

# Economic Revitalization and Birth of State Ownership in Interwar Italy

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The Italian economy was characterized by the “mixed economy” and “state ownership” until the 1990s. This paper throws some light on the first and biggest state-holding company, the IRI’s activities, such as public interventions to rehabilitate the banks and industries damaged by the Depression and the reforms of Italian economy in 1930s. The reorganization policy oriented by the IRI aimed to dissolve the close ties between big banks and industries, and thereby prevent the recurrence of a financial crisis. It purchased the “frozen assets” from major banks in order to restore their financial situations and to make possible the control of their financing activities by the IRI. With this intention, it would design more decided regulation over banking sector, which resulted in 1936 Banking Law. Through the purchase of assets, the IRI became a creditor and shareholder of the numerous industrial companies, which were revitalized and finally resold on the market. The corporate revitalization was successful and the IRI used its gains exclusively to repay the Bank of Issue’s bail-out credit. The IRI’s principle of corporate administration was to boost the efficiency of the individual companies and the whole sector through respecting market competition and enabling state control without increasing the fiscal burdens on taxpayers. Since such corporate administration model was recognized to be effective as *the third way* of state intervention, this institute was determined to continue as a state holding company.

In 1992, the large privatization process started in Italy. The privatization of the largest state shareholding company, the Institute for Industrial Reconstruction (Istituto per la Ricostruzione Industriale; IRI), set up in 1933 and closed in 2000, and the Banks of national interest controlled by this institution had triggered the massive reorganization of the banking sector. While the EU has been expanding and the global competition has been intensifying, the Italian economy has transformed its structure and the domestic differences have increased.

Up until the 1990s, the Italian economy

was characterized by the “mixed economy” (*economia mista*) and “state ownership” (*Stato imprenditore*). At that time companies and large banks were mainly under the control of the state holding companies or families. Government interventions were largely carried out on the industrial and financial sectors. The state ownership system maintained the role of economic policy planner and arbitrator so as to promote the optimum distribution and fair competition.

In particular, the symbol of the state ownership, the IRI controlled a mass of companies and the major banks<sup>1)</sup>. It had been founded in 1933 with the purpose of

overcoming the banking crisis and the Great Depression. Although it was created as a temporary institution, it continued after the Fascist regime had collapsed and it is said that it had contributed to the post-war reconstruction and the Italian “Economic miracle” of 1950s.

The main goal of this paper is to investigate the background and implications of the manner of construction of the economic constitution of post-war Italy. To this end this paper throws some light on what kind of public interventions were done by the IRI in its objective to reconstruct the banks and industries and as a result, how it reorganized the Italian economy.<sup>2)</sup>

## I. The reorganization of the banks and the bank industry<sup>3)</sup>

### 1. The problem of the relief credit of the Bank of Issue and the birth of the IRI

In the interwar Italy, the commercial banks (*banca di credito ordinario*) had built de facto long-term credit relationships with the industrial societies. In particular, we will refer to “The Big Three”: Banca Commerciale Italiana (henceforth we call it Comit for short), Credito Italiano (Credit) and Banco di Roma had formed the domestic and international network of branches and their correspondents and gained distinguished importance in the Italian economy. They operated like a

mixed bank: they financed the industrial societies in terms of equipment investment, assisted them in issuing bonds and sometimes held the companies’ stocks in their portfolio. The big banks tied in their clients’ interests.

In 1926, when the Italian government declared the revaluation of the lire and return to the gold standard at the overestimated “quota 90”, pegging the exchange rate to 92.46 lire against the Pound sterling, the Italian economy rapidly fell into a recession. Moreover the Great Depression exacerbated the situation: the stock market crashed, the companies came under pressure and became bankrupt, and there was a flight of small deposit holding from the joint-stock banks. In this process, especially the larger banks became victims of bad debt and suffered from the tightness of liquidity. They appeared to be in a crisis.

The Mussolini administration formed in 1923 maintained the policy of allowing for the bail-out of banks in order to retain their power. It continuously supplied the liquidity indispensable to relieve the large banks in crisis. To disguise the rescue operation as a standard financial one, a series of public institutions were created: the special autonomous section of CSVI *Consorzio Sovvenzione su Valori Industriali* (1923-1926), the Institute for Liquidation (1926-1933) and IRI. Because of limited space we cannot refer to the development

of these organizations. Initially such organizations merely mediated between the government and the banks, but consequently acquired the role of holding company (Institute for Liquidation) and finally became a think tank and planner of the banking and industrial reorganization (IRI). We will refer this in the following sections.

Although it was forced to execute the tight deflation policy to maintain the overestimated exchange rate, *quota 90*, the Bank of Issue also reluctantly consented to the rescue of banks. Because the Bank was still a private company, it could not reject its large debtors' pleas for additional credit or abandon those threatened by the bankruptcy. So the Bank of Italy repeatedly gave rediscounts and loans on the bills and the securities which formed the frozen assets in the debtor banks. This "relief finance" could not succeed in settling the serious depression. And the soundness of the Bank of Issue in turn deteriorated<sup>4)</sup>.

Therefore the structural readjustment of industrial companies was considered to be indispensable to the facilitation of debt repayment to the banks; and ultimately to relieve the Bank from the burden of frozen assets therefore restoring the soundness of money circulation. With the above objectives a new temporary public company, namely the Institute for the Industrial Reconstruction was created by the Regio

Decreto Legge in January 23, 1933.

## 2. IRI activity: Supporting the readjustment of the companies and the collection of credit (1933-36)

### (1) IRI's mission and structure

The IRI was divided into two sections: The Industrial Finance Section (*Sezione di finanza industriale*) and the Industrial Liquidation Section (*Sezione di smobilizzo industriale*). The former was assigned the task of financing the small-medium companies for as long as 20 years, after they had been carefully screened.

The latter had the task of resuscitating the companies whose debt and shares IRI had taken over from the banks through the rescue operations. This section was subject to the Minister of Finance and given state subsidy.

The goal of the Liquidation Section was to reconstruct the companies at the minimum national expense, and to liquidate the above-mentioned credit and shares sooner. As such, they did not intend to nationalize the companies incidentally administered by IRI but to retain its status as a private company. And in so doing ensure that the directors of the companies realized their responsibilities and refrain from relying upon the State.

This section was charged with examining the reorganization of not only each company's management but also each industrial sector in order to create

a more rational and effective economic structure.

## (2) Bank Bailout: Industrial assets purchases of the 3 major banks

Soon after its foundation and up until the next year 1934, the IRI carried out a series of public interventions directed toward The Big Three and their own holding companies. The intention was to buy out all “frozen assets”: virtual long-term credits and shares of industrial companies possessed by those banks and their holding companies.

It appeared that the operations done by the IRI looked identical to those of the Fascist regime, which had been repeated in 1920s to camouflage bailout operations as standard financial operations. Asset purchases done in 1920s had produced the secondary, rather unfavorable fruit in those public institutions that executed the operations.

Contrary to this result the IRI had aimed merely to buy the industrial assets of the major banks. It intended to assemble those industrial credit and shares thereby making it possible to control the relationship between bank and industry and bank and the Bank of Issue. And moreover it was considered that this buyout should allow IRI to elaborate the general schema of banking and industrial reconstruction.

In the result of this buyout and former public intervention done in 1920s,

IRI acquired about 7 billion lire of the industrial assets corresponded 21.5% of the stock capital of the Italian financial market. Because of the reciprocal possession of the shares between “group” companies, IRI came to control numerous companies whose share capital collectively corresponded to 42% of whole. And the Liquidation Section was charged with the examination and readjustment of more than 500 companies stretched over the various sectors such as the steel industry, shipbuilding, shipping, chemical, telephone, power, real estate agency, hotel and so on<sup>5)</sup>.

## (3) The IRI's Structure and policy

How did the IRI wrestle with such a vast and complicated assignment of reconstructing the bank and industry? Before dealing with this question, we will look at the preconditions of this activity.

