

Economic Development
Italy
Economics/ 4
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I. STRUCTURE OF ITALIAN BANKING SYSTEM

Classification of Italian Banks

- 1) The Bank of Italy
- 2) Public Law credit institutes. There are 5 of them, namely the Banco di Napoli, the Banco di Sicilia, the Banca nazionale del lavoro, the Istituto San Paolo di Torino, the Monte dei Paschi di Siena.
- 3) Banks of national interest. They are three in number, the Banca commerciale italiana, the Credito italiano and the Banco di Roma. This category appears only in 1937 in the tables presented by the Bank of Italy.
- 4) Joint stock banks. Their number is diminishing steadily: 305 in 1933, 289 in 1934, 274 in 1935, 250 in 1936 (194 if we exclude those not actually operating, 191 if we also exclude the three banks of the above paragraph). As far as we know the data from 1936 on, unlike those for previous years, include operating banks only. Those were 149 in 1951.
- 5) The popular banks also called cooperative societies with limited responsibility. Their number is also falling.
- 6) The rural and artisanal banks which are also known as cooperative societies with unlimited responsibility. Their number is also falling.
- 7) Ordinary savings banks, and pledge banks. Their number is falling slowly.
- 8) Banking houses, the number of which is falling very rapidly.
- 9) Branches of foreign banks; they were 6 before the war, now only 2.
- 10) Institutes specialized in agricultural credit, real estate credit and similar operations. These institutes are few in number.

1)

The Bank of Italy

A. A Historical Summary

The creation of the Bank of Italy in 1893 is largely due to the severe crisis of the banking system which manifested itself in the 1890's which were, in Italy as in many countries, years of marked depression.

The Bank of Italy results from the amalgamation of three banks, the Banca nazionale del Regno, the Banca nazionale Toscana and the Banca Toscana di credito, into one institute. Its original capital was of 300,000 shares of 1000 lire each, that is 300 million lire of which 210 million only were actually paid up.

Unlike many other central banks, the Bank of Italy has often incurred substantial losses, and before the turn of the century it proved necessary to reduce its capital by 60 million lire; its shareholders gave up claims amounting to 80 million, and accepted the burden of an 58 million lire loss following the liquidation of the Banca Romana. Dividends were frequently low because of the management's wish to increase the strength of the bank.

From the foundation of the Bank of Italy until 1926, the privilege of issuing notes was not the Bank's exclusivity but was shared with the Banco di Napoli and the Banco di Sicilia. However the Bank was meant to assume gradually the role of a unique central bank and with the return to a rising price trend the Bank's activities increased significantly as a brisk economic activity succeeded to a protracted stagnation. In particular the metallic reserve grew spectacularly as well as the metallic backing of each bank note; the active operations of the Bank trebled.

Until the first world war, little was changed in the organization of structure of the Bank except that various laws were modified in order to incorporate into the legislation texts more in harmony with the situation brought about by economic growth (i.e. absolute limitations on the volume of the note circulation, on the amount of interest yielding deposits, etc.).

During the first world war, the Bank had to modify its regulation in order to assist in the war effort, which naturally meant inflation.

The portfolio representing the assistance given by the Bank to the Italian economy reached a maximum in 1922, a year marked by some banking difficulties.

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In 1926 the Bank of Italy became the sole note issuing institution of the country, and in 1927 it received the task of maintaining the exchange value of the lira between the gold points as Italy adopted the gold exchange standard. The accounting surplus value arising from the reevaluation of the gold stock according to the new gold definition of the currency was used by the state in order to cancel indebtedness incurred during and after the war. The absolute limit to the circulation was abolished but the Bank assumed the obligation of maintaining a reserve of gold and foreign exchange amounting to at least 40% of the sight liabilities.

In 1928 the capital was increased from 240 to 500 million lire, whilst the actually paid up capital rose from 180 to 300 million, the present day figure. The obligations of the Bank to the government were modified, some restrictions on the type of investment permitted to the Bank were removed.

The world depression brought about a drastic fall in the gold and foreign exchange reserves of the Bank from 11,071 millions in 1928 to 3,395 millions in 1935. Exchange control was introduced at the end of 1934, import quotas set in 1935, the minimum backing of the currency removed, and at the end of 1936 the gold parity of the lira was reduced by 41%.

Bank note circulation fell until 1934 after which time its evolution depended on political rather than economic conditions.

The large increase in the operations of the Bank in 1931 and 1932 is due to the assistance of the Bank to the commercial banks which the depression made illiquid; the Bank also lent assistance to the institute constituted to liquidate insolvent concerns, and then to the IRI which was created in 1933, to the Consortium for advances on industrial stocks etc.. Later, the portfolio of the Bank also increased because of the Treasury financing and the investment program which aimed at "autarchy".

Of real significance is the banking law of 1936 which transformed the Bank of Italy into a so-called Public Law Institute more closely subordinated to the authority of the State. This law decided that henceforth the capital of the Bank could be held exclusively by savings banks, credit institutions, banks of national interest, insurance companies. The necessary transfer was made and on December 31st, 1945 savings banks held 59.3% of the stock; public law credit institutes and banks of national interest 25.2%; insurance concerns 10.5%; "Istituti di previdenza", 15%.

The collection of saving as well as the distribution of credit were declared to be matters of public interest. The Bank of Italy was forbidden to engage henceforth to discount paper presented by clients other than banks. The council of ministers assumed the authority to formulate credit policies and was to be assisted in that function by a "Corporation" and by a technical committee of said corporation. An organization called "Comptrollers

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corps for the protection of saving and the administration of credit" was created the head of which was to be also governor of the Bank of Italy; this non-political organization which is held to have wielded much power is also believed to have duplicated, to some extent, the activities of the Bank of Italy. A "law-decree" of 1944 abolished it and attributed its prerogatives to the ministry of the Treasury except for the direct control over commercial banks given to the Bank of Italy.

During the second world war the credits and advances of the Bank to the Treasury amounted to 352.5 billion lire of varying purchasing power; the amount of notes created only to be handed over immediately to the Treasury was 260.8 billion lire.

B. Organization of the Bank of Italy

The administration and control of the bank are exercised by:

- a) The general Assembly
- b) The superior council and its committee
- c) The governor, the director general and the vice-director general

The right of vote in the assembly is regulated: 1 vote for each 100 shares up to 500 shares and 1 vote for each subsequent group of 500 shares. No participant of the votes has more than 50 votes. The deliberations of the assembly are valid when sanctioned by the majority of the votes, the poll taking in consideration only those participants who are present.

The superior council is made up of the governor and 15 counselors, 12 of which are elected by the general assembly. In 1946 it was not yet clear who would nominate the other 3 because that function was, prior to the liberation of Italy, held by an abolished institution. The committee of this superior council is composed of the governor, of four counselors nominated by the superior council, of the director general (who votes when consulted) and the vice-director general acting as a secretary. The superior council administers the Bank; its most important functions are:

- a) to determine, subject to legislative texts, the way in which the bank will operate.
- b) to establish or modify the internal regulations of the Bank
- c) to nominate or fire the personnel of the Banks, including the governor, the director and the vice governor, subject for the last three mentioned to the approval of a decree issued by the Prime Minister and signed by the minister of the Treasury when the council of ministers has been heard.

