's understanding of the state's role in the economy. See M. Pomini, "The Great Depression and the corporatist shift of Italian economists", in *European Journal of the History of Economic Thought*, no. 18/5, 2011, pp. 734-753.
[32] Piluso, 1999, pp. 522-527.

trast were mostly financed by one of the *ICS*-daughters of public banks, the national Mediocredito Centrale or one of the 13 regional Mediocrediti. The latter was founded in the 1950s as an extension of state intervention to the benefit of SMEs.[33]

With its regional and functional differentiations, the structure of the Italian banking system as summarized in Figure 2 was very unique by international comparison. For instance, a report created by European industrial associations – with the goal of finding opportunities for harmonization – had to concede:

> "Finally, it is necessary to note one major exception to all that has been said here about the provision of longer-term bank advances, as from 1936 there existed in Italy a law which prohibited ordinary banks from granting longer-term credits."[34]

Even though the banks were aligned with the state, the monetary cycles of the financial system were supposed to work outside the scope of public financial cycles, resulting in a double circuit at the core of Italian finance. Moreover, by focusing on the sale of bonds, *ICSs* intended to ensure that the Italian banking system was not exclusively bank-based in the traditional sense, but that it also included elements of merchant banking.[35] Yet the separated banking system met its limits once the savings rate of private households increased and the internal financing capacities of companies collapsed. To compensate for the imbalance, the special credit institutions would have had to sell more obligations to the households and redirect these funds to the companies. However, private savers did not engage in these investments, as the trust in the solidity of the enter-

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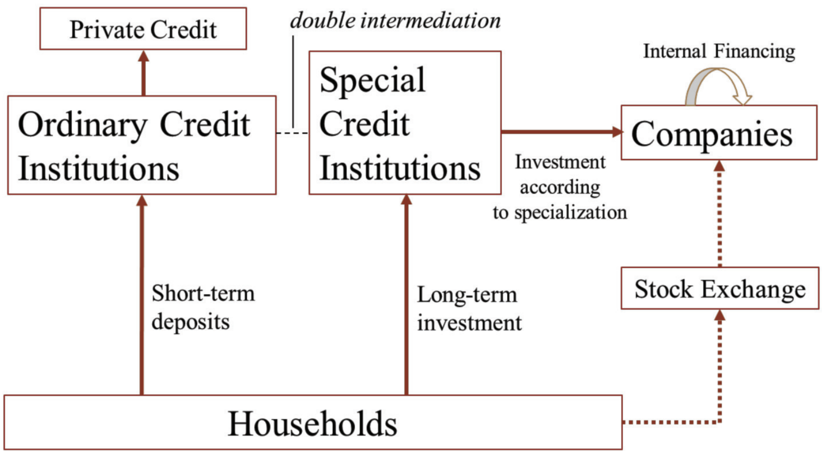
[33] Gianetti, Vasta 2012, pp. 207-210; La Francesca, 2004, p. 217; M. Onado, "La lunga rincorsa: la costruzione del sistema finanziario", in G. Toniolo, P. Ciocca (eds.), *Storia economica d'Italia 3.2: Industrie, mercati, istituzioni: I vincoli e le opportunità*, Rome and Bari, 2004, pp. 381-454.

[34] Union des industries de la communauté européenne (UNICE), Commissione "Piccole e Medie Imprese Industriali": Rapporto "Financement", Brussels, 16 June 1975, in ASC / f. - Confindustria / sez. - Organi e Comitati / ser. - Piccola industria e artigianato / 506: "Riunione a Bruxelles, 25.6.75, finanziamento", cit., pp. 27-28.

[35] Piluso, 1999, p. 543.

prises had fallen strongly. Instead, an increasing share of the capital accumulated at the ordinary credit institutions was cut off from the dried-up long-term investment channels. Herein lies the basic problem of Italian finance as observed by contemporaries. In the words of Guido Carli: "In the area of investment financing, the task of monetary authorities is complicated by the growing decoupling between the centres of savings formation and utilization."[36]

FIGURE 2
The Italian financial system after 1936



Source: Own presentation.

The initial solution to this gap was embedded in the system's design. In special cases, the banking laws allowed for short-term investments of ordinary credit institutions into *ICSs*. The capital would therefore be treated by two financial intermediaries, hence "double intermediation". Under constant renewal of the bonds, this would, in theory, bridge the gap between savings and investment, and even spread the risk between different institutions. Nevertheless, the so-

[36] G. Carli, *Il Finanziamento degli investimenti nell'esperienza italiana*. Raccolta di "Studi in onore del prof. Giuseppe Ugo Papi", Rome, February 1972, in ASBIT (t), Banca d'Italia, Direttorio - Carli, pratt., n. 19, fasc. 3, pp. 1-26, cit. p. 2.

lution created considerable transaction costs and risks for the commercial banks, as the interest paid on deposits was higher than the interest earned from investment in *ICSs*.[37] Furthermore, new literature on banking crises has not only pointed out that "using short-term debt to finance long-term illiquid investments exposes even solvent banks to self-fulfilling panics," but also that "bank capital crunches driven by asset losses" should be concerning to economic policy-makers even before panics.[38] With the undercapitalization of special credit institutions and their financing via renewed short-term debt, both were the case. On top of that, the role of ordinary credit institutions as temporal intermediates was strained by accelerating inflation.

4. Corporate Finance and the Problem of Inflation

4.1 Total Domestic Credit

The Italian inflation rate peaked during the oil crises of 1974 (19.2%) and 1980 (21.1%), but the consumer price index constantly lay above 10% between 1973 and 1984.[39] Initially, the reasons for price increases were observed to be congruent to those of the poor internal financing of companies: on the one hand, wage costs grew stronger than profits, which was further aggravated by the introduction of automatic wage adjustments in 1975 (aka *scala mobile* in Italian). On the other hand, import costs for primary goods provided an external supply shock. In this sense, fighting the roots of inflation was analogous to fighting the origins of weak corporate capitalization.[40] But

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[37] The problem was pointed out by the Italian Banking Association in its Senate interview: Senato della Repubblica, VII Legislatura, 5ª Commissione, Indagine conoscitiva sul finanziamento delle imprese industriali in Italia, Resoconto 36ª seduta, Rome, 18 January 1979, p. 1303; see also Piluso, 1999.
[38] M. Baron, E. Verner, W. Xiong, "Banking Crises Without Panics", in *The Quarterly Journal of Economics*, no. 136/1, 2020, pp. 51-113, cit., p. 52.
[39] OECD Data, Inflation (CPI), 2022, https://data.oecd.org/price/inflation-cpi.htm#indicator-chart (last access 3 April 2022).
[40] F. Petrini, "The politics of inflation and disinflation. The Italian case", in M. Chélini,

in the course of the 1970s, many state programs such as the overdue reform of the pension system led to a significant increase in public debt and money supply. A new source of inflation was created, one not directly linked to the companies' capital endowment. On the contrary, the control of total domestic credit had traditionally been the most important instrument for keeping inflation in check. In other words, there was a trade-off between price stabilization and the amount of credit available to firms. For instance, banks could be demanded to withhold higher amounts of capital with the central bank or to reduce the overall lendable amount of capital with respect to overall assets. As Fratianni and Spinelli conclude: "The rules of the game were penalizing risk-taking and rewarding bureaucratic behaviour aimed at interpreting and satisfying regulations on credit ceilings and portfolio constraints."[41]

Nevertheless, during the 1970s, the Bank of Italy applied credit policies only reluctantly. Corporate finance was given priority over inflation, which persisted as a consequence. The loose monetary policy constituted a lifeline for many enterprises, but in the medium-term it turned out to be a dragging anchor too. As profit expectations remained low, the market for equity capital continued to suffer. In turn, external finance increased in importance. Also, market interest rates rose in response to higher default risks and inflationary expectations: This was especially the case for *ICSs*, specializing in long-term operations. The capital costs firms would have to face thus amounted to a barely manageable burden, even though in 1972[42] the

L. Warlouzet (eds.), *Calmer les prix: l'inflation en Europe dans les années 1970 = Slowing down prices: European inflation in the 1970s*, Paris, 2016, pp. 115-142. For a contemporary analysis see G.U. Papi, "Inflazione da costi", in *Rivista di Politica Economica*, no. 65/5, 1975, pp. 595-612.

[41] M. Fratianni, F. Spinelli, *A monetary history of Italy*, Cambridge, 1997, pp. 220-222, cit. p. 222. Also refer to D. Strangio, "Le politiche monetarie in Italia dalla "Golden Age" alle "oil crises" nelle Relazioni della Banca d'Italia", in *Moneta e Credito*, no. 70/1, 2017, pp. 21-58.