First, the IRI gave the top priority to collecting the relief credit of Bank of Issue and so as to reduce the amount of currency circulation. With this purpose, the Institution adhered to management of reconstruction activities by the divestment of industrial assets or raising funds in the market, and did not rely upon the government budget nor the Bank of Issue.

Second, to make this line possible, the Liquidation Section was approved to issue its own securities guaranteed by the government. On this basis it thought

of itself as a financial institution, mobilizing the small saving toward the long-term huge industrial investment<sup>6)</sup>.

It carried out bond issues decided in careful consideration for the market capacity. And they were always successfully supported by the people's marked preference for the public bond.

Thirdly, the administrators of the IRI criticized the inefficiency of the bureaucracy and designed a compact and competent organization. They eliminated the complicated formalities in decision-making for the administration of enormous industrial assets, as well as readjustment or liquidating of companies. We can confirm their pride in the following remark: "There is no organization but the IRI that has a more lean or lithe structure"<sup>7)</sup>.

Fourth, they pursued efficiency in order to minimize the public expenses for economic reconstruction. During this period it was the norm for the ministries and government offices to make "*bilancio di spesa*" (statement of expenditure). But the IRI made an earnings statements as private companies did, accounted the profit and loss, and sought exhaustive cost reduction. They reduced the personnel from 172 in the end of 1934 to 114 at the beginning of 1936 and the total cost from 10,110 thousand lire to 8,850 thousand lire in the same term<sup>8)</sup>.

Fifth, it actively utilized outside experts and institutions. For instance, its

first bond issue was floated by the CREDIOP (a public institute for public works) and its syndicate was organized by the Bank of Issue. The Bank also allowed the IRI to use its branches in screening and monitoring the debtor companies and collecting the credit for the Institute.

The largest financial trust, *Bastogi*, should be given notable importance too. It was the facility in which the Italian big industrial groups were adjusting their own interests. This company administered by Alberto Beneduce, who also held the posts of Governor of the public financial institutions such as IRI, Crediop and ICIPU (a public institute for industry of public utilities). Through these roles he had detailed knowledge of public and private interests. And so it allowed him and the IRI technocrats to elaborate the effective plans for industrial readjustment<sup>9)</sup>.

The above depiction of this institution reveals and highlights that IRI although a public company was founded upon the market economy principle.

#### (4) Supporting the readjustment of companies

In the first years the IRI strived to resell the industrial assets in the market and so collect the relief credit of the Bank of Issue. But it was necessary to make the stock market active by sweeping away people's distrust in stock

investment. Therefore the Liquidation Section coached the companies under its control toward transparency in terms of balance sheets and the honest disclosure of information.

Through this effort the false statements and window dressing were brought to light and consequently facilitated the evaluation of each company by the Liquidation Section. After the examinations, it was decided that the companies which had gone bankrupt or depended upon others were to be liquidated, and the companies which were considered worthy were to be reorganized. The criteria to make this decision reflected the serious unemployment in this period: it also took into account the economic effect of that company's existence on the local community. The Liquidation Section supported the reorganization through adjusting the size, excluding the bankers' participation from the management, forcing the resignation of incompetent directors, promoting the reinstatement of the technicians. Additionally, loans were to be made the responsibility of the Finance Sector. After reorganization the companies were properly sold in the market.

IRI had also founded sectoral holding companies, which were administered by the men with firm and faithful character and well-versed in each sector. It was the intention to form a consultation system in which the managers of private

companies could consult with the specialists<sup>10)</sup>.

The following numbers give the brief sketch of the IRI's financial activities: Until 1936, the Finance Section received 1,178 requests for loans, approaching more than 2 billion lire. After the screening process it financed 226 loans totaled 1,125 million lire.

These loans ranged from those over 5 million lire (13 cases), to those over 2 million and up to 5 million (20 cases), to those over 0.5 million and up to 2 million (71 cases), up to 0.5 million (122 cases). Excluding 3 enormous loans amounting to 888 million lire directed toward the financing of 3 large companies administered by the Liquidation Section, almost all loans given by the Finance Section were thrown into the small-medium companies and 144 cases of them had no relation with the IRI<sup>11)</sup>.

The reorganization activities executed by the Liquidation Section were too diverse to refer to in detail here. Simply listed: decreasing the capital and forming the reserve; increasing the company's capital; simplification of management structure; converting the long-term credit possessed by IRI into shares of that company; transference of the credit and other assets between the companies under IRI's control; reduction of debts by compensating with the "fondo di svalutazione" (loss provision) which IRI had capitalized for depreciation; closing

the unnecessary factories in the automobile, iron-making, ship-building, railway vehicle making industries); rationalization inside each industrial sector; introducing the official rate in the public service sector and so on. These scheme of readjustment were based on the investigation inside the company made by expert and were designed by the IRI. Each measure was executed in combination with others.

And for the telephone, ship building and iron making industries, it created the sectoral coordinate system by founding the financial holding companies wholly capitalized by itself (for telephone in 1933, for marine in 1936 and for iron manufacture in 1937). These holding companies administered the IRI's share holding of each industry and exercised the financial operations. Thus the pyramid structure of the State holding system was created<sup>12)</sup>.

**(5) Reselling the industrial assets: The success of liquidation project<sup>13)</sup>**

After having reorganized a company, the IRI transferred its share possession of such company to a certain sound company or group, which was judged to be able to take it over by its own capital without bank finance and with the ability to run that company<sup>14)</sup>.

The examples of the "privatization" among the big companies were Italgas (gas), Edison (electricity), Bastogi (investment

trust).

Initially, it was anticipated that the liquidation process would unavoidably result in a loss. Therefore the Institute set aside a little less than 10 per cent of book value (IRI's purchase price) of the possessed securities as the depreciation reserve. However, the liquidation project never made a loss and even yielded a profit. Then those capital gains were in turn reserved for compensation for any contingent loss in the future.

The liquidation project through reselling companies or collecting the credit intensively executed especially during 1934-35 and the IRI received 4,560 million lire up until 1938. With this disposable fund it repayed the bailout credit of the Bank of Issue.

## **II. Banking reorganizations**

### **1. The policy of banking reorganizations**

During 1933, the big banks were still suffering the reduction of deposits and deterioration of loans, and requested the government additional support.

The IRI was assigned to examine the banking crisis and seek the most reasonable way to rescue the banks. Consequently in December it submitted the report on this issue to the premier. This report was titled "Studio sui problema di risanamento bancario" (Study on the problems of banking reorganization) and it would become the

blueprint of the banking and industrial reorganization put forward by the IRI.

In March 1934, the Institute carried out public interventions directed towards ‘The Big Three’ Banks: it bought out every industrial asset possessed by the banks, both those in sound and deteriorated condition, excepting those related to the short-term financial affairs. This operation had the following aims. First, divesting the industrial assets of the banks, and it was also considered to be able to correct the “Siamese twins” relationship between the big bank and industrial companies, and make the banks dedicated to supplying just short-term credit.

Second, through selling the frozen assets the banks could restore their financial situations.

Thirdly, through these transactions that the IRI absorbed the debts which the major banks owed to the Bank of Issue, it was intended to convert nonperforming loans of the Bank to sound ones, hence making currency circulation sound<sup>15)</sup>.

Fourthly, it aimed to reveal the whole story of public interventions (“rescues of big banks”), haphazardly repeated during the 1920s. And so to make clear the amount of bailout credits and make possible to amortize it with the state budget.

In 1935, the IRI also intervened in the affairs of two banks: *Credito Marittimo*

and *Banca di Santo Spirito*. The former had controlled the latter, and the former itself had been under control of the largest Italian shipping rig group, undergoing liquidation at that time. And the *Credito Marittimo* did not play an indispensable role in the financial market neither at the national level nor the regional level. On the other hand, the *Banca di Santo Spirito* played an active and important role as a regional bank with long tradition in Rome and Lazio region to which Rome belonged.