The governor legally represents the Bank in relation with third parties. He determines the disposition of funds among various operations or employments, is in charge of operations concerning government bonds and foreign currencies; proposes to the minister of the Treasury changes in discount rates and rates on advances; controls metallic reserves, foreign exchange reserves and current accounts abroad. He must be assisted by the committee when deciding on extraordinary operations proposed by the branches.

3) Banks of National Interest

A. La banca commerciale italiana

This bank was constituted at the end of 1894, soon after the disastrous fall of the Società generale di credito mobiliare and of the Banca generale.

Its original capital was 20 million lire distributed as follows:

Berliner Handels Gesellschaft	2,628,000 lire
Deutsche Bank	id.
Bank fur Handel und Industrie	id.
L. Gleichroder	2,632,000
Disconto Gesellschaft	2,628,000
Dresdner Bank	id.
TOTAL GERMAN BANKS	15,772,000
I.R. privilegiato stabilimento di credito e industria, Vienna	2,628,000
TOTAL AUSTRIA HUNGARY	id.
Basler Bankverein	500,000
Union financiere de Genève	id.
Société de credit Suisse	id.
TOTAL SWITZERLAND	1,500,000

(cont.)

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Conte Sanseverino Vimercati, Milano	100,000
TOTAL ITALY	id.
GRAND TOTAL	20,000,000

The extremely reduced Italian participation is presumably due to the difficult situation of the country at that time. To compensate this, the statutes made it compulsory for the President to be an Italian.

Organized on the model of German banks, the Banca commerciale invested in railroads, shipping, but especially in electric companies; abroad it created a bank in Brazil. Meanwhile, the capital increased at a rapid rate, control being lost by the Germans to Italians; French interests became significant. After the First World War it extended its activity in many countries, notably Austria, Rumania, Czechoslovakia, Yugoslavia. Until the depression of the 1930's it seems to have been a very profitable enterprise, of great significance in many lines of industries.

B. Il credito italiano

Formed in 1895, it proceeds from the Banca di Genova reinforced by the investment of German capital. The original capital was 20 million lire.

It has invested in electric power companies, shipping, and foreign banks. As in the case of the Banca commerciale, the German interests became eventually fairly small. The Fiat and Sna Viscosa companies acquired, and eventually disposed of, large interests in the bank.

C. Il Banco di Roma

The Banco di Roma was created in 1880 with an initial capital of 6 million lire. Its beginnings were difficult so that by the end of 1894 its capital had to be reduced to 2.5 millions. It developed very well, however, with the return of prosperity, lending to agriculture, doing business in Egypt, Abyssinia, Morocco, Turkey. It interested itself in small tonnage shipping, in trade and investment in Africa. In 1909 it absorbed an insurance company of Naples, and two years later the Banco di Liguria. The Banco di Roma suffered seriously from international instability (1912 war with Turkey and subsequent Balkan wars) and from the First World War. After the world war,

its expansion was renewed on a perilous basis, because it twice needed governmental assistance.

D. La banca nazionale di credito

This bank no longer exists.

5) The Popular Banks

They are local or regional banks usually constituted, from the legal viewpoint, as cooperative companies with limited responsibility. This cooperative aspect is important, or at least it has been in the past, but the popular banks do grant loans to others than the members of the cooperative movement.

Luigi Luzzatti, one of the most important Italian statesmen of the nineteenth century, is regarded as having played a prominent role in the launching and in the development of the popular banks; he had upheld the view that the responsibility of the popular banks should be a limited one, and this view eventually prevailed.

The first popular banks were constituted in the 1860's, and granted loans to the members of the cooperative movement exclusively, on the pledge of the shares they owned, or on their commercial paper (usually short-term discounts). They accepted deposits in current account and then savings deposits as well.

The Italian commercial code of 1882 extended to the popular banks the rules applying to cooperative organizations in general with the result that shares had to be nominative, that no one should have more than 5,000 lire's worth of nominal capital and that each member had one vote irrespective of the size of his holdings.

The following table gives an idea of the growth of the popular banks:

YEAR	NUMBER	CAPITAL	DEPOSITS
1865	8	1,940,000	-
1870	50	14,922,000	32,687,000
1875	109	42,368,000	114,666,000
1880	140	50,610,000	179,898,000
1885	407	79,308,000	326,923,000
1890	694	118,235,000	422,089,000
1895	714	114,722,000	385,164,000
1902	736	108,013,000	504,398,000
1908	736	155,614,000	971,167,000

In 1908 the geographical distribution of the popular banks was as follows:

Piemonte	32
Lombardia	77
Veneto	75
Emilia	76
Marche	62
Toscana	48
Campania	104

A detailed account for the other provinces is not available in our sources.

As Mr. Giuseppe Lanzarone notes, this table would lead to the inference that popular banks have developed with the greatest success in those provinces where the scarcity of capital was most to be deplored.

It seems from the data that popular banks have not maintained after the First World War their previous rate of growth, the increases being attributable to the higher price level rather than to effective growth in real terms. Their deposits stood at about 4 billion lire in 1922, 4.5 billion lire in 1925, 5 billion in 1930, 6 billion in 1939. Meanwhile their number has been falling steadily.

For recent years, we have:

YEAR	NUMBER	"SPORTELLI"	OWN FUNDS	SAVINGS DEPOSITS
1939	267	971	583.9	5,924
1940	253	946	658.4	7,210
1941	247	954	709.1	9,478
1942	240	962	780.3	12,840
1943	235	957	-	16, 7 17
1944	235	957	-	27, 12 2
1945	233	959	1,242.6	46, 45 5
1946	232	1,030	1,748.0	80, 1 7 2

In view of the rise in prices, this apparent growth constitutes a contraction in real terms. However, this phenomenon appears to hold for the entire banking system; when deflated the deposits for the postwar period are less important in the post war period than in the prewar period, despite the growth in output and population.

The geographical distribution at the end of 1946 was as follows:

PROVINCE	NUMBER OF BANKS	NUMBER OF "SPORTELLI"
Piemonte	9	175
Liguria	-	7
Lombardia	25	335
Venezia T.	1	1
Veneto	32	180
Venezia G.	1	14
Emilia	23	62
Toscana	14	32
Marche	15	27
Umbria	19	37
Lazio	15	22
Abruzzi M.	3	5
Campania	14	23
Puglie	18	27
Lucania	7	13
Calabria	14	23
Sicilia	21	37
Sardegna	1	10
	232	1030

Two popular banks deserve a special mention, the Banca popolare di Novara and the Banca popolare di Milano.

The Banca popolare di Novara was created in 1871 by 120 shareholders who had one share each. At the end of 1946 it had 29,040 shareholders who held 1,556,547 shares of 100 lire each (nominal value ?).