[42] The pressures faced by companies were summarized for Confindustria in: D. Kraus, *Promemoria per il Comitato di Studio per i Problemi del Finanziamento Industriale*, Rome, 23 May 1980, in ASC / f. - Confindustria / ser. - Banche - istituti di credito - società finanziarie / s.ser - Società finanziarie / 99: "Inflazione e contabilità aziendale problemi

18-month limit for ordinary credit institutions had been already temporarily softened. As neither the reversal of fiscal expenditures nor the reduction of primary costs could be implemented in the conceivable future, politicians and Confindustria repeatedly called for the state to take responsibility in mitigating the credit risks.[43]

4.2 The Expansion of Subsidized Credit

The initial response to capital crunches was an expansion of subsidized credit schemes. They were enabled, among other things, through the extension of central bank credit to the state. Originally, the schemes had been introduced at the end of the 1950s as an instrument of support for specific regional development projects in the South. In 1965, the legislative framework was broadened and made to apply throughout the entire country (Law number 1329, or "Legge Sabatini"). This bill allowed the state to assume up to 100% of capital costs in the South and 50% in the industrialized North. The endowments for the subventions were distributed via public funds created specifically for this purpose and directly paid to the special credit institutions. Whilst SMEs were the main target group of the subsidies via Mediocrediti, big corporations also gained substantial access via Mediobanca and IMI. The subsidies allowed private depositors to receive high interests at the ordinary credit banks, which passed the capital costs on to *ICSs*. But instead of advancing the costs

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nazionali dal gennaio '77-82"; and in: *Lettera di Franco Mattei alle Associazioni Territoriali e alle associazioni nazionali di categoria*, Rome, 19 September 1972, in ASC / f. - Confindustria / sez. - Politica economica nazionale ed internazionale / ser. - Banche - istituti di credito - società finanziarie - s.ser. - Società finanziarie / 87: "Assireme - Associazione fra gli Istituti Regionali di Mediocredito". For historical reference see M. Fratianni, "Fiscal Dominance and Money Growth in Italy: The Long Record", in *Explorations in Economic History*, no. 38/2, 2001, pp. 252-272.

[43] See for example: "Il Finanziamento delle imprese industriali: Le proposte della Confindustria", Rome, 24 June 1983, in ASC / f. - Confindustria / sez. - Organi istituzionali e Comitati / ser. - Comitato permanente per gli affari economici e Commissione consultativa confederale per i rapporti economici / s. ser - Commissione consultativa confederale per i rapporti economici / 334: "Comitato di studio problemi finanziamento imprese. Riunioni fino a dicembre 1983".

to the companies directly, the state took over half of the burden. The main reason for subsidized credits, therefore, was to temporarily enable the double intermediation until inflation would cool down and direct investments with *ICSs* would be attractive again. In fact, as Table 1 shows, the subsidies significantly reduced credit costs compared to other forms of financing.[44]

But as inflation persisted, companies relied more and more on the subventions. By the late 1960s already, Confindustria's president Costa summarized that about 71% of the external capital was now distributed with the help of state subsidies.[45] The widespread use of the endowments indicates that the cost of external capital via indebtment with *ICSs* became less expensive for firms in general and hence, from a trade-off theory perspective, systematically more attractive than equity capital or even obligations.

In 1974, Costa's successor Mattei emphasized that firms had started to make cost calculations expecting future subsidies. Without them, many would face bankruptcy.[46] The central bank criticized this over-reliance, writing to the Ministry of Finance:

> "Since the early 1960s, there have been significant changes in the financing structure of Italian companies, which [...] have become more pronounced in the last five years, in connection to the inflationary process, the extent assumed by subsidized credit and the inability of the stock market to make a contribution to the cover-

[44] Lettera di Giordano dell'Amore a Franco Mattei, Milan, 5 December 1975, in ASC / f. - Confindustria / sez. - Politica economica nazionale ed internazionale / ser. - Banche - istituti di credito - società finanziarie - sottoserie - Società finanziarie / 87: "Assireme - Associazione fra gli Istituti Regionali di Mediocredito"; Commissione Consultativa Rapporti Economici, Nota sul Credito Agevolato, Rome, 22 December 1981, in ASC / f. - Confindustria / sez. - Organi istituzionali e Comitati / ser. - Comitato permanente per gli affari economici e Commissione consultativa confederale per i rapporti economici / s.ser. - Commissione consultativa confederale per i rapporti economici / "Corrispondenza Varia".

[45] Lettera di Angelo Costa a Giordano dell'Amore, between 1968 and 1970, in ASC / f. - Confindustria / sez. - Politica economica nazionale ed internazionale / ser. - Banche - istituti di credito - società finanziarie / s.ser. - Società finanziaire / 87: "Assireme - Associazione fra gli Istituti Regionali di Mediocredito".

[46] Lettera di Franco Mattei a Francesco Schivalocchi, Rome, 14 February 1974, in: Ibid.

TABLE 1
Average interest rates on credits (percentage value) by financial institutions, 1964-1976

Year	Credit by investment banks (*ICS*), > 18 months			Private credit by ordinary credit institutions	Average return on obligations
	Non-subsidized operations	Subsidized operations	Total		
1964	8,58	4.52	6.57	7.02	7.26
1965	8.51	4.65	6.4	7.21	6.86
1966	8.17	4.78	6.35	7.09	6.55
1967	8.92	4.34	5.69	7.06	6.66
1968	7.89	4.73	5.87	7.02	6.78
1969	8.17	4.7	5.69	7.31	7.06
1970	9.78	4.68	6.42	9.15	9.05
1971	8.98	4.61	7.26	9.03	8.17
1972	8.71	4.56	6.61	7.88	7.4
1973	11.66	4.6	7.43	8.31	7.48
1974	13.66	5.29	9.06	14.37	10.20
1975	14.4	6.48	11.12	15.08	10.82
1976	14.5	6.53	10.61	17.25	13.39
Average					
1964-1970	8.43	4.63	6.18	7.41	7.17
1971-1976	11.23	5.35	8.69	11.99	9.58

Source: Aspetti e problemi del mercato azionario in Italia. Estratto dalla rivista *Credito Popolare*, nn. 3-4, Rome, March-April 1977, in ASBIT (t), Banca d'Italia, Direttorio - Baffi, pratt., n. 34, fasc. 2, pp. 3-17, here: p. 9.

age of financial needs that would compensate for the effects of inadequate savings formation within companies."[47]

The subsidized credits were a fast and quickly available scheme to bridge the capital impasses. The mechanism relied on the state-oriented banking system as created in 1936, without many requirements for adjustment. In a situation of economic distress, fiscal

[47] Appunto inviato al Ministro delle Finanze on. Pandolfi, Rome, 18 July 1977, in: ASBIT (t), Banca d'Italia, Direttorio - Ciampi, pratt., n. 203, fasc. 1, sfasc. 2, pp. 1-15, cit. p. 4.

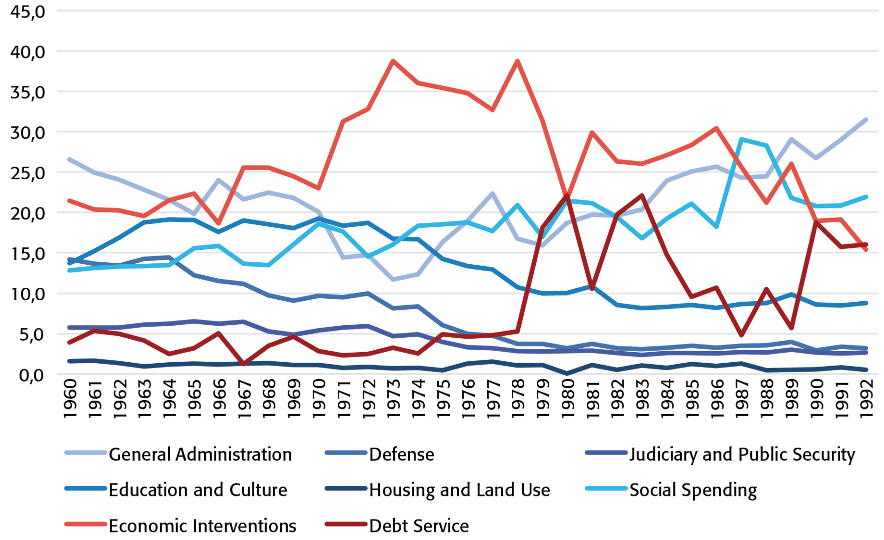
policy directly influenced the operative credit costs and introduced an artificially cheap offer of external capital. Nevertheless, as stagflation proved to be unexpectedly persistent, long-term incentive schemes were created to favour debt over equity capital. A vulnerable leverage ratio made investments even riskier, so that the problem of the gap converted into a downward spiral. Furthermore, the subsidies contradicted the monetary policy goals of stabilizing the volume of total domestic credit whilst strengthening risk capital.[48] As a consequence, corporate debt rose, and so too did inflation (for various reasons). But overall, the economic rebound policy-makers had hoped for did not occur, which indicates that instead of a bad business cycle, the worsening financial situation was a structural problem. To be sure, there were sector- and firm-size specifics. While state-owned business groups were particularly strained, policy-makers re-discovered SMEs as an element of economic prowess.[49] Lastly, allowances and subsidies led to a significant increase in the government's expenditures for economic intervention. Their total share in the state budget rose from 18.7% in 1966 to 38.8% in 1973 and kept the most significant position until 1986, as Figure 3 depicts. At the end of the 1970s, decision-makers thus looked for alternative ways of financing, a process which is highly neglected in the present historiography.

