State and banks in 20th century Europe

In the European history of the 20th century, the relationships between State and banks have been crucial due to three main reasons:

- the unavoidable collaboration in the governance of financial and monetary aspects
- the role played by banks in the process of economic development
- the social influence of bankers and financial élites

Governments have intervened several times to adjust, control/own, or support banks.

These interventions have not been restricted to the stages of collapse - just remember the bank nationalizations in France after the Second World War - but they certainly have been larger and more frequent in crisis periods.

National authorities acted to contain panic, to restore confidence, to mitigate the effects of banking crises on the economic system ... in a word to protect the market.

The crisis of 1929: a turning point

In the Usa and in Europe the Great crisis put an end to the phase of financial deregulation of the so-called security capitalism, and inaugurated an era of stronger control of the entire financial market.

After the great crisis of 1929 the relationships between State and banks became more binding and narrower:

- Bank and industrial bailouts
- Creation of safety valves to disinvest bank assets
- New regulation of financial markets

From the Thirties onwards, most of capitalist countries put in place systems of strict, detailed legislation to regulate banking activity, submitted to the control of central banks and national authorities:

- **Europe**: New banking laws in Switzerland, Belgium and Germany (1934), Italy (1936), France (1942)
- **Usa**: Glass Stegall Act (1933), Banking Act (1935)

The Italian Experience

The *Belle Époque*: universal banks and economic development

In Italy, during the *Belle Époque,* new universal banks had played a leading role in economic development, supporting the growth of sectors typical of the so-called second industrial revolution (electric, chemical, steel, engineering).

They had represented a "substitution factor" à la Gerschenkron.

Close interdependence between banks and industry, "Siamese twins"

The Italian Experience

The Twenties: the bank turmoil…

In the Twenties, in the context of financial difficulties inherited from the First World War, there had been a phase of ***bank turmoil*** due to :

- Lack of specific rules for banking sector (bank=commercial firm)
- Plurality of monetary issuing institutions
- Expanding credit policy to support the productive conversion and to cope with unemployment
- Tax system encouraging the use of bank credit by manufacturing companies
- Bank raids and defaults (BIS, BAI)

The Twenties: precocious bailouts and a first banking law

The relevance of universal banks helps to explain a precocious government intervention:

- Bailouts of banks (Banco di Roma)

- New agencies dedicated to the support of banks and to disinvest their securities portfolios, overcharged of industrial equities (CSVI, IL)

- Banking Act 1926:
  - Bank of Italy exclusive issuing
  - regulation of banking activity (the ratio between capital, reserves and deposits)
  - register for bank firms
  - minimum size for banks > concentration process

After 1929: the State banker and entrepreneur

After the crisis, the Italian government realised a more massive intervention that changed deeply the pattern of Italian capitalism with long-term effects:

New rescue agencies: IMI (1931), IRI (1933-37).

IRI took over the three Italian major universal banks together with their large industrial holdings, with the dual purpose of rehabilitating the distressed banks under its control and of cutting the ties between banks and manufacturing corporations.

New Banking Law (1936) to establish a system able to avoid future crisis:

- Credit and savings considered as a "public good" to protect
- Separation and specialization of credit functions
- Strict regulation of banking business (control of reserves, interest rates, capital flows).
- Supervisory agencies

Continuity and Stability after World War II

After World War II, notwithstanding the huge political and institutional change, in the banking sector there was a marked **continuity** of rules, men, economic cultures and practices.

The dirigistic approach of the 1936 Banking Law was confirmed during the debate for the new Constitutional Law.

The **stability** of the financial and monetary system was considered a cornerstone, both at a macroeconomic and at a microeconomic level.

A strictly controlled framework for banking activity

Rules, institutions and behaviours concur to create a framework in which stability takes precedence over competition.

Banks are submitted to strict rules about:

- Separation long/short term credit
- Specialization (by sector and by category)
- Localisation
- Size

Authorities have jurisdiction over:

- Creation of new banks and branches, M&A
- Interest rates
- Mandatory reserve funds
- Credit supply
- Onsite supervision

The strategies of Italian banks: personnel as a competitive factor

But how have Italian banks operated in that context?

Which strategies have they enacted to compete in a market with limited opportunities of competition?

The real instrument of competition relies on the human resources.