Its deposits have increased as follows:

END OF	LIRE
1872	735,000
1900	10,733,000
1914	32,778,000
1918	120,635,000
1920	209,211,000
1930	684,771,000
1938	998,465,000

The Banca popolare di Novara has 210 branches, mostly in Piemonte, Lombardia, Liguria and Veneto, and an office in Rome.

The Banca popolare di Milano was formed in 1865; at the end of one year it had 1,153 shareholders, 217,700 lire of capital and 340,000 lire of demand deposits. In 1873 it accepted savings deposits.

The growth has been as follows:

YEAR	CAPITAL	CURRENT ACCOUNTS	SAVINGS DEPOSITS
1875	7,191,250	12,549,000	18,076,000
1900	8,870,100	15,146,000	33,749,000
1914	10,234,900	18,907,000	35,690,000
1920	12,765,900	53,013,000	69,842,000
1930	37,647,500	84,143,000	166,938,000
1938	34,256,300	90,340,000	249,191,000

7) The Savings banks (casse di risparmio)

They were at the origin institutions not purely created and managed for the profit motive, but meant to have a social significance by encouraging saving in the lower income brackets of the population.

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Their funds were employed in a very conservative manner in safe and liquid investments, possibly because of their aims and of the nature of the depositors, who unlike wealthy capitalists, could ill afford to take risks with their small savings. It proved, however, difficult to find such employment for these savings, outside of loans to agriculture -- itself a limited financial field.

It is not surprising that there should have been a significant evolution of the savings banks, from the early to the present days, in the matter of savings collection as well as in the employment of these savings.

Original limitations such as the nominative character of accounts, the maximum limit on deposits, the interdiction made to an individual to open several savings accounts, were gradually removed, and accounts which could be drawn upon by checks were created. This may have facilitated the growth of the savings banks which, before the second world war held a large proportion of the nation's time deposits, demand deposits remaining at a comparatively low figure. This state of affairs was modified by the war inflation creating in depositors a desire to increase the liquidity of their holdings subject to monetary depreciation.

To a considerable extent, the portfolio of the savings banks is made up of government bonds, which were a sound investment before the First World War, especially in periods of falling prices when industrial profits were low; the proportion of these government bonds within the total of assets has been steadily increasing, which in periods of inflation is no doubt a help to the Treasury, but a net loss to the savings banks unless they should be, as is conceivable in such periods, unable to find another employment for the funds. This increase is presumably to be explained not so much by the intention of the banks than by the needs of the Treasury. Of a somewhat similar nature are the savings banks' holdings of bonds floated by semi-public institutions such as the IMI the Consortium for advances on industrial stocks, etc.. Investments in stocks or bonds of private businesses are an infrequent occurrence.

TABLE I

Data Concerning Savings Banks

END OF	TOTAL DEPOS.	INDEX	DEPOSITI FIDUCIARI	INDEX	CONTI CORR. DI CORRISP.	INDEX
1938	19,175	100	18,669	100	506	100
1939	19,300	100.7	18,661	100	639	126.3
1940	20,122	104.9	19,423	104	699	138.1
1941	24,498	127.8	23,460	125.7	1,037	204.9
1942	30,061	156.8	28,255	151.4	1,806	356.9
1943	33,736		31,250		2,486	
1944	48,358		43,124		5,234	
1945	85,104		76,803		8,301	
1946	137,538		121,316		16,222	
1947	215,359		175,978		39,471	

YEAR	SECURITIES % OF ASSETS	MORTGAGES % OF ASSETS	MOSTLY COMMERC. % OF ASSETS	MOSTLY AGRICUL. % OF ASSETS
1931	29.07	9.71	18.12	11.36
1932	31.33	9.09	18.12	9.15
1933	35.64	8.51	18.80	7.24
1934	36.74	7.89	18.82	6.45
1935	37.58	7.70	19.88	5.74
1936	39.91	7.34	20.04	5.02
1937	36.58	6.99	17.82	4.61
1938	35.71	7.45	15.34	5.06
1939	35.49	7.42	16.05	5.28
1940	36.55	7.63	14.50	5.53

"Depositi fiduciari" are generally translated into English as "savings deposits", "conti correnti di corrispondenza" as "current accounts". However, some tables indicate that in some cases, a notice is necessary in order to draw funds from certain types of "conti correnti di corrispondenza".

TABLE II

Italy. Data on the savings banks at the end of 1946. Source: report of the savings banks' association for the year 1946; the data are reproduced by Mr. Giuseppe Lanzarone in his book, "Il sistema bancario italiano" which we have used.

In thousands of
lire

SAVINGS BANKS	NUMBER	"SPORTELLI"	DEPOSITS	OWN FUNDS
Piemonte	11	293	17,311,452	424,605
Liguria	3	72	3,427,699	76,596
Lombardia	2	190	29,414,200	746,526
Venezia T.	2	35	4,843,116	83,646
Veneto	5	204	19,952,294	238,133
Venezia G.	3	15	2,305,579	32,966
Emilia	16	215	19,365,756	308,305
Toscana	9	267	11,848,294	222,779
Marche	9	148	6,558,885	110,998
Umbria	7	60	2,310,524	42,430
Lazio	5	94	3,028,742	61,193
Abruzzi M.	4	49	1,189,895	18,827
Calabria	1	55	1,701,105	47,029
Sicilia	1	115	6,043,939	42,170

It appears from this list that some provinces are not included, presumably because there are no savings banks in these provinces; Mr. Lonsarone does not say so explicitly.

II. THE PROBLEM OF AGRICULTURAL CREDIT

1. Sources of Agricultural Credit

There has been a great deal of legislation on this matter, especially in 1869, 1887, 1922, 1923 and 1927.

The law of 1869 was aimed to provide a uniform legislation for the newly created state; it authorized the creation of institutes specialised in agricultural credit of not more than 90 days with the possibility of renewal up to a duration of one year. The assistance afforded to agriculturists was to be limited by their solvency or by the guarantees and collateral they could offer to the credit institutes; a great amount of leeway was given to borrowers regarding the use to which they were to put the money. The institutes created in conformity with this law numbered 4 in 1870, 14 in 1875 but 9 only in 1884 whilst, in the years of greatest activity, the credits granted reached the 30 million lire level.

The law of 1887 completely changed the previous organisation of agricultural credit. It abolished the principle of specialisation, permitting all banks including the note issuing banks to extend their activity in that direction; it strengthened the principle of "real guarantee", that is, it laid the rule that loans should not be made if the lending institution were not given a legal right on some type of property, thus enabling it to reimburse itself quickly and surely in case of default; it also laid the fundamental distinction between credits granted for the purpose of running an agricultural business (bridging a time lag between expenses and receipts) and credits granted for the purpose of carrying out improvements, these improvements being analyzed in some detail. It finally provided for government interference in the determination of the rate of interest. It does not appear that many banks availed themselves to any considerable extent of the permission granted to them to engage in agricultural credit.

