

**Measuring bank failures in interwar Italy:  
sources and methods for a comparative  
account**

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# Measuring bank failures in interwar Italy: sources and methods for a comparative account

## Abstract

This paper gives a quantitative and geographical description of bank failures in Italy in the interwar period. It builds the first all-embracing account of Italian commercial banks filing for bankruptcy between July 1925 and March 1936. Using both secondary sources and primary documents from the archives of banking supervisors preserved at the Bank of Italy and the *Archivio Centrale dello Stato* in Rome, I create a dataset that provides future scholars with an accurate reconstruction of the magnitude, timing, and geography of outright bank failures. Using this evidence, I argue that the distress of small and medium banks was not negligible, that Italian bank failures were endemic and widespread throughout the period, and that there are important regional variations. At least in this last respect, this work makes one concrete contribution to the existing literature: it allows the first comparative assessment of regional trends, showing that bank failures in interwar Italy were more severe in the South, backing existing qualitative narratives with hard facts. However, this research only lays a foundation and raise more questions than it answers, spelling out an agenda for future research.

Keywords: bank failures, bankruptcy, Italian banking history, Great Depression

JEL Codes: G01, G21, G33, N24

*‘Quello [dei dissesti] delle banche locali è un capitolo della nostra storia bancaria poco conosciuto e sostanzialmente sottovalutato. Capitolo estremamente ampio, che richiederebbe una ricerca al di là delle forze di un singolo studioso’*

Antonio Confalonieri (1994), p.287

## 1 Introduction

In 1994, writing his history of the distress of Credito Italiano and Banca Commerciale between the wars, Antonio Confalonieri stressed that the distress of local banks was an important but overlooked episode in Italian banking history. Since then, the history of many individual banks, as well as regional banking systems, has been studied, but an all-embracing assessment of the experience of small and medium banks in the period is yet to be written. Filling this gap is not the goal of this paper: as Confalonieri stressed, this goes beyond the capability of a single scholar. Instead, this paper seeks to provide a first account that measures the phenomenon and surveys the sources available for the purpose, in order to supply future scholarship with some guidance and stylised facts to complement the rich existing qualitative research. Measurement and quantification are not final purposes per se, but necessary hard bones by which quality flesh is sustained in order to make the economic history body resilient and living. The analogy with the human body is apt, because this research is conceived as an ongoing, living project. Hopefully, the measures presented here will be refined and extended as more and better research becomes available. The reconstruction presented in this paper was challenging and required compromises; other scholars are warmly invited to ‘crack the numbers’ presented here, as bones are well known for their regeneration properties and adaptability to grafting.

As a first step towards a broader understanding of banking distress, this research focuses on its most extreme expression: bankruptcies. Far from covering all outcomes banking distress can take<sup>1</sup>, this choice is motivated by the need to limit the scope of enquiry and keep the volume of historical documents to be consulted manageable. Bankruptcies are indeed the most striking and impactful form of distress, because they not only imply – at least in the institutional framework of interwar Italy – the disappearance of the bank, but also impose on its creditors, i.e. the bank’s depositors, a painful loss. To further restrict the scope of the analysis, this study is limited to Italian commercial banks: credit institutions which are profit-oriented, privately owned, fully integrated into the national payment system, and that collect deposits from the public in order to fund their lending activity, i.e. what today would be generally considered ordinary banks. In the context of interwar Italian banking, these are joint-stock banks (SOC), cooperative joint-stock banks (BP), and private bankers (DB)<sup>2</sup>. Other categories such as savings banks (*Casse di Risparmio*) and pawn banks

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<sup>1</sup> Liquidations, distressed mergers, bail-outs, restructuring plans, debt moratoria, and temporary suspensions are other outcomes that bank distress can take.

<sup>2</sup> SOC: *Società Ordinarie di Credito* take the legal form of *Società anonime per azioni* and (less frequently) *Società in accomandita per azioni*. BP: *Banche Popolari* take the legal form of *Società anonime cooperative per azioni* and (in the case of bank incorporated under the Austro-Hungarian law) ‘*Consorzi a Garanzia Limitata di diritto Austriaco*’. DB: *Ditte Bancarie* can take many different legal forms, from individuals without a distinct legal entity, to ‘*Società in nome collettivo*’, ‘*Società in*

(*Monti di Pietà*) are excluded because they cannot legally file for bankruptcy<sup>3</sup> or because, in the case of the rural cooperative banks (*Casse Rurali*), their peculiar nature does not qualify them as ‘banks’ by modern<sup>4</sup>. Expanding the analysis to a broader definition of distress and to additional categories of credit institutions crucial in the Italian banking system should be addressed by future research.