Having taken account of these conditions, the IRI decided to liquidate the *Credito Marittimo*. The IRI bought its total share and divested its assets. The branches of this bank including their deposit accounts were transferred to The Big Three Banks and particularly Roman branches to *Santo Spirito*. In its rehabilitation process, the Liquidation Section administered and readjusted it by enforcing the contents of assets and strengthening its structure.

These cases show the IRI’s banking reorganization policy: it considered the bank’s domination over the other bank to be harmful and intended to dissolve such relationship. Also, we can confirm the fact that the IRI took account of the significance of the existence of certain banks to the regional economy or the financial mechanism when evaluating whether to continue that bank or liquidate it.



## 2. Profitability of the Banking reorganization by the IRI

The interventions directed toward *Credito Marittimo* and *Banca di Santo Spirito* were designed not to incur any expenses to the IRI. Actually through the liquidation of *Credito Marittimo*, the IRI got 200 million lire. After deducting the cost of interventions and stock buy-out, it resulted in more than 61 million lire surplus<sup>16</sup>). Through case studies, it reveals that the reorganization activities by the IRI always took account of the profitability.

But the public interventions directed at the Big Three Banks in March 1934 were exceptional. The IRI calculated the price of assets purchased not by practical valuation, but by balancing the total of the debt side of the banks' balance sheets with the total of credit side including the reserve worth 20% of capital. Because it aimed to reconstruct the banks' capital. The IRI entered the buying value, amounting to 9,694 million lire as debt to those banks on the book. And the Liquidation Section evaluated every asset individually: for the listed stocks it referred to the market as of the end of 1933 and for the unlisted stock and loans it estimated the actual state. After these deductions, the IRI then calculated the difference between the debt and the real valuation and kept it on the book as depreciation.

This shows that the IRI's salvage

interventions toward the Big Three Banks were to purchase their non performing loans and to reconstruct their sound capitals. But it did not require an enormous expenditure by the IRI. We will examine their actual conditions in the following section.

## 3. Management of The Big Three after the public interventions

To return to the reorganization of The Big Three Banks, what was the effect of public intervention executed by the IRI in 1934? Were they successful?

As we have already seen in the former chapter, industrial assets purchased by the IRI from The Big Three were related to numerous companies in various industrial sectors. And it aimed to separate the banks from the industry. Actually after the intervention the banks found themselves deprived of their familiar clients, they suffered a sharp decrease in deposits which hit their management.

Still, *Credito Italiano* and *Banco di Roma* had been carrying on the reorganizing process, limiting themselves to the commercial bank operations, developing discipline inside the bank and reducing costs. Therefore after the intervention of 1934, these banks found it less difficult to manage as commercial banks<sup>17</sup>).

However the situation with *Comit* was less favorable. The situation of this bank

was serious because of previous strategies to intensify large-scale financing for big clients and investment in the government bonds, inaccurate accounting and statistical processes, lack of bank clerk training, poorly coordinated relationships between the head office and branches, and inefficient organization expansion. Even through very strong operations geared toward slimming down and reorganizing the management structure, it was considered impossible to make *Comit's* budget balance within only a couple of years.

After the IRI's intervention, *Comit* shifted policy to expanding commercial bank operations such as discount bills and overdrafts. It realized a marked increase by 30% in 18 months, starting from the beginning of 1934.

But after IRI's banking reorganization aimed to dissolve the monopoly of The Big Three Banks in the field of financial services targeting the industrial sector, the market competition had gotten more acute<sup>18)</sup>. Even though *Comit* had the largest scale operations in Italy, it faced a keen struggle in the short term financial market and was outdone by others<sup>19)</sup>.

Even worse new customers often meant taking on the risk of insolvency and did not bring in good returns in spite of enormous loans.

In 1934, the deposit and current account balances of *Comit* decreased

sharply by 2 billion lire, of which 1 billion was due to small deposits decrease. *Comit* explained such decrease by following reasons: the stash of currency and checks by depositors, the decrease of funds available for saving influenced by the economic conditions, a competition for deposits made tougher by the offer of an interest rate higher than the max rate regulated by the Cartel by banks not belonging to the cartel, recovery of the private interests in the equity investments and the competition with the government bonds and postal bonds with higher interest rates<sup>20)</sup>.

We can summarize that after the IRI's bank-rescue, *Comit* was still starved for funds because of a serious competition for deposits or short-term loans in the market.

#### 4. The IRI's policy of bank-rescue and its control over banks

The plight of the *Comit* lead us to doubt the effect of the IRI's revitalization operations. Should banks be able to refinance their operations by selling the industrial companies' equity to the IRI?

The answer of this question can be found in the agreements concluded by the IRI and each of The Big Three Banks, which facilitated the IRI's intervention policy toward them. In the agreements the IRI was authorized to decide arbitrarily how and when it would repay its debts to banks within 20 years.

In the case these banks would need funds for paying back their debt to the Bank of Issue or coping with an unforeseen run on them, they would be permitted to temporarily borrow money on security pledge from the IRI. And it was agreed that the banks should pay it back as soon as the cause of such need would be dissolved.

Practically, the IRI regarded the debts as long-term ones and intended to pay them back slowly. The reasons were as follows:

First, as we have seen chapter I-2-(3), the IRI had a policy to raise funds in the market by selling the equities purchased from banks or issuing bonds. It was then essential to watch the market condition.

Second, the IRI gave preference to apply such funds to pay back the Bank of Issue's bank bailout credit; therefore reducing circulation was considered crucial for sustaining the gold standard.

Thirdly, the IRI's repayment plan for banks was designed as a mechanism by which the IRI would carefully control the expansion and contraction of the credit supplied by The Big Three Banks. This was explained as follows: "By this repayment mechanism, these banks are made completely subordinate to the IRI and their administrations making them cautious to take the risk that might lead them to ask the IRI for help. It results in the contraction of their credit operations as it was expected.<sup>21)</sup>"

This mechanism also maintained the intent to supply a certain amount of funds to banks every year through the IRI's paying 4% of annual interests on its debts. The IRI formed a "movement funds" (*movimento fondi*) account in which it administered the fund transaction between it and the three banks. The IRI referred to its functions as the clearing house of The Big Three<sup>22)</sup>.

The IRI reported that this mechanism succeeded in controlling the Big Three's financial operations in 1935. However the *Comit* still suffered a heavy debt to the Bank of Issue and ran short of operating funds. Therefore, it largely increased its loans from the IRI<sup>23)</sup> and additionally discounted a number of securities of poor quality from the Bank of Issue. Additionally, Credito Italiano was also accommodated by the Bank at the end of 1935 when it was subject to a run on its resources.

These transaction shows that the banks threw themselves at the mercy of the Bank of Issue once again. The IRI criticized these re-accession activities by the Bank for having invalidated the IRI's control mechanism over banks and even deteriorating the Bank's assets. Because these activities were contrary to the policies of banking reform implemented by the IRI .

Therefore the administration of this Institution was driven to make haste of the final disposal of the bailout credit of

the Bank of Issue and the construction of the financial supervisory system in Italy.

### III. Disposal of the bailout accounts between the Bank of Issue, the Treasury and IRI

#### (1) Amortization of the bailout account: deadlocked negotiation

During the 1920s, when the bank bailouts were requested, the Bank of Issue accommodated the public company, predecessors of the IRI with the funds necessary for rescue operation. And consequently such institution had to repay these debts to the Bank of Issue through collecting the relief credit from rescued banks.

In the examination done by the IRI, the relief credits of the Bank of Issue were estimated to total about 11 billion lire. Some of them had been already identified to be amortized by the state budget and reserve, however more than additional 5 billion had not been settled and constituted the IRI's debt to the Bank of Issue. The IRI proposed that it should be amortized by allocating annually 450 million lire of the State subsidy for 20 years onward<sup>24)</sup>.