After 1901 various laws were made for individual areas, until 1922 during which year a text of national scope was enacted, strengthening the separation between the various types of credits, ordinary, for improvement, for transformation, acquisition and creation, as well as the privileges and guarantees of the lending institutions. All banks were to be permitted to make the ordinary agricultural credit held to be short-term and self liquidating. But in 1925 they were also permitted to make loans used for agricultural improvements. Meanwhile other legislation determined the scope of the State assistance for the same purpose of agricultural improvement.

The law enacted in 1927 still applied at the end of the second world war. Its main lines are as follows:

Only those banks and institutions which have the sanction of the law or the consent of the government can engage in operations of agricultural credit. The following can do so for any type of credit:

Institutes for agricultural credit of Piemonte, Liguria Toscana, Central Italy and Sardegna

The specialized sections of the Federal Institute of Venetian savings banks, of the savings bank of the Lombardian provinces, of the Banco di Napoli and of the Banco di Sicilia

The Banca nazionale del lavoro

The Banca nazionale dell'agricoltura

Others are restricted to credits consented for the purpose of carrying out improvements; they are:

The National Consortium of agricultural credit for improvements

The specialized sections of the Venetian "Istituto di credito fondiario"

Finally almost every other type of bank or lending institution can apply to the government for permission to engage in some form of agricultural credit; article 22 of the law, however, states that for this last group no State assistance in the matter of interest on credits extended for improvement purposes will be granted, which effectively discourages the group to make applications.

It appears from questionnaires prepared by the Economic Commission which reported to the Constituent Assembly that expert opinion is unanimous in approving the principle of specialized institutes in the field of agricultural credit.

In view of the importance attached by the law to the distinction made between ordinary credit and credit for improvement purposes, it may not be amiss to reproduce briefly the legal definitions of these categories.

The following are held to be ordinary loans: those which are used for the manipulation and transformation of agricultural products, for the purchase

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of livestock machinery and implements, for the payment of incidental expenses such as taxes or insurance premiums, for the settling of debts, for the maintenance of normal inventories; those which result from advances made on bonded goods; those which are consented to agricultural societies for all the purposes stated above plus that of meeting expenses incidental to the collective sale of products.

Examination of the data shows that the quasi-totality of ordinary loans have taken the form of advances on bonded products, or of loans to agricultural societies. The credits extended for the purpose of facilitating the acquisition of livestock or machinery have remained at an insignificant percentage of total credits during the war; the data show a steady rise from 1944 on, but the percentage share is still low.

It may be observed that if the credits merely bridge the gap between the farmers' expenditures and receipts, they are not much different from the credits granted to traders for instance, and are hardly agricultural credits in a specialized sense, except that the collateral offered is different and involves different legal points.

The following are held by article 3 to be purposes of improvement:

Acquisition of land to create small properties

Construction, transformation and repairs of elevators, warehouses and other buildings for collective use

Transformation of the land itself e.g. by irrigation etc..

Examination of the data show that most of the credits have been used for improvements in the strict sense, that is rural construction of buildings and roads, irrigation etc., and only a small proportion used for the purpose of acquiring land.

Opinion has been expressed that an unduly high proportion of agricultural loans have been consented to large land-owners whilst less wealthy agriculturists have little or no access to such credits; although there exist some data ¹ and some estimates in this matter, there will always be a difference of opinion concerning the definition of large or small property. At any rate, it is suggested that the matter could be corrected if laborers and small landowners were to form cooperatives which would then be in a better

1. The data are those of the National Consortium of agricultural credit for improvements.

position to do business with the lending institutions. In view of the fact that the State consents fiscal privileges to the institutes for agricultural credit, which fact involves a decrease in tax receipts; and in view of the fact that a high percentage of taxes are indirect taxes, it appears all the more desirable to enable small landowners or even laborers to have access to credit facilities; for it is seen that, via the fiscal system, those who are excluded from credit facilities contribute financially to the credit system which ignores them, and pay for the reduction of interest rates charged to the large landowners.

The Financing of Transactions Arising from the Normal Activities of Agriculture
(Operazioni di esercizio)
In million lire

END OF YEAR	SPECIAL INSTITUTES AND BANCA NAZ. DEL LAVORO	AUTHORIZED INSTITUTES	TOTAL
1928	598.7	103.6	702.3
1929	634.6	248.6	883.2
1930	522.2	218.4	740.6
1931	545.8	191.8	737.6
1932	590.7	263.2	853.9
1933	648.4	290.7	949.1
1934	589.5	314.5	904.0
1935	809.5	408.8	1,218.3
1936	1,112.9	561.0	1,673.9
1937	2,018.9	862.0	2,880.9
1938	2,508.6	751.9	3,260.5

Source: Appendice alla relazione; rapporto della commissione economica presentato all'assemblea costituente, IV - 2 p.654.

Professor Giovanni Nicotra observes that these figures are not complete because they do not include, for the special institutes at least, the advances corresponding to privileges given to the lender on agricultural products. This deserves careful consideration.

2. Is agricultural credit sufficiently developed in Italy?

A definite answer in the negative is given by Professor Giovanni Nicotra in an annex to the report of the Economic Commission presented to the Con-

stituent Assembly, IV - 2 (Appendice alla relazione) pp.652-657.

Professor Nicotra analyses the available data from as early a date as is possible, namely 1871.

The first period examined extends from 1871 to 1887 this last year being chosen because it witnessed important legal changes in the organization of agricultural credit. The data are the following:

END OF	NUMBER OF INSTITUTES	DISCOUNTS AND ADVANCES(million lire)	AGRICULTURAL BONDS IN CIRCULATION (million lire)
1871	10	5.3	2.0
1875	14	18.2	4.9
1881	13	31.7	12.2
1885	12	31.8	11.0
1887	11	27.7	9.9

The gross returns of agriculture in 1885 were estimated at 4.7 billion lire, not including products considered secondary such as fruits, eggs, etc. The necessary expense for such a production was held to be about 50% of the gross returns, exclusive of improvements, that is, this expense was estimated at approximately 2.3 billion lire; it then appears that 30 million lire of discounts and advances to a business operating with an expenditure of 2.3 billion lire do not constitute a very significant assistance. According to Prof. Nicotra, the exact amount of agricultural credit is below the recorded figure because the banks were granting commercial loans under the appearance of agricultural credit in order to derive the benefit of fiscal advantages and agricultural bond floatation -- such a state of affairs being well known to all observers.

The second period extends from 1887 to 1901, from which date legislation became regional instead of national. A similar table gives:

END OF	NUMBER OF INSTITUTES	DISCOUNTS AND ADVANCES(million lire)	AGRICULTURAL BONDS IN CIRCULATION (million lire)
1888	11	33.0	6.6
1890	10	28.7	5.8
1892	9	25.5	4.8
1898	7	14.9	1.4

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The failure is of course obvious.

For the third period, 1901-1922, there are no inclusive data and, therefore, Prof. Nicotra presents data pertaining to the operations of three institutes, the Banco di Napoli, the Banco di Sicilia and the Istituto di credito agrario per il Lazio, which he thinks granted about 8/10 ths of the agricultural credit.