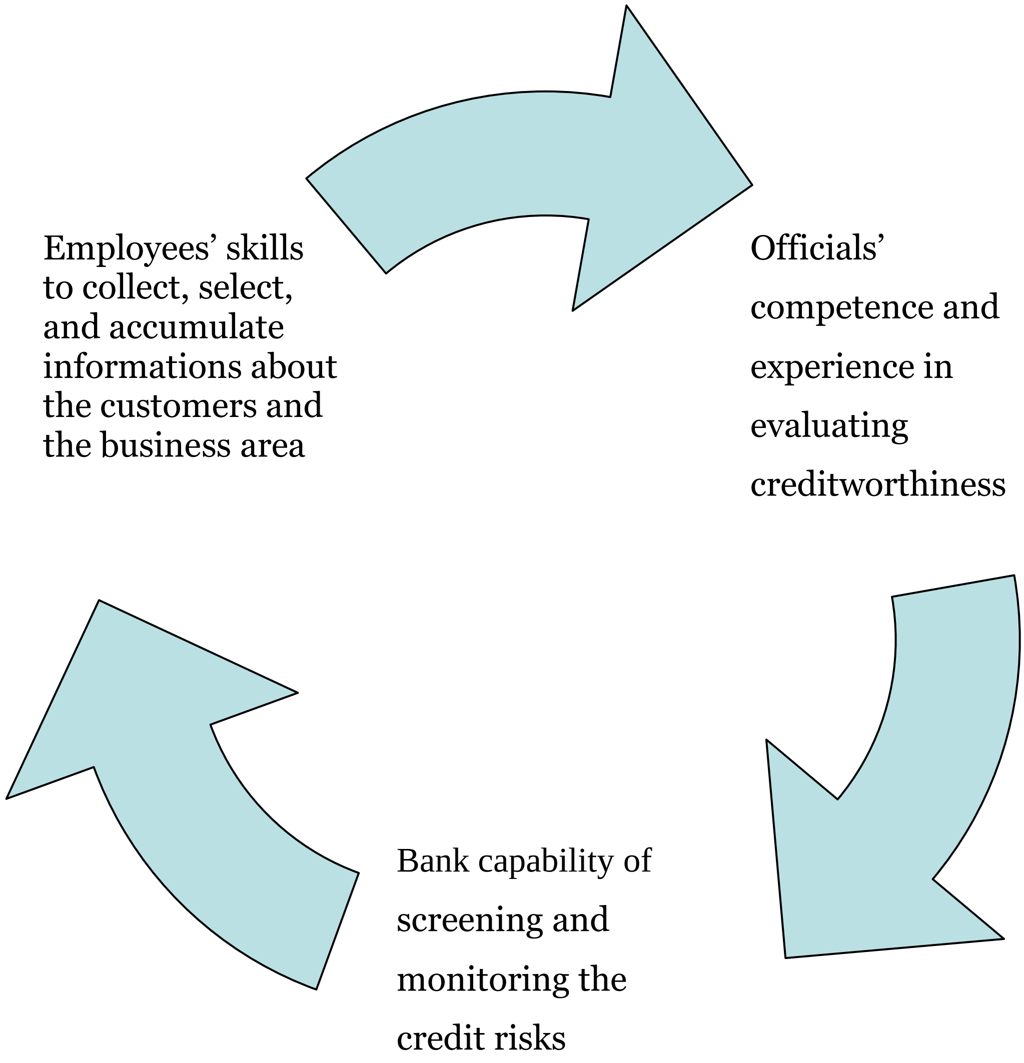
Some of the key elements of banking:

- Reputation
- Information
- Confidence
- Risk management

rest upon the competence and the reliability of managers and employees

Managing credit risk: a primary function for commercial banks

A chain of functions that explains the relevant role of personnel in realizing a primary function for banks.



Discovering the intangibles

Banks recognize the role of “intangibles” long before other typologies of firms and even before their theoretical formalization.

Three elements of “intangibles” are crucial for banking activity:

1. **<u>relational capital</u>**: reputation and relationships with customers and stakeholders (the most directly related to the performance of the bank)

2. **<u>organizational capital</u>**: shared know-how and relationships within the bank

3. **<u>human capital</u>**: depending on the competences and the skills of the staff

A new research on human factor in banking

The crucial functions accomplished by the personnel

help to explain the most significant Human Resources policies adopted by banks.

My research aims to illustrate HR policies in 1945-1960, focusing on:

- <u>Quantitative elements</u>:
  - wages and social security
  - severance indemnities
  - fringe benefits for employees and their families
  - special rewards and incentives for overcoming cartelization

- <u>Qualitative elements</u>:
  - social status of employees
  - job stability
  - training and career
  - paternalism
  - conciliatory attitude in labor relations

The sources

The research is based on the original sources looked through the most important Italian banks' archives:

- Banca Commerciale Italiana
- Credito Italiano
- Banco di Roma
- Banca Nazionale del Lavoro
- Monte dei Paschi di Siena

A highly representative sample:

Italian Banks 1955	Branches (% on total)	Deposits (% on total)	Loans (% on total)
IRI Banks (B.i.n.) (BCI, CI, BdR)	19%	29%	31%
Banks under public law (BNL, Monte Paschi Siena)	17%	20%	21%
Savings, Cooperative and Mutual Banks	40%	30%	24%
Ordinary banks	24%	21%	24%