4.3 Restructuring Efforts

From early on, there were considerable concerns about the increasing debt quota and the role of the state in financing it. This was especially the case within the Bank of Italy, as until 1981 it was obliged to refinance unsold government bonds. An activation of risk capital seemed necessary to mobilize savings, even though it was clear that

[48] Fratianni, Spinelli, 1997, p. 219.
[49] B. Contini, "Grandi e piccole imprese industriali in Italia: dinamica e performance negli anni '80 a confronto", in *Moneta e Credito*, no. 41/163, 1988, pp. 331-361; F. Carnevali, *Europe's advantage: Banks and small firms in Britain, France, Germany, and Italy since 1918*, Oxford, 2005, pp. 170-195.

FIGURE 3
State expenditures by functional categories, percentage share of total budget, 1960-1992



Source: Ministero dell'Economia e delle Finanze. Dipartimento della Ragioneria Generale dello Stato, *La Spesa dello Stato dall'unità d'Italia. Anni 1862-2009*, Rome, 2011, p. 40.

a seamless transition was barely possible.[50] Some initial efforts did not yield significant success. For instance, the Gestione e partecipazione industriali, aka GEPI, was created to directly recapitalize firms via money infusions. However, most of its endeavours ended with the liquidation of the enterprise, so the institute's approach was criticized in hindsight: "In this context, the entrepreneur has ended up becoming for all practical purposes irresponsible for the fate of the enterprise, whose collapse is being offloaded onto the community without any quid pro quo."[51] Considering the role of insolvency

[50] For example: Appunto inviato al Ministro delle Finanze on. Pandolfi, Rome, 18 July 1977, see footnote 31. Also refer to Gigliobianco, 2006, p. 350.
[51] Appunto per il Governatore: Emendamenti del Sen. Andreatta al disegno di legge sulla ristrutturazione industriale, Rome, November 1976, in ASBIT (t), Carte Baffi, Governatore onorario, pratt., n. 104, fasc. 1, pp. 276-280, cit. p. 279. See also: P. Battilani, F. Fauri, *L'economia italiana dal 1945 a oggi*, Bologna, 2014; La Francesca, 2004, esp. pp. 229-231.

costs, which normally tend to disincentivize external capital, this "de-responsibilization" of private actors via state action made incurring debts yet more attractive.[52]

Alternative concepts thus turned to a reform of the subsidized credits themselves. The discussions culminated in the creation of two laws, number 675 of 1977 and number 787 of 1978. Law number 675, on the one hand, devised an inter-ministerial committee (Comitato di Ministri per il coordinamento della politica industriale, CIPI). Together with CIPE, an already existing planning committee, its assigned role was to redesign the economic policy guidelines for public credit. In order to prevent an excessive distribution of state subsidies, the allocation system was now tied to a system of stricter administrative controls. However, Confindustria criticized the law's application as impractical. The federation complained about non-transparent and arbitrary bureaucratic procedures. SMEs in particular preferred to rely on remaining endowments from previous legislation. The main beneficiaries of new funds, in turn, were often big, state-controlled corporations.[53]

Law number 787, on the other hand, not only tried to restrict the over-exploitation of state-funds but also to mobilize alternative sources of capital. For that purpose, the bill endorsed ordinary credit institutions to participate in temporary banking consortia, which were allowed to commonly purchase shares of highly indebted companies and thus re-equilibrate their capital structure. On top of that, the bill provided resources for subsidized credits which were to be used as initial funding for corporate restructuring processes. But the effect remained equally low. Since the consortia could barely distinguish whether companies were over-indebted for structural economic reasons or simply because of bad fiscal incentives, the banks assumed an incalculable risk. Furthermore, politicians shied away

[52] On the phenomenon of de-responsibilization through double-intermediation more generally see Piluso, 1999, p. 545; Conti, 1999, p. 499.
[53] Commissione Consultativa Rapporti Economici, Nota sul Credito Agevolato, Rome, 22 December 1981, see footnote 28.

from blurring the separated banking system too strongly, so the scope of the instrument remained limited.[54]

To summarize these efforts, there is no doubt that policy-makers exhibited a very high awareness of the financial problems many companies faced in the given economic situation. At the same time, the room for manoeuvre was narrow. In a Varieties of Capitalism setting the episodes highlight the limits to state action in what was described as a state-based financial system. A major part of state action happened not for long-defined strategic reasons, but rather for pragmatic ones, subject to economic feasibility.

The Senate's two-year special investigation of financial problems is a case in point. From 1977 to 1979, the parliament invited various important figures from companies, banks and political institutions to discuss solutions for the undercapitalization of the economy. Gianni Agnelli of FIAT, for example, criticized the subventions as inherently counter-productive: "Well, there has never been a bad project that has been solved in an economically positive way thanks to a subsidized credit."[55] The Senate's president replied by saying that it was precisely the goal of the investigation to come up with ways to close the gap between saving and investment through the mobilization of more venture capital.[56] Nevertheless, Agnelli's statement was emblematic of the least common denominator in the discussion: before any endeavour to repair the capital structure of Italian firms via state-led initiatives could bear fruits, the companies' profitability and competitiveness would have to be given a new foundation. Even though previous interventions had officially aimed

[54] Lettera di Carlo Azeglio Ciampi a Filippo Maria Pandolfi, Ministero del Tesoro. Per un'interpretazione della legge sul risanamento finanziario delle imprese, con particolare riguardo al suo ambito di applicazione, Rome, 21 December 1979, in ASBIT (t), Banca d'Italia, Direttorio - Ciampi, pratt., n. 172, fasc. 1, pp. 261-270; similar views on the shortcomings of the law were voiced in hindsight by Confindustria: Appunto n. 8196, Schema ddl Minindustria per ricapitalizzazione imprese: osservazioni comitato finanziario, Rome, 28 May 1984, see footnote 14.
[55] Senato della Repubblica, VII Legislatura, 5ª Commissione, see footnote 13, cit., p. 113.
[56] Ibid.

at this goal, the subsidized debt had merely been used to finance operative losses rather than productive investments, as the president of Associazione Bancaria Italiana contemplated. In his view, *ICSs* had assumed an unsustainable risk, which was then passed on to the ordinary banks. To safeguard private savers, the state had to step in as a risk-bearer. He concluded that the double intermediation, which was mainly a temporal intermediation between credit and deposit durations, had to be dialled down again. For that, new inflationary spikes would have to be prevented at all costs: "My direct response is terror of such a scenario."[57]

Most other speakers supported these claims, yet they were unable to provide tangible political concepts other than returning to the status quo ante the 1950s. Agnelli of course lacked understanding for these laments. Since the most indebted companies were in fact large and publicly owned, he argued, the debt-enabling role of the state was a crowding out of private companies. The public sector, in that sense, would have to sweep its own doorstep first.[58] This argumentation hints at emerging conflicts of interest within the dualistic Italian corporate landscape, further aggravated by a lack of foreign capital inflows.

5. International Markets

Until 1971, monetary policy was restrained by the need to maintain a stable Lira's exchange rate with the Dollar. But contrary to the classical gold standard, the comprehensive quantity of credit in relation to the money supply was significantly more flexible. Mandating banks to hold liquidity reserves, therefore, was a considerable tool for central banks to stimulate or cool down economic growth without risking excessive exchange rate variations. In Italy, as in other

[57] Senato della Repubblica, VII Legislatura, 5ª Commissione, Indagine conoscitiva sul finanziamento delle imprese industriali in Italia, Resoconto 36ª seduta, Rome, 18 January 1979, pp. 1283-1296, cit., p. 1293.
[58] Ibid., pp. 1283-1296.

countries, this policy tool was essentially implemented according to the amount of total domestic credit already mentioned above.[59]

The crisis of Italian corporate finance had already gained traction by the time the world switched to a floating monetary regime. The relatively loose monetary policy enacted in response to that entailed the considerable risk of Lira losing value on international markets. For the financial system, this was problematic. Even though a weaker Lira benefitted export-oriented industries, imports on a broader level became more expensive, thus adding to primary cost inflation. Accordingly, importing capital from outside investors became very costly as well. The Bank of Italy started to introduce capital controls anyways, as Carli emphasized the availability of domestic credit as the number one priority.[60]

What is more, the ailing exchange rate was the reason why Italy retreated from the European "monetary snake" just one year after its introduction. With this instrument, the six original EC countries, Great Britain, Denmark, and Norway had tried to find a successor to Bretton Woods. Even though the exchange rate to the Dollar was to be flexible in principle, it was agreed that all European currencies should always fluctuate at the same rate. But while France was an irregular member of the system, Italy had to quit permanently. Decision-makers warned that the costs of keeping pace were too sizeable. A restrictive monetary policy would hurt especially SMEs, Carli argued, while larger firms had other financial options.[61] Confindustria, too, later signalled that any effort to re-join the snake would leave the Lira behind as a "clay pile of broken pieces in the middle of stable iron vases."[62]

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[59] E. Monnet, M. Vari, "A Dilemma between Liquidity Regulation and Monetary Policy: Some History and Theory", in *Journal of Money, Credit and Banking*, early online view, 2022, https://onlinelibrary.wiley.com/doi/full/10.1111/jmcb.12930 (last access 3 April 2023).