YEAR	VOLUME OF OPERATIONS (operazioni effettuate)
1910	23.2
1915	39.3
1920	120.5
1922	114.5

This would indicate some improvement; naturally the rise in the general price level must be taken into account.

4th period: 1922-1927. There are still no complete data, but the important institutes are now four with the functioning of the agricultural credit section of the Federal Institute of credit "per le tre Venezie"

YEAR	VOLUME OF OPERATIONS (operazioni effettuate)
1923	219.1
1925	332.6
1927	361.2

This would seem to be a substantial increase.

5th period: 1927-1944. The tables presented are numerous, and we have reproduced them on separate pages. We propose here to sum up the argumentation of Prof. Nicotra.

His first point is that the increase in the volume of agricultural credit (esercizio) from 1934 to 1938 is an apparent, not a real increase; this is so essentially because the increase is made up of advances on products, wheat, corn etc., which are really commercial operations, rather than credit to agriculture; also, whilst there is little or no increase in the loans to be used for the purchase of cattle and machinery or the month-to-month operations, there is an increase in the loans to organizations and associations; furthermore, prices were rising as follows: 1928 -- 100; 1935 -- 68.2; 1936 -- 76.4;

1937 -- 89.1; 1938 -- 95.3.

Prof. Nicotra is of the opinion that the special institutes for credit to agriculture hardly deserve their name because honest-to-goodness agricultural credit is not their essential activity; he also thinks that the credit facilities given to agriculture are not much greater than they had been generations ago.

He reproduces from Professor Felice Vinci's book "Il socialismo d'oggi" an estimate of the gross product of Italian agriculture in 1938, namely 43.1 billion lire; always using the 50% ratio as above explained, he concludes that this production has been possible because the agriculturists have spent 21.6 billion lire; and since agricultural loans net of advances on products reached 1,073.3 million lire on Dec. 31st, 1948, it appears that the assistance afforded by the banking system amounts to about 5% of the funds actually expended during the process of production. This assistance represents 37.6 lire per usable tract of 10,000 square meters (ettaro). The interpretation of Prof. Nicotra's text is delicate, but our understanding is that this figure of 1,073.3 million lire has been derived from data pertaining only to the special institutes, which means that the authorized institutes are excluded -- and perhaps also the Banca nazionale del lavoro; if these were included the percentage calculated above might go up from 5 to 7% -- this is of course a guess, because all the necessary data are not available.

Professor Nicotra states that it is safe to conclude that the desired expansion of agricultural credit would be furthered if the authorization to engage in that line of credit were given more liberally.

The situation in the field of agricultural credit for purposes of improvement is somewhat better, largely because of the creation in 1928 of the Consorzio nazionale per il credito agrario di miglioramento; this institute granted in 1938 over half of the loans.

However, Prof. Nicotra is dissatisfied here too, because he finds that 30% of the loans granted by the Consorzio are not actually invested in rural improvement projects, but used for purchase of land, extinction of past debts, public works within the sphere of action of the State -- for this latter type of operations, there is of course no need for an agricultural bank, but a need for a direct outlay of a strong Treasury. Furthermore, part of the loans granted for rural constructions are used for collective constructions which are useful no doubt, but further restrain the capital which is made available to individual enterprises.

Prof. Nicotra concludes that agricultural credit for improvement in agriculture is insufficient in view of the country's needs, especially since the war losses suffered by Italian agriculture are estimated at 385 billion lire (1946 value ?) But there must be a market for agricultural bonds in order to raise the necessary capital.

Italy.

TABLE III

Geographical distribution of the "normal" (esercizio) agricultural credits consented by the special institutes December 31st, 1938. In thousands of lire.

PROVINCE	1. AMOUNT	2. OF WHICH ADVANCES ON PRODUCTS	3. 1 MINUS 2	4. 3 PER Ha
Piemonte	236,451	199,391	37,060	14.67
Liguria	2,491	1,506	985	1.93
Lombardia	666,709	534,819	131,890	65.09
Venezia I.	3,797	3,762	35	0.03
Veneto	557,175	428,744	128,431	55.53
Venezia G.	1,264	1,169	95	0.13
TOTAL NOR				
Emilia R.	272,147	126,889	145,258	71.98
Toscana	131,612	7,094	124,518	56.87
Marche	186,775	153,315	33,460	36.25
Umbria	82,955	62,700	20,255	24.97
TOTAL C-N				
Lazio	174,063	126,891	47,172	28.76
Abruzzi	107,444	97,219	10,225	6.89
Campania	68,342	45,888	22,454	17.51
TOTAL C-S				
Puglia	345,894	302,121	43,773	23.54
Lucania	140,108	129,018	11,090	11.65
Calabria	80,798	61,508	19,290	13.30
TOTAL SOUTH				
SICILIA	286,451	18,138 ?	268,313	110.00
SARDEGNA	34,567	5,580 ?	28,987	12.47
ITALIA	3,379,043	2,305,752	1,073,291	37.60

The purpose of this table is to show the extent to which agricultural credit of the "esercizio" type is made up of advances on products, a commer-

cial rather than an agricultural operation, at any rate only one of the various operations envisaged by the law. The significance of the table is badly reduced by the fact that it includes the special institutes only, which leaves the possibility that aggregate figures would show an altogether different picture.

Source: Appendice alla relazione; rapporto della commissione economica presentato all'assemblea costituente, IV - 2 p. 655.

TABLE IV

Italy. Agricultural Credit. Operations having improvements as a purpose (Operazioni di miglioramento) In million lire.

END OF YEAR	SPECIAL INSTIT. AND BANCA NAZ. DEL LAVORO	CONSORZIO NAZIONALE	AUTHORIZED INSTITUTES	TOTAL
1928	223.7	17.0	7.5	248.2
1929	392.3	207.8	13.5	613.6
1930	422.0	313.8	15.2	751.0
1931	463.7	411.3	16.1	891.1
1932	522.1	469.2	7.7	999.0
1933	573.5	560.2	9.0	1,142.7
1934	587.9	704.3	11.4	1,303.6
1935	579.5	660.2	13.8	1,253.5
1936	646.3	680.6	2.0	1,328.9
1937	691.4	741.8	17.6	1,450.8
1938	754.0	800.5	17.2	1,571.7

Source: Appendice alla relazione; rapporto della commissione economica presentato all'assemblea costituente. IV - 2 p. 656.

III. OWNERSHIP AND CONTROL OF ITALIAN BANKS

Little was known on this matter until an investigation was made in 1945-46 by the Economic Committee of the Ministry for the Constituent Assembly in order to ascertain the concentration of banking capital ownership.

Mr. Emmanuele Rienzi, who made the survey, has presented his results in the Quarterly Review of the Banca nazionale del lavoro of April 1947, and they are therefore accessible to the reader who is not familiar with the Italian language.