In terms of this proposal, in October 1934, the Minister for Finance, Guido Jung and the president of the IRI, Alberto Beneduce agreed to appropriate such a subsidy to the budget of Ministry

of Finance. After receipt of the consent of Prime Minister Mussolini, a decree that authorized the Minister of Finance and the president of IRI to make a convention of settlement was issued.

But before the execution of the decree, Minister Jung was dismissed due to racially discriminatory practices. And thus, the conclusion of the convention was "postponed", despite the IRI's repeated reminders.

The Institute did not expect such postponement and suffered from this miscalculation. Because such debt inherited by the IRI from predecessor institutions was secured by government bonds<sup>25)</sup>. The Bank of Issue had the right to sell them arbitrarily, and as long as the Bank continued to possess those bonds, the IRI was under obligation to compensate the capital loss and to pay the circulation tax on them. Therefore its management was threatened by the market volatility.

#### 2. Discord between the Ministry of Finance, Bank of Issue and the IRI: Derailment of The Big Three control mechanism.

A hike in official discount rate in the middle of 1935<sup>26)</sup> exacerbated the situation of the IRI and that of the banks under its control. Since the interest of the IRI's debt to the Bank was linked with the official rate, it was raised from 2% in the end of 1933 to 3.5% in the end of 1935. It resulted that "the

biggest cost of the IRI became the interest payment<sup>27)</sup>”.

So with *Comit*. The interest of its debt to the Bank, an amount of 2,500 million lire, was also increased from 3.5% to 5%, above the 4% interest income that the IRI paid to *Comit*. Accordingly, this increase in the interest rate resulted in the breakdown of the mechanism by which the IRI would supplement the banks with funds through its interest payments<sup>28)</sup>.

The government got apprehensive about the highly volatile financial situation and in October 1935, prepared a new convention for the IRI and the Bank of Issue. It provided that in the case of a run on the banks controlled by the IRI, the Bank of Issue would accommodate the credit and the IRI would supply the same amount of state subsidy to the Bank in order to secure the bank's loan. The IRI criticized this proposal as it should deprive the IRI of the availability of such subsidy<sup>29)</sup>.

To make this arrangement work well, the convention prepared to prolong the state subsidy of an annual 200 million lire allocated to the IRI for 20 years. It meant that the IRI would be provided a part of the subsidy expected in the former scheme of settlement. The Institute calculated that if it would issue the 4.5% interest-bearing bond by using this subsidy, it would be able to raise about 2,600 million lire in the market.

On the basis of this prospect, the IRI insisted that in order to settle the total amount of 6,300 million lire of bank relief account (its debt to the Bank), it needed to consider how to settle the rest of 3,700 million.

For this reason the government proposed the plan to distribute the 5% consols to the IRI. But it rejected this proposal and criticized it as follows: if as the government plan suggested, the IRI would repay The Big Three by government bonds, they would have been pleased to use them for attracting loans, selling and repurchase agreement transactions so as to raise funds. There should be no way to prohibit them. Then the mechanism, which the IRI had created for controlling the financial operations and the management equilibrium of The Big Three would fall through. And consequently the State would inevitably give up the most efficient way of controlling the banks and that of money circulation.

It continued to warn that if those banks held a large portion of government bonds and their balance sheets would disclose this fact, the depositors would recognize that the changes of market would have marked influence on the banks, and their trust in banks would be shaken.

Then the IRI compared the costs and benefits of the scheme suggested by the Ministry of Finance (distributing the IRI

the national bonds) and that of the IRI, and proposed its scheme of appropriating the annual subsidy to the State budget again<sup>30)</sup>.

### 3. Confirmation of the needs of financial supervisory system in Italy.

The argument mentioned above reflected the IRI's perception that the control over the financial institutions and money supply by the Bank of Issue had not functioned at all. Practically the Bank of Issue, the Bank of Italy had supplied huge amount of credits to major banks in difficulties through discount and collateral loans. It accepted even securities of the companies in management crisis and financial bills. Although it appeared to be normal short-term credit on book, it was de-facto relief finance nearly desperate to collect from the debtor banks. So it resulted in the repayment by the IRI, that is to say the State.

But the Bank of Italy irrationally insisted that those credits were standard and that they ought to be paid the amount of principal and interest by the debtor banks. This made it impossible for the IRI to consolidate such debt as long-term loans or take over the discounted bills to facilitate the inclusive readjustment.

The Institute blamed the attitude of the Bank of Italy and criticized as follows, "a private organization, the

Bank of Italy's policy of respecting its own interest and lack of regulating functions over the financial institutions through rediscount have created a deplorable phenomenon, making the ventures of banks possible. The Bank of Italy had neither prevented nor regulated such phenomenon, and in the case of bank crisis it threw itself at the mercy of the State and obliged the State to take over all debts.<sup>31)</sup>"

This remark reveals that the IRI considered that the financial crisis were caused by not only the mixed banking operations of the ordinary credit institutions, but also the Bank of Issue's haphazard manner of supplying credit. And it was considered that since the Bank was a private company, its financial supervisory could not have functioned properly.

On the basis of this perception, the banking reform designed by the IRI contained the reconstitution of the Bank which would be transformed from a joint stock company to a public institution.

On the other hand, The Big Three had agreed to devote themselves to the short-term credit operations in the convention of 1934. But it was highly probable that they would return to the mixed bank operations.

Luigi Einaudi, a professor of economics and future governor of the Bank of Issue and the President of Italy soon after the World War II, contributed to *the*

*Economist* in 1935: “problem now being discussed in the banking world is this: will banks be allowed to continue to be of the mixed type usual in Italy, or should a strict division of labour be enforced? In the outside banking circles the opinion seems to be growing that every bank ought to be restricted to a given region, to a given industrial section, and mainly to a given set of current short-term commercial operation or long-term financing. The bulk of expert banking opinion, however, is distrustful of such hard and fast maxims. To bankers the question is exclusively a matter of practical prudence. Some banks have had to be salvaged as a result of unwise long-term investments; but nobody thinks that a bank can prosper without a convenient and prudent mixture of short-term, medium-term and long-term operations.<sup>32)</sup>”.

So as to complete the banking reform designed by the IRI, it was required to constitute a more effective and permanent financial supervisory system. From this viewpoint the Institute forwarded more radical banking reorganization. It was embodied in the 1936 Bank law which stipulates the separation of the Bank of Issue and The Big Three from the private interests and in doing so maintain the stability of the financial organization.

We will discuss it later in chapter IV.

#### 4. Settlement of the bank relief accounts between the Bank of Issue, the Treasury and the IRI<sup>33)</sup>

As we referred to in the beginning of the chapter III, “relief credit” financed by the Bank of Issue partly formed collateral loans with floating interest rates. So the fluctuations of the value of collaterals and interest rates affected the IRI’s outflow and income and as the result the loss would be charged to the State.

Therefore the IRI asked the quick settlement of its debt to the Bank through the allocation of the State budget. This was admitted by the decree in January 1935 and published as law in June, but the execution had been postponed without future plan. Finally at the end of 1936, it came to final agreement.

The Bank’s “relief credit”, of which collection was in the charge of the IRI, formed the debt of 6,358 million lire in total on the IRI’s balance sheet. It consisted of (a) Public bailout debt ante-IRI: 3,130 million lire, (b) rediscounted debt purchased by the IRI from The Big Three Banks: 2,340 million lire, (c) loan on the collateral of 800 million lire (in nominal value) consol bonds with 5% interest, purchased by the IRI from *Comit*: 788 million lire. Toward this debt, (d) the IRI had paid the Bank of Issue 1,650 million lire through its 4 years’ collecting activity<sup>34)</sup>.