[60] Fratianni, 2001, pp. 253-254.

[61] Risposta all'appunto inviato all'on Ugo La Malfa, ministero del Tesoro, Rome, 21 July 1973, in ASBIT (t), Banca d'Italia, Direttorio - Carli, pratt., n. 67, fasc. 3, sfasc. 2, pp. 1-13, esp. pp. 7-8.

[62] F. Mattei, Nota Sintetica sul serpente monetario, Rome, 4 July 1975, in ASC, f. - Con-

This opinion shifted by 1979, when Italy had to decide whether to join the European Monetary System. The association now warned against Italy staying outside the system, since

> "[…] such a decision would constitute an implicit declaration of internal weakness in the governance of the economy, which could not fail to elicit negative reactions in international financial circles, undermining the image of a 'solvent' country that must instead be ensured for the financing of the investments Italy needs, also to reabsorb unemployment."[63]

Under its new governor Carlo Azeglio Ciampi, the Bank of Italy took a similar stance and used the European Monetary System as an opportunity to make anti-inflationary measures feasible. This policy program was subsumed under the term "external constraint" and connected to the so-called Pandolfi-plan. Named after Minister of Finance Filippo Maria Pandolfi, it set out a bunch of fiscal tools for stabilization, especially a reduction of budgetary deficit as well as of wages and social subventions. These mechanisms, though, did not yield significant results, and so total domestic credit and an increase in the interest rate had to fill the gap. Even though joining the European Monetary System was deemed necessary to sustain a minimum of trustworthiness in the Italian economy, the action was considered as a Faustian pact by many observers – not least by Franco Modigliani, an influential voice in Italian economic discourse, but also by other economists and even pro-European politicians.[64] The decision thus taken was logical given the situation, but also somewhat paradoxical: as a response to the capital constraints faced because of the monetary system's requirements, the subsidized credits were prolonged well into the early 1980s.[65]

findustria / sez. - Organi istituzionali e Comitati / ser. - Comitato permanente per gli affari economici e Commissione consultativa confederale per i rapporti economici / s.ser. - Commissione consultativa confederale per i rapporti economici: "Corrispondenza Varia", p. 3.

[63] A. Solustri, *Presa di posizione in materia di adesione al sistema monetario europeo*, in Ibid., cit., p. 3.

[64] Piluso 2020; F. Petrini, "Stabilization through integration: the European rescue of Italian capitalism", in *European Review of History*, no. 26/4, 2019, pp. 573-599.

[65] La Francesca, 2004, pp. 249-275. For a contemporary evaluation of this situation: Let-

Already before 1979, the subsidies had made domestic capital considerably cheaper than credit in foreign currency, even before considering exchange rate risks. Importing foreign capital was disincentivized, so the subsidies turned out to be a form of financial protectionism. Whilst they were necessary to help Italy's economy compete in the new international monetary system, observers concluded that they were also the reason the firms could not yet reap the subventions from increased foreign investment. But even given these caveats, prioritizing the solid image of the Italian economy was the rational policy. In any case, by the late 1970s, Italian banks had to pay a very high-risk premium at the inter-banking-market – 2% more than the international LIBOR-rate. Despite being one of the pioneering countries in the early years of the Eurodollar-market, the Italian economy now lacked affordable foreign capital inflows.[66] The purpose of economic policy thus had to be an internal amelioration of the companies' payment position before relying on foreign capital again, which of course made the internal financing problem even more pestering.

6. The Role of Sovereign Debt

By the late 1970s, the high dependence on the mobilization of domestic capital mixed with another pressing problem, the drastic increase of credit volumes taken up by the state. From approximately

tera di Ciampi a Filippo Pandolfi: Intervento del Mediocredito Centrale sui crediti all'esportazione effettuati con raccolta in valuta, Rome, 10 April 1980, in ASBIT (t), Banca d'Italia, Direttorio - Ciampi, pratt., n. 172, fasc. 1, pp. 212-215.
The interest of SMEs in particular was repeatedly underlined with regard to the subsidies, even though it was clear that big state-holdings were also highly dependent on them: Mediocredito Centrale, prot. n. 45, Operazioni ai sensi della legge n. 949/52. Rifinanziamenti al costo della provvista per favorire gli investimenti delle piccole e medie imprese industriali, Rome, 24 October 1984, in ASC / f. - Confindustria / ser. - Finanziamenti alle industrie / 203: "Finanziamento alle industrie: applicazione varie leggi. Dal dicembre 1983 al marzo '86".

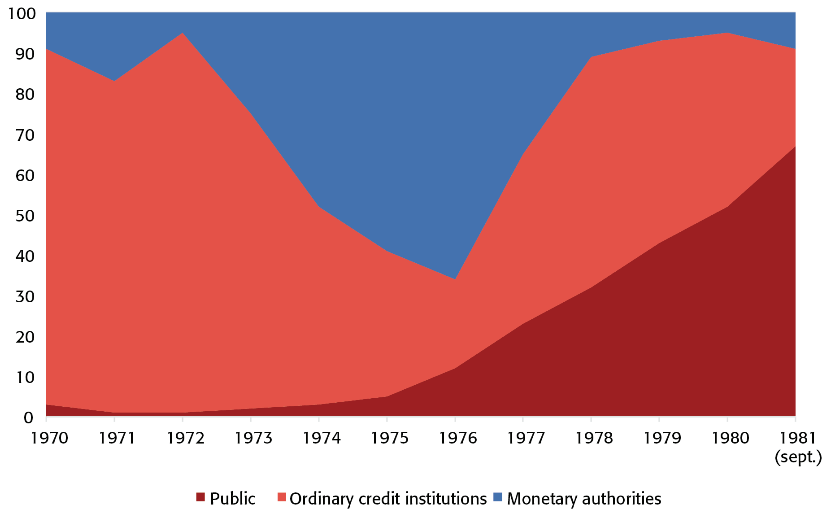
[66] I.A. Balaban, "Banking and Eurodollars in Italy in the 1950s", in *Enterprise and Society*, no. 24/3, 2023, pp. 759-783; D.R. Kane, *The Eurodollar Market and the Years of Crisis*, London and Canberra, 1983, pp. 121-122.

25% of GDP in 1960, the public debt rate rose to over 50% in 1980, mainly because of expansionary fiscal stances, welfare programs, and economic interventions. The costs associated were not adequately covered by the substantial tax reform of 1973.[67]

Instead of relying on credit from ordinary credit institutions, the state increasingly managed to sell its bonds directly to savers. To this end, two different types of Treasury Bonds were sold: BOTs with a life span of three, six or twelve months and CCTs with a duration of several years. As of 1975, the Bank of Italy distributed these treasury bonds via an auction procedure, which significantly increased the reach and revenue of the bonds.[68] Public debt sold directly to households, policy-makers argued, had two main advantages. On the one hand, it was a way of finally closing the financing gap, which was still an open wound for the Italian economy. Savers invested in state bonds, which in turn financed operations of *ICSs* and of other funds. In principle, therefore, the state budget took over the role ordinary credit institutions had played in the double intermediation. Again, the public budget functioned as a risk-bearing entity for high interest rates.[69] On the other hand, it was hoped that government bonds would reduce inflation, especially the long-term CCTs, as they were swallowing up big amounts of liquidity and thus keeping it from circulating in the economy for some time. In this context, ordinary credit institutions could be obliged to hold a minimum amount of sovereign debt, again mobilizing capital that would otherwise have to flow via double intermediation.[70] Figure 4 shows the results of

[67] A. Nützenadel, "Im Schatten des Staates: Öffentliche Schulden, Kreditmarkt und private Vermögensbildung in Italien nach 1945", in *Geschichte und Gesellschaft*, no. 41/3, 2015, pp. 447-464, esp. p. 449; Ibid., "The Political Economy of Debt Crisis: State, Banks and the Financialization of Public Debt in Italy since the 1970s", in N. Barreyre, N. Delalande (eds.), *A world of public debts. A political history*, Cham, 2020, pp. 405-425, esp. pp. 407-410.
[68] Nützenadel, 2015, esp. pp. 453-456.
[69] Lettera del Governatore al Presidente del Consiglio Superiore della Magistratura, Ugo Zilletti: Problemi di copertura del fabbisogno e di consolidamento del debito pubblico, Rome, 4 November 1980, in ASBIT (t), Banca d'Italia, Direttorio - Ciampi, pratt., n. 172, fasc. 1, pp. 117-132.
[70] Ibid.