Mr. Rienzi begins his study by comparing the concentration of share ownership between various types of companies. The companies included in the survey had, on Dec. 31st, 1945, a capital of over a million lire, numbered 3,300 approximately, had 950,000 share-holders, over 66 billion lire of capital, and employed about 1,300,000 persons.

It appears that for corporations as a whole, .13% of the shareholders owned 56.4% of the capital, whilst 83.33% of the shareholders only held 6.1%. A somewhat similar situation is found in the various broad categories. The concentration of ownership is always very high.

The banking companies which Mr. Rienzi then examines in much greater detail are those which on Dec. 31st, 1945, had a capital of more than 10 million lire and most of those which at the same date had a capital comprised between 1 and 10 million lire. It is pointed out that, in view of the inflation, the nominal capital loses part of its significance. Excluded are all the savings banks and the Public Law credit institutes on account of their public character, and all banking companies prevented by law from accepting demand deposits. The most significant cooperative banks have been included. So that the data refer to 77 banking companies and to 27 cooperative banks; the nominal aggregate capital and reserves of the first group amounted to almost 3.8 billion lire or about 35% of the capital funds of the 365 principal credit institutes, their deposits stood at over 190 billion lire or 45% of total; the 27 cooperative banks (out of a total of 114) had capital and reserves of 760 million lire, 41.1 billion lire of deposits, that is, 63% of the capital funds and 82% of the deposits of all cooperative banks.

The 77 banking companies are divided into two groups, group (a) consisting of 69 banks dominated by individuals or corporate bodies, group (b) 8 banks controlled directly or indirectly by the State. Identification of the two groups, is, according to Mr. Rienzi, easy. However, Mr. Rienzi does not state the extent of the State's participation in the banks dominated by

private capital, which is most inconvenient, because if this participation of 1 shareholder is of, say, 20% of the stock, it makes an enormous difference in the matter of concentration.

We need not consider at great length the sector dominated by the State, because private participation in it is insignificant. Naturally, as seen from another point of view, this is the most important sector, because along with the public law credit institutes, the savings banks and the postal saving system, it has no less than 76% of the deposits.

The so-called private group, then, defined as explained above, is divided in three categories, category I made up of banking companies with over 50 million lire of capital, category II made up of banking companies the capital of which is comprised between 50 and 10 million lire, and lastly category III including those banks which have a capital of less than 10 but more than 1 million lire.

CATEGORIES	NUMBER OF COMPANIES	CAPITAL IN MILL.	SHAREHOLDERS HAVING OVER 500,000 LIRE		SHARE VALUE THEY HAVE	
			NUMBER	%	AMOUNT	%
Class I	3	380	37	0.125	227,846,300	60
Class II	20	582	116	0.56	384,238,570	66
Class III	$\frac{46}{69}$	$\frac{177.9}{1139.9}$	$\frac{61}{214}$	$\frac{0.44}{0.32}$	$\frac{94,920,280}{707,005,150}$	$\frac{53}{62}$

A more detailed analysis of ownership will be given on a special page. Let us briefly mention here that, for the so-called private group:

214 shareholders or 0.32% hold 62% of the capital
66,303 shareholders or 99.68% hold 38% of the capital

If we now turn our attention to the 27 cooperative banks, we find a much lesser degree of concentration in ownership, a state of affairs which is presumably due in part to a legal provision limiting at 50,000 lire the value of the shares which any individual shareholder may have.

International capital has no large participations in Italian banks. Barclay's Bank, the American Express Company, and the Banca d'America e d'Italia had on Dec. 31st, 1945, a capital of 252,500,000 lire or 8.8% of the total capital invested in the 77 banking companies.

IV THE TRANSFORMATION OF THE BANKING SYSTEM BETWEEN THE TWO WORLD WARS

It has been noted above that the large Italian banks, some of them created by German capital, were of the German type, that is, they were deposit banks and at the same time they were investment banks, launching industrial ventures necessitating long term illiquid investments. This state of affairs contrasts with the tendency, assumed in France by the largest commercial bank, the Cr dit Lyonnais which, under the guidance of Henri Germain, restricted itself to commercial short term discounts and systematically avoided long term illiquid investments. Those were handled by the "banques d'affaires" the most important of which was the Banque de Paris et des Pays Bas.

It is of course possible for all sorts of banks to become insolvent in a severe depression, but it is quite clear that a bank of the German type is more exposed to danger than a bank of the Cr dit Lyonnais type, because of the drastic fall in share values and the drying up of income from dividends, such income being susceptible to become negative in the sense that it may turn out necessary to provide funds for the threatened firms in order to prevent immediate disaster. In a low income country such as Italy, it may prove impossible to gather strength enabling the bank to wait until things improve.

The first banking difficulties manifested themselves in 1921 with the fall of the Banca Italiana di sconto which, having made large investments in shipping and cotton, was hit by the fall in price of maritime freight and other goods and services. The Facta government -- the last government before the rise of fascism to power -- did intervene, arranging that the Bank of Italy should advance to creditors the sums they were entitled to under the agreement made after bankruptcy, when the liquidation of assets did not permit to recover said sum.

In order to handle public opinion (presumably) the funds, really provided by sheer note printing, were administered by an "autonomous special section" added ad hoc to a sleepy organization called the Consortium for advances on industrial stocks. Such a method has been resorted to in every country with disorderly finances, but the Italians may perhaps claim to have discovered the device.

This autonomous special section was to limit its operations to a billion lire, but when it appeared that the Banco di Roma, one of the country's largest banks, would fail, such a limitation was removed.

The organism through which help was extended to banks and other businesses took the name of Istituto di liquidazione.

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This Istituto di liquidazione has given financial assistance to the following:

Banca italiana di sconto
Banca agricola italiana
Banco di Roma
Credito marittimo
Banco di Santo Spirito
Banco di Sicilia
Banca Toscana
Banca del Trentino e dell'Alto Adige
Banca delle Marche e degli Abruzzi
Banca italiana di credito e valori
Banca nazionale dell'agricoltura
Banca agricola commerciale di Pavia
Banca delle Venezie
Cassa di risparmio di Fiume,
and many other banks

Società Cogne
Bonifiche Ferraresi,
and other firms controlled by banks

Whilst many banks received help and returned nothing or next to nothing, some, such as the Banca di sconto, the Banca agricola italiana and the Banco di Roma, abandoned their holdings of industrial and commercial stocks to the Istituto di liquidazione; some of these participations were sold, and the rest formed the nucleus of the extensive holdings of the Istituto di ricostruzione industriale (IRI) formed in 1933. The losses suffered by the Istituto are estimated to have reached 5 billion lire mark, an enormous sum in those days when the lira was worth far more than now.

The world depression which followed upon the New York stock market crash affected Italy severely, coming as it did after a revaluation of the lira which many regard as having adversely affected the export trade, and through the export trade, the banks and the economy. The banks were affected by the considerable fall in stock prices and by the contraction of deposits, but would not part from their holdings of stocks, so that they could maintain payments solely through recourse to the Bank of Italy. The creation by the government of the IMI, Istituto mobiliare italiano, did not provide a solution to this difficult situation. Finally the desire to limit the pressure on the Bank of Italy, and to substitute to it a recourse to the financial market led to the formation of a now famous organisation, the IRI, Istituto di ricostruzione industriale, which plays an important, perhaps dominant role in Italian economic life.