After having deducted (d) from total debt, the rest, 4,708 million lire was settled in a final agreement between the Bank and the IRI. First, (e) transfer nominal value 1,630 million lire of 5% interest bearing consolidated debts from the IRI to the Bank, which would be deposited in the Bank until the end of 1971. And (f) a part of the interest born from such bonds, annually 46 million lire, would be saved on an account given 3.5% annual interest by the Bank for the sake of the IRI. This saving was required to be held until such time as the debt would expire, and would amount 3,078 million lire. Accordingly (e) and (f), the debt of IRI would be paid off after 30 years at the end of 1971. And during these years the IRI would pay 0.75% interest on its debt, for this also was to be applied to the interest born from (e) bonds.

On the other hand, in the agreement between the Treasury and the IRI, the existing subsidy for the IRI, annual 285 million lire was prolonged until 1975. At the same time, the existing allocation of three quarters of the circulation tax and a part of the profit of the Bank of Issue for the IRI expired.

According to the agreement, the transference referred to above as (d) was not permitted to be withdrawn, so that through this transference it was considered that the debt of the IRI was defunct and therefore the debt account to

the Bank of Issue was eliminated from the IRI's balance sheet.

With this convention between the IRI and the Bank of Issue, the debt of *Comit* was also settled. The bills signed by this bank and IRI, amounted 300 million lire were returned to the IRI and the rest, about 500 million lire converted to loans secured by the IRI's shareholdings.

Through these transactions, the "bank relief" accounts which had pressed heavily on the Bank of Issue and the Treasury from 1920s downward and restrained the IRI's activity were settled. Consequently the IRI did not need to make haste in sale of the equity bought from banks, and therefore became able to choose an alternative business policy anew.

#### IV. Establishment of the financial-industrial supervisory system by the State

##### 1. Enactment of the 1936 Bank Law

The banking reform planned and executed by the IRI during 1933 and 1936 were applied with the principle that collecting saving from the public and supplying credit were functions of public interests. It aimed to put the financial sector under firm and efficient supervision<sup>35)</sup>. This took place against the background of the perception that there was no one but the State who could protect the small savings scattered all



over the country. Additionally as the result of the invasion of Ethiopia in October 1935, Italy was the target of economic sanction by the League of Nations in November and that the foreign credits had dropped off. Then State control was required in order to allocate the funds more effectively.

From the beginning of 1935, the Minister of Finance convened the representatives of the Bank of Issue, the IRI, the Minister of Cooperations, the Agricultural Credit Union and the Bank of Naples to exchange the private opinions on the banking problems.

On this occasion they agreed on the following points superior to a conflict of opinions: 1) the deposit-taking financial institutions must be limited to the commercial bank operations; 2) an integrated supervisory system was indispensable; 3) the reciprocal dependent relationships between banks were to be dissolved; 4) the activities of the medium- and long-term financial institutions ought to increase; 5) the commercial banks were redundant and so consolidation and disposal was required<sup>36)</sup>.

Following such hearing, the IRI made reports on the scheme of the financial reform and the financial supervisory organizations in November 1935 and in January 1936. Consequently in February, it completed the study on financial reform and finally in March 12, "1936 Banking Law" was published as a decree.

It enacted firstly that the separation of bank and industry through making a clear distinction between the industrial credit operations and commercial banking ones. Concerning The Big Three Banks, 90 percent of their stocks were held by the IRI, were determined to be kept under the control of the State through the continuance of the IRI's stock holdings. These banks were named the "banks of national interests" because of their outstanding nationwide scale and importance, and set in the category of "a public law institution" (*istituto per diritto pubblico*). It was also provided that the stock of these institutions should be subscribed and those not registered by the name of citizens or companies of Italian nationality were to be refunded.

The supervision of the deposit-taking financial institutions strengthened. Besides it grew obliged to form the guarantee fund accumulated by their stock, government bonds and rewards in order to raise bank directors' consciousness of management accountability. In addition employees of the governmental and semipublic organizations were prohibited from the concurrent holding of the post of administrator in the financial institutions.

Secondly, to increase efficiency the medium- and long-term finance sector was also targeted with the aim of eliminating duplication and therefore became concentrated into simply one

public institution. For this reason the Industrial Finance Section of the IRI was abolished.

Thirdly, the supervisory policy for all financial institutions was integrated and empowered with the due authority. Formerly supervisory powers were spread among the various ministries classified by the bank categories and so the supervisory policy was not integrated. By the 1936 Banking Law, the “Supervisory Agency for protecting savings and financial business” was founded and responsible for the supervision of all financial institutions. This agency was subordinate to the Inter-ministerial Committee which was presided by Prime Minister and composed by the Ministers of Finance, Agriculture, Cooperations, and the Governor of the Bank of Issue.

The Supervisory Agency was responsible to fix the loan-to-deposit ratio, interest rate, commission, capital-to-asset ratio, financial accounting standards and so on. It was also vested with strengthened authority in the examination of banks which were obliged to submit minutes of directory, financial statements, list of borrowers and other data which would serve for the investigations. The agency was approved to direct each bank sound management, take administrative disciplinary action, instruct banks to close branch and so on.

Fourth, for delegating the command

of such Agency to the governor of the Bank of Issue, namely Bank of Italy was also reorganized. Before this, it was a joint-stock company which operated the credit service and competed with the other banks subordinated to its supervision. By the 1936 Banking Law, it became a “public law institution” and refunded to individual shareholders. For its managerial posts the officials from public law institutions and credit cooperations were directly nominated. Although the Minister of Finance was responsible to determine the public discount rate, on the whole the Bank of Issue’s autonomy and independence from the government were increased<sup>37)</sup>.

To sum up, the 1936 Banking Law gave an integrated supervisor and universal discipline for the Italian financial system. Through these actions, it “secured the complete control by the State over the credit sector which was of great importance to the economy<sup>38)</sup>”. It realized the decisive and radical reform considered indispensable to prevent the relapse of a financial crisis.

## 2. The IRI’s transformation to a permanent institution

Eleven days after the issue of 1936 Banking Law, Premier Mussolini proclaimed that the State would administer the industrial sectors related to the national defense and autarky and if necessary it could expand its

investment. Such state intervention policy took place against the background of anemic capital spending trends in Italy during 1936 to 1937. It was because the instability of the conditions of currency, tariff and taxation increased management risk and therefore private investors lost their appetite for investment. Besides introducing the latest technology it necessitated huge capital which could be accommodated by only big banks, but they were forbidden to supply long-term credits.

“In the period of Great Depression, unemployment problem became more serious in the advanced countries. To cope with this problem, they carried out the public intervention to investment. (J.M.Keynes called it ‘socialization of the investment’.) Keynes considered the indirect state intervention by fiscal and monetary policy, but in Italy it was emphasized as the ‘socializing investment’ policy through direct intervention by the government.<sup>39)</sup>” In Italy the State intervened in the economy through the government-run companies and then semi-government-run companies. But these measures inevitably expanded Italy’s deficit expenditure, and antipathy toward the state protection and preference for such companies and credibility gap for window-dressing settlement existed in the public opinion.

Opposite to the measures above mentioned, the IRI produced the new mode of

state intervention through the practice of corporate administration for 4 years from its foundation. In other words, the IRI purchased nonperforming loans of debt-ridden corporate borrowers in order to revitalize the major banks. Thereby it took over the management rights to help the companies get back on their feet. It provided the restructuring plans and promoted the industrial revitalization both of individual companies and of each sector. The IRI administered the companies by strict management policy in financial accountings, paying dividend and paying tax etc. They retained their stock company status and were not given preference in either taxation or in administrative direction, competed irrespectively with other private companies in the market. Such mode of corporate administration highly appreciated because it was considered to make economic coordination by State compatible with sound management based on market principle<sup>40)</sup>.