Figure 4
Composition of BOTs by category of holders



Source: Nota con tavole per il Ministro Andreatta, Rome, 22 April 1982, in ASBIT (t), Banca d'Italia, Direttorio - Ciampi, pratt., n. 69, fasc. 1, fasc. Beniamino Andreatta (1979-1993), p. 6.

these policies. After 1975, private households were the main public debt financing subjects, whilst the role of the central bank diminished. By the time the Bank of Italy was freed from its legal obligation to discount unsold sovereign bonds in 1981, its role in buying them had already become quite marginal.

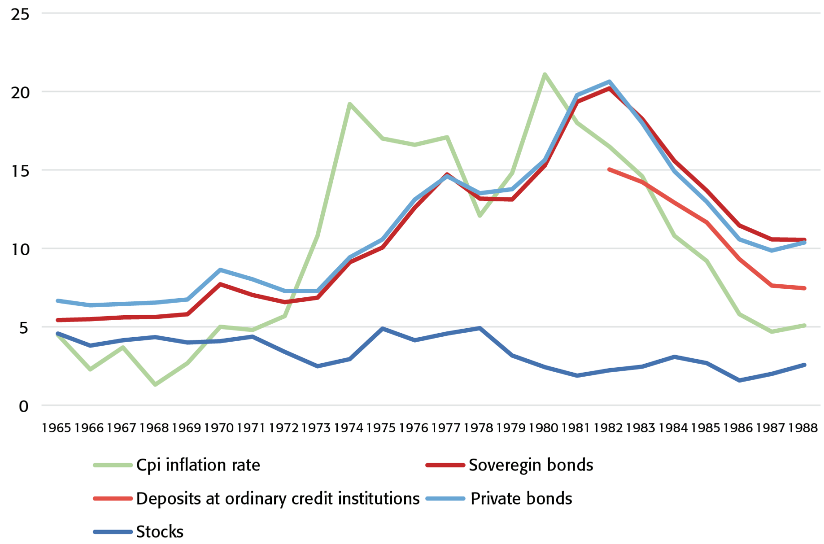
But owing to persistent inflation – and a new inflationary peak after the second oil crisis – public debt became more of a substitute than a supplement for private corporate finance. Three reasons stand out. First of all, the average duration of treasury bonds reduced from 7.2 years in 1970 to 1.7 years in 1979. The state thus had to renew its obligations more and more frequently, which generated costly debt service obligations that could not be utilized productively. Secondly, unlike direct investments in the obligations of *ICSs* or of the companies themselves, sovereign debt was seen to be relatively risk-free. Of course, these investments were very risky too, but the potential costs of failure were again shouldered by the state, not by private savers. Finally, to sell a high number of state bonds, they had to be remunerated lucratively. The interest paid on public debt obligations was as high as the possible interest investors could earn from private obligations. Furthermore, since 1974, they were exempt from any taxes. Overall, the risk premium usually gained from investing in private rather than public obligations was more than eliminated, as Figure 5 depicts.[71]

This situation intensified further throughout the 1980s. After the second oil crisis, BOTs became the favourite form of investment, mainly because they offered risk-free protection from inflation. By now, this was not only true for private households, but also for institutional investors like insurance companies and pension funds. Furthermore, the market was expanded and liberalized, among other things, via the introduction of the Mercato Telematico dei Titoli di Stato (Electronic Market of State Bonds) in 1988. With these tools, the bonds could now be traded at the stock exchange, where they functioned as a hedge for the trade with securities or other transactions. A vivid secondary market emerged. For the government, this meant that the demand for bonds increased, so that they could be sold at a higher price. Also, they substituted open market operations which were barely possible due to the low capitalization of the stock exchange and the provisions of the separated banking system.[72]

Over time, the expansion of state capital to special credit institutions and public holdings increased. The underlying idea was that, since public bonds were now traded on public markets, investment projects of *ICSs* were financed at market conditions too. The expansion of treasury bonds thus also procured the capitalization of public outlets that were not traded on the securities market.[73] However,

[71] "Il Finanziamento delle imprese industriali: Le proposte della Confindustria", Rome, 24 June 1983, see footnote 27; A. Di Majo, D. Franco, "Gli effetti delle imposte sulla convenienza a detenere titoli pubblici in Italia (1974-1986)", in *Moneta e Credito*, no. 40/157, 1987, pp. 75-103.
[72] Ibid., p. 124; Nützenadel, 2015, p. 454.
[73] Misure per il mercato obbligazionario. Al Min. Andreatta, Rome, 30 October 1980, in ASBIT (t), Banca d'Italia, Direttorio - Ciampi, pratt., n. 172, fasc. 1, pp. 138-141.

FIGURE 5
Average remuneration for different investments (percentage points), without tax subventions



Source: Istituto Centrale di Statistica, Annuario Statistico Italiano - Rendimento medio percentuale per gruppi di valori mobiliari, Rome, various years 1970-1992. Nützenadel, Financialization, p. 419 features this graph in a similar way.

since the associated capital costs were still provided and secured by the Treasury, the state created its own moral hazard problem. As Carlo Ciampi observed, the solvency of the state-owned *ICSs* was precarious, which constituted an incalculable risk for the state as their guarantor. To prevent a sudden shock to public finances, the central bank's governor indicated that the special credit institutions could be insured by the public credit insurance company SACE. Safeguarding against losses, however, would have created substantial capital costs due to insurance fees, and so the proposal was dropped.[74]

[74] Lettera di Carlo Ciampi a Beniamino Andreatta, Ministro del Tesoro, Rome, 12 March 1982, in ASBIT (t), Banca d'Italia, Direttorio - Ciampi, pratt., n. 69, fasc. 1, Beniamino Andreatta (1979-1993), no paging.

Hence, direct investment in *ICSs* – the lack of which was the initial problem – was very much disincentivized. Rather than finding a solution to the dissociation between savings and investments, the crowding out effect was intensified, especially for private businesses in contrast to state holdings. The share of total credit in the economy used by the state increased from 34.7% in 1970 to 66.8% in 1982. But instead of being used for economic investments, a great part of this credit was used to finance public expenditures that ended up in private household accounts again, either via wages and transfers or via interest rate payments on short-term *BOTs*.[75]

Overall, the subventions were mobilized to overcome the financing gap, which led to an accumulation of government debt. As public borrowing was increasingly financed by private households, it became the main symptom of an amalgamation between private and public monetary circuits. In many respects, this solution was a systemically designed decision, but the discretionary agency also favoured the development. Neither private nor state actors anticipated the prolonged period of stagflation and hoped for an imminent recovery. The state's assumption of risk must therefore be seen, at least in part, as the result of a recurring transitional solution, the management of which by the central bank became increasingly difficult. Therefore, the utilization of treasury bonds as securities in corporate finance was not perceived *per se* as the pivotal factor in accumulating public debt. Rather, it was seen as a way to make the best of a difficult situation, in which public authorities had to balance the massive financial needs of the state and the companies. The relevant decision-makers, at the Bank of Italy or Confindustria, had neither favoured nor actively planned this system. In 1993, the long-serving general director of the central bank, Lombardo Dini, wrote about the expansion of sovereign bond markets:

[75] L. Tedoldi, "Stato, governi e crescita del debito pubblico in Italia negli anni Ottanta: un approccio storico-istituzionale (1980-1987)", in *Le Carte e la Storia*, no. 20/2, 2014, pp. 117-132, esp. pp. 117-123.

> "This effort is sometimes blamed for the expansion of the public debt; the incorrectness of analyses that confuse the effect – market development – with the cause – to be found in the high budget deficits – is abundantly clear."[76]

Yet by the early 1990s, the public debt ratio had risen up to 120% of GDP. In contemporary studies, the overall deficit was identified as a destabilizing factor in almost all policy fields connected to corporate finance. To some extent, the risk-bearing role of the state worked as a lubricant for credit flows. But lots of resources were lost on the way. Furthermore, the Bank of Italy had to apply a very high prime rate to keep inflation in check, to guarantee the competitiveness of sovereign bonds, and to meet Italy's European exchange rate obligations. Given the foreign exchange situation, restrictions on the private sector in line with total domestic credit were unnecessarily high. Once more, as Confindustria's president Luigi Lucchini pointed out, the companies had to cope with higher capital costs by relying on state mitigation, which in turn fuelled the vicious cycle: "Confindustria is working in all directions to achieve a reduction in the cost of money, at least to the same extent as the reduction in inflation."[77] But even though public debt remained a pressing problem throughout the period, it should be borne in mind that the strengthening of direct risk capital investments and the stock exchange had been favoured since the moment companies' financial problems had first emerged. Accordingly, in 1983 the association summarized as follows:

> "The economic policies implemented by the government so far have not eliminated the negative elements of a general nature that have led to the decline in self-financing, nor have they removed

[76] L. Dini, *Il mercato finanziario, le banche e la congiuntura*, Milan, 25 February 1993, in ASBIT (t), Banca d'Italia, Studi, pratt., n. 416, fasc. 3, serie Carte Ferri, Dr. Dini/ ASSOBAT, no paging.