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This IRI was formed in 1933 with two distinct sections, one called the financing section and the other the "sezione smobilizzi".

The first section was to extend financial help to businesses in grave danger, and received requests amounting to 2745 million granting assistance to the extent of 1209 million distributed as follows:

322 m. for corporations executing public work
183 m. for companies producing electric energy
400 m. for telephone companies
65 m. for mechanical and metallurgical companies
239 m. for various corporations

1209 m.

With an improvement of economic conditions, this section was abolished (1936).

The second section which continued the Istituto di liquidazioni, received an annual subsidy of 85 million and was to administer the holdings which had been previously owned by the banks. It turned out that these banks had, through holding societies such as the Società finanziaria italiana "Sofindit" etc., control of a large proportion of their own stock, so that the IRI became the owner of 94% of the shares of the Banca commerciale italiana, of 78% of the shares of the Credito italiano and of 94% of the shares of the Banco di Roma. Industrial participations acquired by the IRI were over 12 billion lire, debts to the Bank of Italy reached 5 billion lire. In order to straighten out the situation without more recourse to the Bank of Italy -- which was already too much involved -- the IRI was given wide powers to sell stocks or property to acquire same, and above all to float bonds which had this peculiarity that they could eventually be transformed into shares; a minimum interest was guaranteed and the promise of higher interest was held out in case of industrial success. The reaction of the public was favorable, it subscribed and then did make use of the right to transform the bonds into shares of ownership. It became possible to reduce the indebtedness to the Bank of Italy. However, this was made at taxpayer's expense, the losses being estimated at 6 billion lire; if we add to this sum the 5 billion lire lost by the Istituto di liquidazioni, we arrive at an impressive total of 11 billion lire.

The principal operations of the IRI were these:

1. Taking over the groups S.I.P. and S.T.E.T. (electricity and telephones) whilst floating 400 million lire's worth of IRI-STET bonds.

2. Refinancing the UNES, a large electrical concern on the verge of bankruptcy, to the tune of 276 million lire, part of which there was good prospect of recuperating.

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3. Liquidating the Credito marittimo and the Banco di Santo Spirito with an eventual financial assistance of 300 million lire.

4. Assisting the merchant marine through the creation of the "Finmare" with a capital of 900 million. To Finmare were given the shares of the companies taken over by the IRI. The plan involved the floatation of 900 million lire's worth of IRI-MARE bonds.

5. Constituting the "Finsider" with a capital of 900 million lire to which were attributed the shares which the IRI had acquired in the Ilva, Alti forni e acciaierie d'Italia, Terni -- Società italiana acciaierie di Cornigliano, all of these being steel companies. 900 million lire of IRI-FERRO bonds were sold on the market. In 1939 the capital of the Finsider was doubled.

6. Intervening in shipbuilding, cellulose, rubber and other industries.

Thus the IRI, administering as it does an important fraction of Italian industry, is one of the largest factors in the demand for investment capital. But since an organization of this type finances itself by bond floatations, it has no access to the financial market during inflationary periods. During the war, the endowment of the IRI was increased from 2 billion to 60 billion lire -- it is now 120 billion lire; in 1947 alone, 15 billion had to be advanced by the Treasury. Only in 1948 did the IRI endeavor to secure funds from the market through the disposal of bonds; this financing was inadequate until 1949, a year of falling prices in Italy. A critical article published recently in the weekly "Il Mondo" asserts that a great deal of the investment in mechanical concerns is merely payment of the deficit rather than investment in the normal sense of the word. According to the same source, the percentage of national industrial output produced by IRI affiliates has increased in the last two years.

An important consequence of all this on the banking system is that the banks, formed on the German type, are now said to be of the "Anglo-Saxon type", that is, the deposit banks are now engaged almost exclusively in short-term operations, a tendency which has been accentuated during the war, possibly because in a period of rapidly rising prices and abnormal conditions, there is a reluctance to part with purchasing power (control over things) for a long time.

THE ISTITUTO MOBILIARE ITALIANO

This organism was created in 1931 in order to alleviate the severe crisis then prevailing, with a capital of 551.1 million lire, half of which was subscribed by the Cassa depositi e prestiti, the other half being taken by savings banks, other credit institutes, and insurance companies. It was authorized to grant long term loans to industrial enterprises and to float bonds on the market in order to get the money it was going to lend. It is restricted in its activities by a set of regulations, often modified, concerning how much can be lent, for how long this much can be lent, etc.

In the years immediately preceding the 2nd world war, the Istituto mobiliare was to embark on the financing of national economic autarchy, that is, on the financing of operations presenting "special risks" (read: subsidizing ventures economically absurd) also through bond floatations. Special provisions were also taken to help certain industries such as shipbuilding and the cinema.

And during the world war the Istituto mobiliare was, naturally enough, supposed to help finance the war effort and industries directly connected with warlike activities.

The following table gives an idea of the sums involved:
in million lire

YEAR	LOANS REQUESTED	LOANS GRANTED
1932-33	2,805	558
1933-34	466	204
1934-35	228	128
1935-36	413	37
1936-37	534	170
1937-38	439	240
1938-39	715	432
1939-40	638	506
1940-41	933	614
1941-42	1,990	940
1942-43	2,695	1,709
1943-44	1,050	504
1944-45	1,164	108

On March 31st 1945, the number of loans was 359, 25 of which exceeded 100 million lire .

TABLE V

Istituto mobiliare italiano
Data on the 31st of March of each year
In million lire

YEAR	LOANS OUTSTANDING	BONDS OUTSTANDING		2 AS A PERTENTAGE OF 1
1933	532	180		34
1934	627	524		84
1935	621	440		71
1936	535	341		64
1937	565	506		90
1938	712	545		77
1939	1,048	881		84
1940	1,457	1,133	1,199	78
1941	2,277	1,621	1,718	71
1942	2,982	2,529	2,660	85
1943	4,256	3,716	3,876	87
1944	4,132	4,128	4,435	99
1945	3,795	3,699	4,224	97
1946	6,369		5,748	
1947	12,237		11,124	
1948	22,268		21,185	
1949	42,395		36,956	

The series "bonds outstanding" extending from 1933 to 1945 is extracted from table XXXII, page 245 of the report presented to the Constituent Assembly by the Economic Commission (vol. IV - 1).

The series "bonds outstanding" extending from 1940 to 1949 appears in the Anuario statistico 1949-50 table 348, page 325.

The difference between the two series is presumably due to the fact that the second series includes those bonds which have been selected by a chance process for reimbursement.

VI SHORT TERM INTEREST RATES AND THE BANKING CARTEL

If one opens the Italian statistical year book at the page which contains data concerning the cost of money, one finds that a set of data refers to the rates of the cartel "cartello bancario".