And as we have already seen in former chapter, the IRI decided to raise funds indispensable for the industrial sectors by bond issue in the market. Such debt securities carried a government guarantee so as to make the investment by the fiscal investment fund and financial institutions possible. The IRI-bonds were speedily purchased by the public and financial institutions. And furthermore it issued the convertible

bond for the first time in Italy and resulted in success. It was an experiment in encouraging stock ownership by individual investors. It aimed to create a long-term finance circuit which would compensate the lack of private initiatives by leading the small saving to the capital investment without giving any loss neither to the financial institutions nor to the savers.

It was considered that making the most use of the experience of the IRI in corporate administration and fund procurement in the bond market should contribute to the efficient state intervention<sup>41)</sup>. And it was also considered that keeping huge stock holdings of IRI in the key industries such as ship-building, marine, electricity, chemistry and steel thereby maintaining the state control should be well-timed and consistent with new policy direction. For these reasons IRI modified stock holding policy from sales to keep and increase possession. And consequently it was transformed into a permanent institution by the decree in June 24, 1937.

### 3. Organization structure of the IRI as a permanent institution<sup>42)</sup>

After it was made permanent, the IRI's structure was reorganized. Remember our earlier discussion in chapter I of its activity of selling the purchased assets with relatively high

credit risk. The Institute initially set aside 690 million lire reserves against them but such reserves had never been drawn against and the activity brought rather a profit of 130 million lire. What's more, companies revitalized by the IRI improved their business performance and thereby the IRI yielded unrealized gain in its stock portfolios. Extracting 180 million lire from this surplus value and putting together the former two accounts, namely reserves and profit, the total of one billion lire were regarded as a disposable fund and formed the capital of this permanent institution.

It was assigned to administrate the stock holdings in the uniform criteria in harmony with the national economic policy. And the former task, selling such assets was to advance only in the sector in which it was considered unnecessary to keep the state direct holdings.

It was also authorized to expand the stock holdings in the sector related to national defense and autarky up to the amount of its capital. Besides the IRI was given a freehand in carrying out appropriate transactions such as financing a minimum twenty year government-guaranteed bond issue (both bearer bond and registered bond) to accomplish the task of promoting the economic autarky and effective use of resources (Article 4).

The board of directors was also reorganized with participating officials belonging to the ministries and

government offices related to the industrial and financial policy management<sup>43)</sup>. In addition, the executive committee and the consultative committee were newly set up inside the IRI. The latter was assigned to decide its future action plan in industrial sector, examine the reorganization and production activities of affiliated companies. In this committee the delegates of both confederation of industrialists (*Confindustria*) and that of labor (*CGIL*) participated. And it properly called the experts on the matter under discussion, technicians and managers of the affiliated companies concerned to the problem. Such composition of the board of directors and Consultative committee aimed the cooperation between the IRI, other government organizations, private companies, labor and management, and thereby make it possible for the IRI to deal with the big and complicated problems to reach target of economic policy.

Furthermore it was determined that the IRI assigned 10 percent of its current revenue to the training for technicians. This program was open for the whole country as well as the IRI's affiliated companies and aimed to bring along experts with enriched career to shoulder the corporate management in future.

#### 4. Corporate administration system by the IRI<sup>44)</sup>

In the previous section we have considered the structural changes of the IRI after becoming a permanent institution. It seems that the intervention of government and outside interests in the its management organization had increased through permanization. Hereafter we will discuss how the Institute managed the companies under its control.

As we referred to in chapter I-2-(3), the it ensured such companies maintained the status of joint-stock company, never running them directly but participated in the management as a massive stockholder. This system was considered favorable because in the first place it could minimize the intervention costs; second, make managers conscious of their responsibility; thirdly prepare for the future privatization; and fourthly avoid introducing the bureaucratic decision making system and keep the flexibility and nimbleness in corporate management.

After becoming a permanent institution, the IRI maintained the above mentioned principle. It directed audits to measure the business efficiency of each companies and kept contact with corporate managers individually to study trends and give advice regarding the problems that they were encountering.

The IRI held fast to its policy of not

participating in corporate decision making and left it to the managers' absolute responsibility. For this reason, the IRI never sent any notices to companies nor did the companies ever submit the data related to their production to the IRI. Similar to other companies, the IRI's affiliate companies submitted such data to a certain corporative organization which had jurisdiction over that company. And consequently the data were submitted by that cooperative organization to a certain national supervisory organization to be used for directing the companies.

On the other hand, for some industrial sectors which were considered to require the whole sectorial reorganization and administration, the IRI instituted another mode of corporate administration such as the pyramid system of the "public entrepreneur". It founded the financial holding companies according to the sector of activity: *S.T.E.T.* for the telephone sector founded in 1934, *Finmare* for the navigation sector in 1936 and *Finsider* for the steel sector in 1937. They were more than 50 percent capitalized by the IRI and responsible for the administration of the stock-holdings of each sector, the coordination of companies under its control and their financial support. Those holding companies raised fund in the market through issuing the government-secured convertible bonds.

This method aimed to guide the personal saving to industrial investment and cultivate individual stock investors. At the same time, by limiting the convertibility to right below 50% of stocks, this system aimed to maintain the state control over such industry. It was designed on the basis of the IRI's original intention to keep the companies from falling prey to monopolistic control by the big industrial groups or the big banks again.

There was one more model of the IRI's corporate administration. This was to achieve the autarky plan in industrial production which was short of private initiative: the IRI established a company with a private industrial group and together managed it. As we have seen above the IRI generated various intervention methods through flexible ideas which were carried out in practice.

## Epilogue

Let us summarize the main points of the IRI's industrial reconstruction activities that we have been discussing. To reiterate, it was founded as a temporary institution with the target of revitalization and reorganization of banks and companies damaged by the Great Depression, and collection of bail-out credit previously made by the Bank of Issue.

The IRI was expected to do the tasks

roughly classified as follows: 1) to support those companies' overcoming the long-term finance crisis and to resolve the associated severe unemployment problem; 2) to collect the Bank of Issue's relief credit corresponding to one half of the amount of currency in circulation therefore making the currency sound and reducing it; 3) to improve the quality of the assets of the commercial banks, especially The Big Three which suffered asset deterioration and tightness of liquidity, and to bring them back to the short-term credit operation. The IRI considered that to accomplish these tasks it would be indispensable to carry out drastic industrial rehabilitation programs and financial reforms.

Actually it purchased a bunch of loans and equities of industrial companies from The Big Three. Thereby those debtor companies were emancipated from the control of the big banks and after revitalization and reorganization examined and executed by the IRI returned to the responsibility of managers who were acquainted with such industry. Up to 1936, it completed the rehabilitation programs for such companies and their management was almost stabilized. Through selling the purchased assets it realized 4,560 million lire income by 1938.

The Institute put first priority to the collection of the Bank of Issue's bail-out credit and used more than 1,600 million

lire of its gains to repay the Bank by 1936. On the other hand the IRI extended the repayment of those debts resulting from asset purchase from The Big Three. That was because the IRI intended to make a control mechanism of financing activities of such banks. It was designed that the IRI supply them the minimum essential liquidity through its payment of annual interest on such debts and upon request it would accommodate extraordinary loans for them.

The reorganization policy of the banking sector aimed to limit the deposit-taking institutions to short-term credit operations and to dissolve the close ties between banks and industries, and thereby prevent the recurrence of the financial crisis. Such reorganization was almost completed by the end of 1935.

On the books of the IRI, as the counterpart account of the Bank of Issue's bail-out credit it formed the floating-interest-bearing secured debt. Such debt should be liquidated by appropriating the Ministry of Finance's budget immediately. But contrary to the IRI's expectations, this procedure was postponed during 1935. And worse unforeseen circumstances such as the rise of the official discount rate threatened to damage the IRI and Comit's management by increasing their expenses.

Therefore the big banks were pressed for funds and asked the Bank of Issue and the Ministry of Finance for help.