[77] Intervento del presidente Luigi Lucchini all'Assemblea Federconfidi, Rome, 7 February 1985, in ASC / f. - Confindustria / sez. - Organi e Comitati / ser. - Comitato permanente per gli affari economici e Commissione consultativa confederale per i rapporti economici / s.ser. - Commissione consultiva confederale per i rapporti economici / 342: "Comitato di studio problemi finanziamenti impresa. Riunioni dal gennaio 1984", cit. p. 5.

> the regulatory obstacles for enterprises to directly access household savings. However, the most important constraint on the ability of enterprises to self-finance stems from the public sector's increased recourse to the financial market."[78]

7. In Search of New Ways of Financing

By the late 1970s, economic and political stakeholders problematized the over-indebtedness of companies. They saw the incentive structures of the subventions as a major reason for the imbalance and thus searched for new ways of financing via equity capital. Traditionally, the importance of the Italian stock exchange had been relatively low. Whilst some studies trace this development back to the 19th century, in the perspective taken here it must be underlined that, after 1936, the bank-based nature of the capital market was confirmed. Most importantly, the separated banking system prohibited banks from trading with securities, which prevented the emergence of institutional investors. All bank intermediation, then, had to focus on debt. A number of other factors limited the development of the Italian stock exchange. Besides lacking market penetration, it was regarded as a non-transparent institution with high transaction costs and low allocative efficiency.[79]

Moreover, the structure of Italian businesses made a high stock market capitalization unlikely. Private companies, on the one hand, were mostly small or medium in size, and so a listing was too pricey and laborious to be worth the trouble. Some exceptions like FIAT, Pirelli, Olivetti or Montedison confirm the rule, but their stock-market use too had for a long time been limited in scope, due to mutual family block-holding. Large public companies, on the other hand,

[78] "Il Finanziamento delle imprese industriali: Le proposte della Confindustria", Rome, 24 June 1983, see footnote 27, cit., p. 3.
[79] G. Conti, G. Della Torre, L. Quennouëlle-Corre, M.C. Schisani, "I mercati finanziari dal 1945 ad oggi", in O. Feiertag, G. Conti, R. Scatamacchia (eds.), *Credito e nazione in Francia e in Italia (19.-20. secolo)*, Pisa, 2009, pp. 389-412.

had experienced a modest rise in market capitalization during the post-war boom. But this expansion was also limited since private participation could only go so high as not to call into question state control. Another obstacle was the fragmentation of the stock exchange into ten separate markets until 1991, even though Milan had already become the most important one.[80] The situation worsened dramatically from the late 1960s onwards. Firstly, as with the scarce investment in special credit institutions, the most important reason for the decline lay in the bad economic performance of the listed firms. While the risk of insolvency was thought to be high, the rate of return was low, especially in times of accelerating inflation. Shares, therefore, were more of a source of risk than a haven against nominal price increases. By the late 1970s, Paolo Baffi in his capacity as head of the Bank of Italy noted:

> "It seems unlikely that households will return to accepting the significant risk that direct corporate financing entails, especially since even the supposedly inflation defence capability of equities especially for the Italian market has proven to be illusory, in the medium term."[81]

Long-lasting breaches of trust that scared off investors were a second reason for the high scepticism towards private equity markets. In this context, the foundation of the energy group Enel was precedent-setting. In 1962, various listed energy companies were mandated to merge into a single big group, which was then nationalized and taken off the stock exchange. Former shareholders were badly compensated, which spread fear of repetition with other companies in the following years.[82] Thirdly, investors perceived the high volatility of the stock market to be a destabilizing factor. In the long

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[80] Enriques, Siciliano, Gentile, 2011; G. Siciliano, *Cento anni di borsa in Italia. Mercato, imprese e rendimenti azionari nel ventesimo secolo*, Bologna, 2001.
[81] P. Baffi, *Sul funzionamento delle borse valori in Italia. Il mercato azionario*, Rome, April 1977, in ASBIT (t), Carte Baffi, Governatore onorario, pratt., n. 56, fasc. 5, pp. 2-30, cit. p. 29.
[82] Siciliano, 2001, pp. 35-47.

run, they could see significant profits, but also dramatic losses. Buying shares was hazardous, which scared off small and risk-averse savers, and the limited number of listed firms meant that diversifying portfolios was difficult. Overall, therefore, a report written at Confindustria noted that the free float of stocks, able to absorb some of the savings, was still too small.[83]

In 1977, the share of equity capital in the wealth of private households had reached a low point of a mere 5%.[84] Seven years later, a central bank report noted that the official stock market capitalization had risen in absolute terms, to 35 trillion liras, plus 8 trillion on closed markets. But this number was contrasted by 440 trillion liras in treasury bills and emissions of public institutions and another 350 trillion liras in bank deposits. The report continued to argue that this situation had been the result of former priorities in policy-making which had prioritized maintaining the attractiveness of public bonds. A reversal would be desirable, but it would also take some time.[85] Crucially, therefore, decision-makers repeatedly emphasized that a strengthening of the stock exchange was the only way to sustainably close the financing gap. Similarly, Guido Carli noted as early as 1970:

"The main scope of the counter-cyclical measures is to increase

[83] Iniziative per migliorare il mercato borsistico, Rome, May 1986, in ASC / Fondo - Confindustria / serie - Banche - istituti di credito - società finanziarie / sottoserie - Società finanziarie / 93: "Diritto societario Italia chiuso a dicembre '86", pp. 1-3.
See also: Audizione del Professor Paolo Baffi, Governatore Onorario della Banca d'Italia, Rome, 18 January 1984, in ASBIT (t), Carte Baffi, Governatore onorario, pratt., n. 67, fasc. 1, pp. 4-8.

[84] This observation was made together with a reflection of subsidized credit: "Aspetti e problemi del mercato azionario in Italia". Estratto dalla rivista *Credito Popolare*, nn. 3-4, Rome, March-April 1977, in ASBIT (t), Banca d'Italia, Direttorio - Baffi, pratt., n. 34, fasc. 2, pp. 3-17, esp. p. 11.

[85] Appendix del Sign. Albertini al Contributo del Dr. Ettore Fumagalli, Presidente del Comitato Direttivo degli Agenti di Cambio della Borsa Valori di Milano e Presidente dell'Unione dei Comitati, alla "Indagine Conoscitiva sulla funzionalità della Consob" promossa dalla VI Commissione della Camera dei Deputati, Rome, 12 January 1984, in ASBIT (t), Carte Baffi, Governatore onorario, pratt., n. 68, fasc. 9, no paging.
On the relationship between state bonds and the capital market also refer to B. di Francesco, "Debito pubblico ed efficienza del mercato finanziario in Italia nella seconda metà del Novecento", in G. de Luca, A. Moioli (eds.), *Debito Pubblico e mercati finanziari in Italia. Secoli XIII-XX*, Milan, 2007, pp. 631-660.

> the supply of risk capital, also by stimulating and increasing the size of the stock market: not only in the face of the indebtedness which has been going on for a long time, but now also because of the need to offset the high cost of the latter."[86]

The debate vividly engaged in new ways to activate private capital. By the early 1980s hopes were high, as the second oil price shock abated, the European Monetary System provided stability and overall growth rates were promising. Until 1986, a new wave of listings brought private SMEs to the stock exchange. Furthermore, mutual holdings had loosened during the 1970s, both within the private sector and in public-private networks.[87] New financial institutions, named "atypical" on account of their uncommon nature within the Italian system, made use of the extended room for manoeuvre. The Bank of Italy and Confindustria observed these developments, and both participated in another consultation at the Senate.

Here, a broad range of actors discussed the establishment of merchant banks in Italy. The concept was tied to former initiatives, especially the idea of banking consortia as well as to Law no. 787, of 1978. The relevant part of the bill, which permitted ordinary banks to coordinate direct capital investments, petered out in 1981. Confindustria proposed to revitalize the idea with better endowments and a long-term perspective for the creation of merchant banks. Nevertheless, the option was limited in scope as it could not lead to the formation of universal banks through the back door. Rather, the association favoured individual banking units to be affiliated directly with one *ICS*.[88]

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[86] Appunto inviato all'on. Luigi Preti, Ministro delle Finanze, 11 August 1970, see footnote 8, cit. p. 36. The cited study was a longer inquiry about the different ways of financing, as well as the financial statements of the state, enterprises and households. It already foresees many of the problems that will dominate later discussions. Besides the minister of finance, Preti, it was sent to prime minister Colombo and the ministers of the treasury and state budget, Agradi and Giolitti.