This banking cartel, which had been preceded, before the first world war, by a system of agreements, was constituted in 1919 by the four largest institutes of ordinary credit in order to set a pattern of passive and active rates, that is a maximum rate to be paid by the banks to the depositors, and a minimum rate to be paid to the bank by the borrowers.

1919 had been a year marked by serious inflation and by a return from a war economy to a peace economy both factors making for an excessive demand for credit. Banks which were limited in their lending activities by the volume of deposits they could collect, were offering very high interest to would be depositors, in fact they were offering a rate higher than the official discount rate and about identical to that offered by government bonds. This cartel was gradually extended to include a large number of banks and it seems agreed that it did notably influence the structure of interest rates.

It is sometimes pointed out that the banking cartel was not a pure restrictive organization aiming solely at improving the profitability of the participating firms irrespective of what the consequence might be to others.

For instance it is asserted that, without the cartel, the banking business would have been conducted, in view of the abnormal prevailing conditions, in such a way as to imperil the banks and with them the depositors, the clients and the economy in general.

However, many economists are of the opinion that the cartel had unfortunate consequences on the development of banking because it placed the banks in a situation analogous to that of an industry protected by a customs tariff, i.e. it assured the survival of uneconomic marginal firms, thus overcharging customers while assuring to the best firms a rent corresponding to the difference between what marginal cost is in the industry and what it might be without the cartel.

The banking cartel brought about a reduction of rates paid to depositors, and it is extremely difficult to ascertain whether this has contributed to reduce appreciably the flow of saving and whether it has channeled savings

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1.

outside of the banking system. However, the report of the Economic Commission to the Constituent Assembly expressed the wish that in the future rates paid out to depositors should be determined by the situation of the money market rather than by the interests of the banks.

Whilst passive rates were maximum rates, active rates demanded by the banks to the borrowers were in reality minimum rates because they applied to loan requests of the best customers in the best conditions, so that the banks were at liberty to charge more, provided that the market conditions permitted them to do so. In effect, then, competition between the banks was restricted or eliminated whenever the rates left to themselves would have fallen to low levels, a low level in Italy being what in many other countries would be characterized as a pretty high level.

A few observations may be made here. When the active rates of the cartel went up to very high levels in 1925, they merely followed immediately the rise in the official discount rate; but when they declined from January to June 1928, they did so on their own, so to speak, or more exactly under the influence of the changing money market conditions, since they preceded the decline of the official discount rate. A new rise in the rates early in 1929 is also parallel to the rise of the official discount rate. From 1932 to 1936 there were no active rates set up by the cartel. From 1937 on, the cartel rates change whilst the official discount rate does not do so until 1944.

It seems clear that there is in Italy an abundance of reasons why the interest rates should be high, the most important of which is presumably a low rate of saving. But it is doubtful that preventing the fall of interest rates in a systematic way is a method which serves the public interest; to begin with, if it is conceivable that depositors should be given some sort of protection it is less clear that the shareholders of banks are entitled to same, thus constituting a privileged class among the country's investors; since a fall in interest rates often, though not always, is caused by a deterioration in business conditions, it does not appear desirable to peg the interest rates at a high level, whilst the prices paid by the market for the produce of the would be borrowers is falling.

It is not suggested that banks should be forced to extend credit to firms which are not credit-worthy, but it is suggested that there is no reason why the difficult situation of credit-worthy firms should be made even more difficult.

Also covered by the cartel were the prices to be charged by the banks for the services they perform for their clients; in the past many of these services were free, as this gratuity was meant to induce businesses and

1. Many banks, especially savings banks, insist that the rate of saving is almost completely inelastic with respect to the rate of interest.

capitalists to increase their transactions with the banks; other services were priced by each bank acting individually.

The banks observe that the rise in the price they demand for performing services corresponds to the rise in the costs they incur. However, two types of remuneration exist, one which is a percentage charge and the other which is a fixed charge. The increase in the fixed charges from 1934 to 1945 have been modest, the increase in the percentage charges more conspicuous. It would be necessary to see the detailed accounts of the banks in order to ascertain whether, under the cartel system, there has been an increase in price much superior to the increase in cost. The report of the Economic Commission to the Constituent Assembly apparently could not say whether this was the case, and merely recommended great caution in permitting any rise in prices in order to protect the customers of the banks. Such a text implies that in order to raise a price, the cartel -- or the bank, if the cartel should be abolished -- should demonstrate to some responsible authority that there has been a rise in costs i.e. should produce accounts and evidence.

In the beginning, the observance of the cartel agreements was not made the object of a strict control as the participants relied on the "esprit de corps" of the firms; a committee presided by the President of the Banking Association was formed in order to examine infractions, and it could, in principle, fine the banks which had failed to act as agreed. The rigour of the control was increased in 1930 and in 1932, providing for the necessity of investigating complaints, for large minimum fines and other sanctions, and for eventual dismissal of the "guilty" personnel. The banking law of 1936 envisaged very heavy fines up to 100,000 and 200,000 lire. It seems that infractions concerned more frequently the passive rates than the active rates, and that their frequency depended on the evolution of money market conditions; furthermore they were more frequently committed by the local branches than by the head offices. This system of fines, punishment and demunciation is an unpleasant one, all the more so, if the social interest of the cartel agreement is in doubt; furthermore, it does not appear right that individuals or organizations should be punished for the non-execution of what is in essence a private agreement. The analogy with the American "fair trade" laws is a fairly close one.

It appears that banking circles are strongly of the opinion that the cartel is not only useful but indispensable, whilst the contrary opinion is voiced among the customers of the banks. It is also asserted that many banking concerns could very well withstand the conditions of competition which would follow the abandonment of the cartel.

A possible consequence of the banking cartel was the uniformity of the rates adopted irrespective of local conditions; but it is clear that the very existence of large banks with branches all over the country tends to bring about such a state of affairs.

One important aspect of the cartel is its incidence on the divergence of the active and passive rates. There is little question that from 1919 on this divergence has been growing, which means that whilst the borrower pays a high price, more and more of the proceeds go to the banks, less and less to the savers. Indeed the divergence is held to have increased by 50% from the prewar to the postwar, and the trend seems to have maintained itself subsequently as indicated by the data of the *Anuario statistico*, Serie V -- vol. 1, p. 331 table 347. And Italy is a country which could benefit from increased saving and reduced luxury spending.

Professor Einaudi, who is actually the President of the Italian Republic, had pointed out the undesirability of a further measure of divergence between passive and active rates and indicated the necessity of curbing the growing expenses of the banking system. If expenses are understood in the strict sense, that is as those expenses, not including the banks' profits, which are indispensable to the operation of the banking system, then it is important to keep in mind that such expenses consist essentially, up to 85% approximately, of wages, salaries, pensions, etc...

It is of interest to note that the Report of the Economic Commission to the Constituent Assembly is, on the whole, critical of the cartel system, as it regards it as incompatible with a market economy and as a brake on productive activity in general.