Responding to such calls, the Bank carried out de facto bail out operations again. So there was a possibility that these operations could destroy the IRI's remedy for big banks which was under way along with the policy of restricting themselves as short-term credit institution without depending on the Treasury nor the Bank of Issue. Then the IRI needed more decided regulation: During the second half of 1935 the technocrats of the IRI drafted the legislation to be the 1936 Banking Law. It formed a supervisory system more strict and applicable for whole finance sector, eliminated the private interests from the Bank of Issue and nationalized The Big Three. It prohibited banks from giving long-term loans to industrial companies and from acquiring their shares. Thereby it aimed to make a substantial change of the old customs, such as compensation by state contribution for the banks' failures.

At the end of 1936, the IRI's debt for the Bank of Issue had been written off by its appropriation to the budget of Ministry of Finance.

In the next year, the IRI was transformed into a permanent institution. This was due to the fact that the government was launching the autarky policy and it was considered opportune to keep the IRI's shareholdings to facilitate the state intervention in industry. In other words,

since the IRI's corporate administration model was recognized to be effective as *the third way* of the state intervention, this institute was determined to continue as a state holding company.

Its principle of corporate management was to boost the efficiency of the individual companies and the whole sector through respecting the market competition and enabling state control without increasing the fiscal burdens on taxpayers. The IRI and companies under its control were ordered by rigid business plans and earning targets.

The corporate revitalization carried out by the IRI was successful and even made a profit. On the other hand, those for The Big Three made slow progress because it was not easy for them to convert from mixed banks to commercial banks. But by the end of 1938 they doubled their amount of short-term loans by tapping new markets. The amount of deposits also improved again. They resumed paying dividends at a rather low rate of 4% in 1937 after having missed payments for 3 years. The IRI repaid 3 billion lire of its debts for The Big Three by 1940 and kept paying 300 million lire of annual interest on 7 billion lire of the rest debt<sup>45)</sup>. The banks used such interest income to payment of interests for their depositors in turn.

The better business performance of the corporations and banks gave IRI more dividend income. The government



allocated the Institute 285 million lire of annual subsidy until 1971 to liquidate its bail-out debt account, but since 65 per cent of the its profit would be paid to the Treasury, the IRI's successful performance resulted in the reduction of the fiscal burden.

So far we have examined the state control system over companies and banks, and have seen that the system was not born haphazardly through stopgap measures for the crisis in 1930s, but was as a result of the IRI's deliberation. It was created with the aim of terminating the old custom of public rescue which existed before the establishment of the IRI by which the State had compensated the banks' failures with credit creation. It aimed to dissolve the conflict of interests between bank and industry, and prevent the regeneration of a collusive relationship and homage between them.

Because of limited space we could not discuss completely here, but through such control system the IRI competed with the large industrial groups to maintain the smooth performance of the market mechanism. It functioned as an interrupter of the monopoly during the period before 1990 when Italy did not have the antitrust law.

It raised funds through issuing government secured bonds and convertible bonds and cultivated individual investors who had previously

evaded taking risks in investment and accommodated the industrial companies which were short private investment. Additionally, the IRI performed as a planner of economic policy and offered skill training programs for raising the level of expertise in the industrial sectors.

The Institute and its state holding system continued even after the post-war period and characterized the Italian economic system together with the 1936 Banking Law for more than half century. These facts reveal that the Italian economy needed such state intervention system created by the IRI in order to control the state deficit and credit creation, allocate efficiently the fund and resources along the scheme of economic policy and to keep the market competition.

Such system of State ownership had taken active part in the rapid growth and development of southern Italy. But it had fallen into a deficit in the 1970s and in the 1980s the bad debt disposal and rationalization had been carried out by Romano Prodi, the then President of the IRI and later the Premier of Italy and Chairman of the EU Commission. And finally in 2000 it had been dissolved and made a big wave of reorganization of Italian economy. We would discuss various dramas of its life in other articles.

- 1) Its shareholding extended wide-ranging productive activities: from steel, mechanical industry, chemistry, electric power generation, textile, shipbuilding, aviation, telephone, cinematograph, hotel, etc. Amatori, Franco, "IRI: From Industrial Savior to Industrial Group (1933-1956)," in *Annali di storia dell'impresa*, vol.3, pp.213-219, p.214. Maraffi, Mareo, *Politica ed economia in Italia; La vicende dell'impresa pubblica dagli anni trenta agli anni cinquanta*, Il Mulino, Bologna 1990, tab.2.1, p.63
- 2) Many economic historians contributed on the theme that the reason of the birth of the IRI. We can find a piece of summary of the historiography in Amatori, Franco (2000), "Chapter 6: Beyond State and Market. Italy's Futile Search for a Third Way," in Pier Toninelli ed., *The Rise and Fall of State-Owned Enterprise in the Western World*, Cambridge University Press. pp.128-156.
- 3) On this theme, refer Gianni Toniolo (1980), *L'economia dell'Italia fascista*, Laterza, Roma-Bari; Pierluigi Ciocca and Gianni Toniolo, eds. (1976), *L'economia italiana nel periodo fascista*, Il Mulino, Bologna; Ernesto Cianci (1977), *Nascita dello Stato imprenditore in Italia*, Mursia, Milan; Giuseppe Guarino and Gianni Toniolo eds. (1993), *La Banca d'Italia e il sistema bancario: 1919-1936*, Laterza, Bari-Roma. and Kanna Ito (1999), "The Birth of I.R.I. and the Financial Reforms in Interwar Italy --From "Rescue" to "Cure" of the Mixed Banks--", *Tochiseidoshigaku (The Journal of Political Economy and Economic History)*, XLI-no.2, 1999. (in Japanese)
- 4) The Bank of Issue accommodated the major banks totally about 7,382 million lire until the end of 1932. At that time its credit for "loan, discount" amounted to 8,600 million lire and the circulation amounted to 13,600 million lire.
- 5) Archivio Storico Elettronico IRI (ASEI) - nera- Istituti bancari (IB) -s2.7-f1.1- "Studio sui problemi del risanamento bancario," 5/12/1933, p.61.
- 6) ASEI- nera-IRI - Pratiche generali (PG) Relazioni e notizie IRI (RN) -Fascicolo I° (1933-1943) (f.I° ) s2.4-f1.1-p60 - "Le funzioni e l'attività dell'IRI", 24/1/1940.
- 7) ASEI- nera, Sezione smobilizzo industrizle (ssi). S2.3-f2-p4- "Relazione del Direttore Generale sul rendiconto e sul progetto di bilancio al 31 dicembre 1934-XIII", 22/03/1935, p.2.
- 8) ASEI-ssi- "Relazione del Direttore Generale sul progetto di bilancio al 31 dicembre 1935-XIV e sul rendiconto dell'annata", 15/03/1936, p.3.
- 9) cf. Piluso, Giandomenico (1992) "Un centauro metà pubblico e metà private. La Bastogi da Alberto Beneduce a Mediobanca (1926-1969)." *Annali della Fondazione Luigi Einaudi*, vol. XXVI, pp. 347-393.
- 10) Op.cit. "Studio sui problemi, del risanamento bancario," pp.59-63. ,
- 11) ASEI-nera-IB, s2.7-f1-p12- "Relazione riservata sugli schemi di provvedimenti intesi ad attuare la riforma bancaria e, in genere, creditizia," 3/1/1936; Ministero dell'Industria e del Commercio, *L'Istituto per la Ricostruzione Industriale -I.R.I.-*, vol.III, Unione Tipografica, 1956. Allegato 3.
- 12) About the revitalization through creating the sectorial financial holding company, see Kanna Ito (2001), "Industrial Reforms during the Depression in Italy: Rethinking the Attempt of the I.R.I. to Redistribute and Protect Savings," *Tochiseidoshigaku (The Journal of Political Economy and Economic History)*, XLIII- no.4., (in Japanese).
- 13) About the reselling activities, this article