[87] Siciliano, 2001; A. Rinaldi, M. Vasta, "Persistent and Stubborn: The State in Italian Capitalism, 1913-2001", in T. David, G. Westerhuis (eds.), *The Power of Corporate Networks. A Comparative and Historical Perspective*, New York, 2014, pp. 168-188.

[88] Appunto n. 8196, Schema ddl Minindustria per ricapitalizzazione imprese: osservazioni Comitato finanziario, Rome, 28 May 1984, see footnote 14; Comitato di Studio

Others pointed out that the true goal should be to enable households to consciously invest in shares directly. Between 1983 and 1986, important steps in this direction had been made via the genesis of investment funds. These were mostly managed by institutional investors at *ICSs* and at insurance companies. Professionalization allowed private savers to invest without having to engage with the off-putting stock market. Also, through international cooperation, the funds were a gateway to attract foreign capital to Italy in a controllable fashion.[89] An important institution, for example, was SIGE (Società italiana per imprese e gestione s.p.a.) that managed two major funds, Imirend and Imicapital, and was exclusively owned by IMI.[90] To some extent, the enthusiastic mood was tainted in the early years. In particular, policy-makers were concerned by the limited number of funds as well as the limited number of listed firms traded by them. This in turn led to capital concentration and high-risk exposure within the existing institutes. But the issue, then, was not inadequate demand from households, but insufficient supply from companies, which was a treatable problem.[91] Related to investment funds, trusteeships for the private management of capital evolved. Here, the investors had more influence on the specific purchases undertaken.[92] Lastly, on the external capital side, leasing and factoring

per i problemi del Finanziamento delle imprese, Nuovi Strumenti di ricapitalizzazione delle imprese: linee di intervento legislativo, Rome, February 1984, in, ASC / f. - Confindustria / sez. - Organi e Comitati / ser. - Comitato permanente per gli affari economici e Commissione consultativa confederale per i rapporti economici / s.ser - Commissione consultiva confederale per i rapporti economici / 342: "Comitato di studio problemi finanziamenti impresa. Riunioni dal gennaio 1984".

89 Senato della Repubblica, IX Legislatura, 6ª Commissione Permanente, Indagine Conoscitiva sulla intermediazione finanziaria non bancaria, 2º Resoconto, Rome, 18 November 1986, p. 20.

90 On SIGE: Senato della Repubblica, IX Legislatura, 6ª Commissione Permanente, Indagine Conoscitiva sulla intermediazione finanziaria non bancaria, 4º Resoconto, Rome, 15 January 1987, S. 8-9.

91 Senato della Repubblica, IX Legislatura, 6ª Commissione Permanente, see footnote 71, p. 31.

92 Senato della Repubblica, IX Legislatura, 6ª Commissione Permanente, Indagine Conoscitiva sulla intermediazione finanziaria non bancaria, 8º Resoconto, Rome, 19 February 1987, S. 4-6.

activities became increasingly popular. They were seen as advantageous since they contributed to the companies' own capital after being paid off.[93]

Overall, the discussions about the atypical markets show that new ways of thinking about the financial system emerged. Both in terms of ownership structures according to the pecking-order theory and in relative cost calculation according to the trade-off theory, equity finance became more feasible, which allowed for a decline in the use of the subventions. At the same time, the new markets were still closely tied to the state-coordinated financial structures based on a separated banking system. As in the case of government bonds, the special credit institutions took on an intermediary role. The atypical markets, too, thus provided an opportunity to reduce the double intermediation by enlarging the reach of the private equity market to enterprises too small to be listed. This indicates that interventionist or coordinated capitalist systems can operate with market-based financial approaches too.

In this vein, perhaps the most significant difference to previous financing channels was that, in the eyes of contemporary observers, the new forms were preferably aimed at investing in healthy companies. As pointed out, the goal was no longer to restructure or recapitalize ailing companies but rather to promote productive, competitive drivers of innovation.[94] This approach stands in contrast to that of the 1960s and 70s, when

> "[…] the indiscriminate policy of incentives and 'windfall' facilities, implemented by the state through the channels of credit in-

[93] Senato della Repubblica, IX Legislatura, 6ª Commissione Permanente, Indagine conoscitiva sulla intermediazione finanziaria non bancaria, 10° Resoconto, Rome, 11 March 1987.

[94] Comitato di Ricapitalizzazione delle imprese, Linee di Intervento Legislativo, Rome, February 1984, in, ASC / f. - Confindustria / sez. - Organi e Comitati / ser. - Comitato permanente per gli affari economici e Commissione consultativa confederale per i rapporti economici / s.ser. - Commissione consultiva confederale per i rapporti economici / 342: "Comitato di studio problemi finanziamenti impresa. Riunioni dal gennaio 1984", esp. pp. 1-8.

> stitutions, provided development subsidies without demanding precise investment plans and without a careful assessment of the financial structure of enterprises, to the point where the level of creditworthiness investigation expired to bureaucratic and 'mortgage' lending practices."[95]

8. Supervision and a new Approach towards Risk

As noted above, the Senate conducted a new special investigation from 1986 to 1987, concerned primarily with atypical markets. The minutes show that the developments in the equity capital market led to long debates about corresponding regulation. Senator Filippo Cavazzuti, for instance, worried whether the new forms of saving endangered the fundamental principles of existing legislation. Since 1936 the financial system had focused on the credit sector, which dealt with nominal values. Accordingly, the associated capital costs were also paid in absolute prices, and the central bank as supervisory authority was able to control, alleviate or even guarantee related risks. On equity capital markets, in contrast, costs and risks were much harder to assess, since profits made with stocks were not agreed upon in advance but depended on economic development. The emergence of risk capital, long anticipated to close the financing gap, was perceived to be disruptive for the existing risk reduction mechanisms operating via state intervention.[96]

The problem was even more fundamental: Not by chance, the system created in 1936 had focused on specialized banking institutions under the discretionary influence of the Bank of Italy and its mandate for financial stability. The legal basis for the interventions was the definition of a "public interest", a goal towards which all state-associated banking institutions should strive. The principle

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[95] Colli, 1999, cit., p. 495.

[96] Senato della Repubblica, IX Legislatura, 6ª Commissione Permanente, Indagine Conoscitiva sulla intermediazione finanziaria non bancaria, 1º Resoconto, Rome, 13 November 1986, S. 14-15.

was later enshrined in Article 47 of the republican constitution, which made the protection of savings an official duty of all governments.[97] Accordingly, the central bank's control mechanisms had specifically targeted the intermediation channels. But since the emergence of atypical markets led to a disintermediation, as Cavazzuti and his colleagues argued, the principle of protection was harder to sustain.[98] Curiously, his counterpart in the discussion was Antonio Fazio, the central bank's vice president. He introduced a new line of thought:

> "In Article 47 of the Constitution, the importance of savings has traditionally been read as a defence of the saver, but in reality, it is a defence of the system and the stability of savings. The creators of the banking laws of the 1930s lived at a time when it was clear that the banking sector could only exist with stability."[99]

Fazio continued to argue that even a small increase in the stock market capitalization could be of significant benefit in solving financial problems, and that this would in no way endanger the system's overall stability. Compared to the 400 trillion liras in bank accounts at that time, the invested sums were still moderate. Supporting Fazio's claim, Mario Sarcinelli, general director at the Treasury, pointed out that the intermediation channels had been undermined long before the atypical markets: on account of the massive increase of treasury bills in the portfolios of savers, which existed in competition with classical investments via direct *ICS*-obligations.[100]

The state's institutions, he argued, should thus engage in systemic rather than specific risk reduction. The individual savers could not be protected *per se* but they should be given the most exhaustive

[97] C. Pagliarin, "Le radici costituzionali della tutela del risparmio", in *Banca Impresa Società*, no. 40/1, 2021, pp. 29-58; R. Costi, "Tutela del risparmio e Costituzione: storia e attualità dell'art. 47", in *Banca Impresa Società*, no. 37/3, 2018, pp. 393-402.
[98] Senato della Repubblica, IX Legislatura, 6ª Commissione Permanente, see footnote 77, pp. 15-18.
[99] Ibid., cit., p. 18.
[100] Senato della Repubblica, IX Legislatura, 6ª Commissione Permanente, see footnote 71, pp. 29-30.

information so that they could be capable of finding the best market solution. In addition to the "protected saver," the term "conscious saver" re-emerged in the political debate after some time of absence:

> "This is the fair play regulation of the Anglo-Saxon tradition; it differs from the prudential one because it is not geared toward risk reduction, but only toward ensuring sufficient information and equal opportunity to all participants."[101]

After all, public authorities began to emancipate from the risk-bearing role they had assigned to the state in earlier years, when the need to mitigate the weak financial situation of enterprises had mixed with an interpretation of the 1936 banking law's principles that focused on individual protection of savings channels.

Indeed, even before 1986, macroeconomic stability had been a decisive feature of regulatory thinking. In 1974, an internal report of the Bank of Italy noted that the intervention of state agencies, like CIPE, the Ministry of Finance, the Ministry of Industry and Trade and the Bank of Italy aimed at stabilizing demand and supply on the market for securities, while the latter would also engage in the protection of the saver.[102] In the same year, the Commissione Nazionale per le Società e la Borsa (Consob) was founded as the first regulatory institution specifically responsible for the equity market. According to Carli's memoir, Consob was initially an answer to the failure of Banco Ambrosiano controlled by Michele Sindona, who was deeply engaged with the mafia.[103] However, during its first years of existence, the institute lacked the instruments and skills to fulfil its tasks. Only after 1982, its competencies expanded significantly as it became institutionally independent from the Ministry of Finance. From then on, it was able to orient its work along the conscious-saver principle: its most important task was the enforcement

[101] Ibid., cit., p. 22.
[102] Norme che regolano l'accesso al mercato delle emissioni di valori mobiliari, A richiesta del Signor Governatore nel settembre 1974, Rome, September 1974, in ASBIT (t), Banca d'Italia, Direttorio - Baffi, pratt., n. 26, fasc. 2, sfasc. 13, pp. 75-77.
[103] G. Carli, *Cinquant'anni di vita italiana*, Rome and Bari, 1993, p. 341.

of disclosure and transparency rules. The Bank of Italy, meanwhile, reverted to overseeing the system's stability more generally.[104]

Over the ensuing years, major regulative holes were fixed. Most importantly, legislators established rules for Initial Public Offerings (IPOs) at the stock exchange. Binding principles for the original creation of stock prices were urgent since it was still a declared policy goal to bring more firms to the market. Time and again, investors had faced significant losses, because shares were overpriced when they were first sold. A similar case concerned shareholders' interests when companies used the stock exchange for internal restructurings, mergers, and acquisitions. Also, in the late 1980s, measures against insider trading were taken.[105]

Finally, Law number 77 of 1983 provided a legislative basis for the atypical markets. The bill established rules for the communication and transparency of the investment agencies, together with the strengthening of Consob that same year. Meanwhile, in line with its stability mandate, the Bank of Italy pertained the right to impose maximum ceilings for the fund's activities and ensured that they did not engage in operations. The changing regulatory practices in the Bank of Italy and at Consob can thus be seen as complementary reflections of a changing approach to risk in the financial system.[106]

[104] On the development of Consob's tasks over time, as well as its task-sharing and cooperation with the Bank of Italy see: Contributo del Dr. Ettore Fumagalli, Presidente del Comitato Direttivo degli Agenti di Cambio della Borsa Valori di Milano e Presidente dell'Unione dei Comitati, alla "Indagine Conoscitiva sulla funzionalità della Consob" promossa dalla VI Commissione della Camera dei Deputati, Rome, 12 January 1984, see footnote 67; F. Cavazzuti, "Luigi Spaventa in Consob", in *Moneta e Credito*, no. 66/263, 2013, pp. 299-335. It should be noted that the above-cited Cavazutti is the Filippo Cavazutti already mentioned in the context of the senate's debate. In the 1990s, he also worked for Consob. Unfortunately, independent scientific analysis on the history of financial market supervision is missing thus far.

[105] Siciliano, 2001, pp. 53-60; Galanti, D'Ambrosio, Guccione, 2012, pp. 142-148.

[106] Relazione del gruppo di lavoro su "Titoli atipici - Incombenze dell'Organo di vigilanza e predisposizione dei relativi strumenti di intervento", Rome, approx. 1983, in ASBIT (t), Carte Baffi, Governatore onorario, pratt., n. 67, fasc. 2, no paging; Disciplina generale della emissione di valori mobiliari da collocare mediante sollecitazione al pubblico risparmio e semplificazione dei controlli sulla emissione di valori mobiliari, Rome, approx. 1983, Ibid.

Beginning in the 1990s, the Italian corporate and banking landscape was reformed. In 1990, the so-called Legge Amato paved the way for the transformation of state-owned banks into private stock corporations. Also, starting in the late 1980s, the Italian state started to privatize public companies. IRI was turned into a trust company that gradually privatized its assets – a process which would be completed in 2002. Ultimately, in 1992, the Single Banking Act was passed. The law revoked the distinction between ordinary and special credit institutions and allowed universal banking once again. The institutional basis for the gap between saving and investment was abolished once and for all.[107] With it, some important characteristics of the post-war Italian financial system were revoked, in particular the sectoral and temporal specialization of credit institutions and the risk-taking responsibility of the state. Yet the analysis has shown that already during the 1980s some important reconfigurations about the state's role in the economy had foreshadowed and prepared these adaptations, leading to a reconsideration and reduction of direct subventions.

9. Conclusion

This article analyses from a historical perspective the reasons of the high debt ratio Italian companies accumulated during the 1970s and 80s. In so doing, it sets forward two arguments. First, it contends that active state intervention via economic subventions in the context of a highly specialized banking system created incentive structures that favoured debt-making over equity capital, in line with the standard theories of corporate finance. This led to an amalgamation of state and private financial circuits, which also entailed a sharp increase in public debt. Nevertheless, in its second argument, the paper has shown that these developments were problematized from an early stage, which motivated repeated debates on the reconfiguration of

[107] R. De Bonis, G. Marinelli, F. Vercelli, "Le Banche", in: A. Gigliobianco, G. Toniolo (eds.), *Concorrenza mercato e crescita in Italia: Il lungo periodo*, Venice, 2017, pp. 387-422.

the state's role in the financial system. During the 1980s, new models of financing emerged. This line of argumentation combined an institutional analysis of the Italian financial system with an emphasis on the historical role of contemporary decision-makers.

Overall, state action was intended to reconcile the gap between a growing household savings rate accompanied by an increasing capital demand from companies. This gap, as shown by this paper, was at the heart of contemporary reflections on the bad financial situation of Italian companies during the 1970s and 80s. In 1936, in response to the Great Depression, a highly specialized banking system was established, strictly separating short-term saving and long-term investment activities. At the same time, most banks and big companies were nationalized. The resulting financial system was thus strongly aligned to the state's role in mediating risk via strict regulation – not least because the protection of savings was enshrined in the republican constitution. Towards the late 1960s, the savings rate of private households increased substantially. However, most families doubted the sustainability of corporate investments, so the capital did not flow back to companies. The situation was further exacerbated by a rising inflation. In these circumstances, the state took on a mediating role for the rising risks of investment and the substantial costs of capital associated with them. This explains the high attractiveness of debt for companies or, put differently, their high dependency on it. In the wake of the state's repeated interventions in the capital market, hitherto separated financial cycles of private and public funding were amalgamated, leading to high public indebtedness as well.

The conditions for financing new investments are a decisive element for the economic success of companies in an innovation system. But, during the 1970s and 80s, the hoped-for general economic recovery failed to materialize. The political instruments available proved to be too crude overall to fit different kinds of entrepreneurship and innovativeness.[108] In line with standard capital structure theories, they distorted the economic incentive structures in favour

108 P.A. Toninelli, M. Vasta, "Opening the black box of entrepreneurship: The Italian case in a historical perspective", in *Business History*, no. 56/2, 2014, pp. 161-186.

of greater borrowing, which underlines the influence the financial architecture of a country has on economic expectations and outcomes. For instance, the measures failed to promote growth opportunities for the increasingly important SME sector.[109]

Nonetheless, the efforts of the 1980s to make more companies resort to equity capital reveal a fundamental change in policy attitudes. The problem of excessive debt had become too prominent to be ignored. In this respect, the developments did not simply indicate a collection of missed opportunities. From early on, officials emphasized the need for alternative ways of financing, including the strengthening of the stock exchange. In the mid-1980s, the institutionalization of investment funds and other "atypical" financial businesses seemed to lead the way. There was a shift away from old ways of managing risk, which eventually culminated in the system's institutional overhaul in the early 1990s.

Finally, these findings provide new perspectives on the Italian Varieties of (Finance) Capitalism in dealing with capital costs. This perspective revealed that it is not only the difference between a bank-based or market-based system that defines capitalist systems but also the state's share in financial circuits and its responsibility towards guaranteeing stable economic conditions. While being embedded solidly in the institutional framework of a comparatively unique financial system, the analysis has also shown that there was a strong discretional role for contemporary decision-makers in line with their perception of the economic situation, as the archival material from the Senate, the Bank of Italy and Confindustria has shown. Therefore, there was a considerable contingency to the degree of state intervention in the economy and to the transformation processes of public-private financial relationships more generally.

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[109] Carnevali, 2005. An Italian medium-sized company expressed the paradoxical effects of the policy: "Under these circumstances, perhaps those entrepreneurs are right who prefer to remain calmly in the crowded domestic market and then, when there are no orders, to use the various forms of compensations, obviously at the expense of the state." Richiesta di finanziamento a Mediocredito Marche, Rome, 20 December 1985, in ASC / f. - Confindustria / ser. - Finanziamenti alle industrie / 203: "Finanziamento alle industrie: applicazione varie leggi. Dal dicembre 1983 al marzo '86", no paging.

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