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- was mainly built on the descriptions of the minutes of the board of directors of Industrial Liquidation Section of the IRI, the financial reports of every year, and ASEI-nera, IRI-PG-RN- f.I° -S2.4-f1.1-p42 “IRI. Riassunto della relazione del Consiglio sul bilancio al 31.12.1936-XV. Note sui compiti future dell’IRI”, 19/5/1937; s2.4-f1.1-p60 - “Le funzioni e l’attività dell’IRI”, 24/1/1940.
- 14) In the negotiation of cession of the revitalized companies, the IRI placed great importance on the condition that the candidates for purchase were not relying on the bank credit and strictly observed this principle. ASEI-ssi- “Relazione del Direttore Generale sul progetto di bilancio al 31 dicembre 1935-XIV e sul rendiconto dell’annata”, 15/03/1936, p.3.
- 15) Those bills which the Bank of Issue had discounted for funding banks turned out to be dead assets. ASEI-nera-PG-Finanza IRI (FI) s2.4-f2-plo “Studio sul regolamento della situazione debitoria dell’ IRI con particolare riguardo ai rapporti con la BI”, 5/7/1934, p.5
- 16) Op.cit. “Relazione di bilancio-1935,” (n.8) pp.11-12.
- 17) ASEI- nera-IB- s2.7-f1-p5 - “Studio per la sistemazione della Banca Commerciale Italiana” 5/3/1934, p.33.
- 18) ASEI-nera-IB-s2.7-fl-p9- “La situazione delle grandi banche italiane di credito ordinario a due anni dal loro risanamento”, 3/4/1936, p.3.
- 19) ibid. p.15; ASEI-nera-IB-Banca Commerciale italiana- s2.7-f3-p17-Relazione del prof. Ippolito sulle variazioni finanziarie per il periodo 1 gennaio 1934 - 30 giugno 1935, 2/1936, p.37.
- 20) ibid. p55.
- 21) ASEI-nera-PG-FI -s2.4-f2-p35- “Il metodo da adottare per la copertura degli impegni che lo stato ha assunto nei riguardi delle banche a seguito del risanamento bancario” 12/1935, pp.4-5.
- 22) op. cit. ASEI-ssi- “Relazione del Direttore Generale sul progetto di bilancio al 31 dicembre 1935-XIV e sul rendiconto dell’annata”, 15/03/1936, pp.4-5.
- 23) The account of “Advance to the banks” (*Anticipazione a Banche*) summed up to 490 million lire at the end of 1934.
- 24) This annual state subsidy, 9 billion lire in total, would make the IRI possible to collect more than 5,800 million lire in the market by issuing the bond with 4.5% of interest. The IRI suggested that “the possibility of intervene on the capital market through the discount of such state subsidy will be another tool in the State’s hands to control the expansion of credit and influence the fiduciary circulation and price mechanism.” Op.cit. “Studio sui risanamento bancario,” (n.5) pp.77-8.
- 25) About 677 million lire of national bonds possessed by the IRI were inherited from the Institute for Liquidation which had invested its reserve funds in such a lot of bonds and transferred them to the Bank of Italy as a mortgage of its debt to the Bank. Consequently it was succeeded by the IRI.
- 26) Italy participated in the “Gold Block” system in July 1933, but its gold reserve began to decrease from the end of same year. The government tightened restrictions on foreign exchange trading by inhibiting the bond purchase in the foreign market from May 1934, but it resulted ineffective in protecting its gold reserve which continued to shrink. In December 8, 1934, the currency convertibility had been suspended in effect. Then in May 1935, the requirement of maintaining the gold reserves at least 40% of the total amount of the bank note circulation

- and other debts on sight came to a halt. The official discount rate which had been held down to 3% in December 1933, was pulled up to 4% at the end of 1934 and then to 4.5% in August 1935, and finally to 5% in next month in order to reduce the bank note circulation in corresponding with contraction of gold reserve.
- 27) op. cit. "The Accounting Report on 1935," (n.8), p.34.
- 28) op. cit. "La situazione delle grandi banche," 03/04/1936 (n.18), pp.9-10.
- 29) op. cit. "The Accounting Report on 1935," (n.8), p.13.
- 30) op. cit. "Il metodo da adottare," 12/1935 (n.21).
- 31) ASEI-nera-IB-s2.7-f1-p10 "Osservazioni sulle partecipazioni industriali dell'IRI e sull'organizzazione di un controllo bancario nazionale," 18/11/1935.
- 32) *Economist*, March 30, 1935.
- 33) Archivio centrale dello Stato (ACS), Archivio storico dell'Iri (AsIri), nera-ssi, "Verbali Consiglio di Amministrazione, N.29 - adunanza del 12 febbraio 1937-XI" pp.3-13; Ministero del Industria e del Commercio, *op.cit.*, pp.9-22.
- 34) Soon after its foundation, IRI raised 1 billion lire through issuing the "IRI special series" bond with government guarantee sold by Crediop by using the state subsidy (*stanziamento dello Stato*). And such income was used to repayment to the Bank of Issue. In addition IRI got about 800 million lire through the repurchase agreement transaction and disposal of purchased credits. The IRI made Comit used 600 million lire of this income to repayment of its debt to the Bank of Issue. op. cit. "Studio sul regolamento," (n.15), pp.5-6.
- 35) ASEI-nera.PG-RN- f.I° : S2.4-f1.1-p30.6-  
 "Senato del Regno. Dall'esposizione finanziaria di S.E.il Ministro per le Finanze Thaon Di Revel," -23 maggio 1936-XIV. The "principle of public interest" was provided in the first article of the 1936 Banking Law.
- 36) ASEI-nera-IB-Varie-Riforma del credito-s2.7-f1.24-p2 - "Verbale della riunione del 12 aprile 1935 tra Beneduce, Bianchini, Azzolini, Frignani" 24/5/1935. The number of financial institutions decreased from 1927 to 1936: particularly number of the Institutions for ordinary credit (commercial banks) shranked from 427 to 246, the people's banks from 662 to 447, the saving banks from 141 to 92. Salvatore La Francesca, *Storia del sistema bancario italiano*, Il Mulino, 2004, p.189.
- 37) Ciocca e Toniolo a cura di, *Storia economica d'Italia*, 2. Annali, Laterza, 1999, p.299.
- 38) ASEI-nera,PG-RN- f.I° -S2.4-f1.1-p42- "IRI. Riassunto della relazione del Consiglio sul bilancio al 31.12.1936-XV. Note sui compiti future dell'IRI", 19/5/1937, p.6.
- 39) Yoshio, Asai (1999), "Chapter 5: Financial System" in Yasuo, Baba and Norio, Okazawa eds, *The Italian Economy*, Waseda University Press, p.92. (in Japanese).
- 40) ACS, AsIri -nera, cas.47, "La posizione dell'I.R.I. nel problema industriale italiano," p.8.
- 41) op.cit. "Osservazioni sulle partecipazioni industriali dell'IRI." (n.31).
- 42) The description of this section is based on ASEI-nera-IRI-Documenti e notizie riguardanti l'IRI fino al 1942- S2.4-f1.1-p30.11- "Senato del Regno. Conversione in legge R.Decreto Legge 24 giugno 1937.CV, n.905- Relazione della Commissione di Finanza (Relatore Sen.Broglià). Atti parlamentari-sessione 1934-38. Documento n.2184 A, (presentato il 28/3/1938-XVI)" and the Articles of the IRI of 1937.
- 43) The board of directors was consisted by the

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general directors of state property and of state-owned movable property in the Ministry of Finance, the general accountant of the State, the general director of Industry in the Ministry of Corporations, a delegate of the General Commissioner for war production, a delegate of the Undersecretary for exchange and currency, and so on. (Article 7)

44) ASEI-nera-IRI -PG-RN- f.I° :s2.4-f1.1-p60-

“Le funzioni e l’attività dell’IRI,” 1940/1/24.

45) The IRI repayed to the Big Three 1,712 million lire during 1934-36, 4,331 million lire during 1937-42, and 3,651 million lire at the end of 1953 when their conventions had expired.

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