The time span currently covered by this reconstruction is July 1925 – March 1936. The rationale behind this choice is both practical and theoretical. It is practical because the sources allowing a complete account start from July 1925. The research stops in March 1936 because the new institutional setting introduced by the 1936 banking law provided a new and different set of rules to deal with bank distress<sup>5</sup>. The introduction of banking supervision in 1926/27 generated a unique set of confidential records for the study of banking distress; in principle, archives of banking supervisors recorded and documented the life (and death) of every Italian bank<sup>6</sup>. These archives are the main source of evidence for this research. Although supervision operated only from 1927, it is possible to extend the reconstruction back to July 1925 thanks to a report requested by the Director-General of the Bank of Italy, Bonaldo Stringher, who wanted to be aware of all bank closures in the period before the introduction of the 1926 banking law<sup>7</sup>. From a theoretical point of view, the focus on the late 1920s and early 1930s is justified because this period coincides with the deflationary measures introduced in the second half of the 1920s to restore the value of the Lira and peg it to gold, as well as with the Great Depression. These are the years in which *ex-ante* one should expect to observe a higher degree of banking distress.

Besides this introduction, this paper is articulated in five more sections. The second section provides a brief literature review on the issue of banking distress in interwar Italy and motivates the interest in small and medium banks due to their importance in the Italian economy at the time. The third section presents a survey of the sources employed. It describes in detail the two main sources for this reconstruction, i.e. the archival records of banking supervision at the *Archivio Storico della Banca d'Italia* and the *Archivio Centrale dello Stato* in Rome, and gives an overview of relevant coeval publications and bank data already reconstructed by historians. It then introduces the operation of Italian bankruptcy law in the interwar period, which is of paramount importance to understand and interpret the primary sources employed. Finally, it points out some inconsistencies and misinterpretations of the official coeval published sources that this research has revealed. The fourth section describes the method adopted to reconstruct the account which entails three

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*accomandita semplice*, ‘*Società di fatto*’. The main distinction between DB and the other two groups is that the DB have unlimited liability.

<sup>3</sup> For an overview on how different *Casse di Risparmio* were in the interwar period compared to today see Della Seta (1925) and Ballardini (1929).

<sup>4</sup> The *Casse Rurali* were mutual, unlimited-liability institutions with an almost exclusive focus on agriculture. Admittedly, some resembled small BP in their operations, thus qualifying as ‘commercial banks’. However, their tiny size and extremely large number would make it impossible to include this category in this study, as there were more than 2000 institutions at the time. While *Casse Rurali* could file for bankruptcy and provided lending and deposit services to their members, only a minority of these institutions were actually integrated in the national payment system, having to rely on larger institutions for the payments of bills and checks beyond their circle of members.

<sup>5</sup> Regio decreto-legge 12 marzo 1936, n.375

<sup>6</sup> Regio decreto 7 settembre 1926, n.1511 and Regio decreto 6 novembre 1926, n.1830.

<sup>7</sup> ASBI, Direttorio Stringher, prat.32, f.1, sf.5

steps: identifying the list of bankrupt banks, matching their names with archival files, and extracting the relevant information to construct the variables included in the dataset. The fifth section opens with some general caveats that should be borne in mind when interpreting the result of this reconstruction. Though the primary goal of this paper is to document the reconstruction, rather than providing clear cut interpretations, the main outputs and trends emerging from this work are briefly discussed. These are organised by ‘magnitude’, ‘timing’, and ‘geography’. The sixth and final section concludes, summarising the paper and its main results and paving the way for future research.

In the context of this paper, some clarifications on the terminology used in tables and figures are due. To focus more clearly on small and medium commercial banks, I usually disentangle the largest joint-stock banks – Banca Commerciale Italiana, Credito Italiano, Banco di Roma, and Banca Nazionale di Credito (former Banca Italiana di Sconto) – from the rest. I refer to this group as the ‘big four’. ‘Ordinary joint-stock banks’ accordingly refers to ‘SOC’ excluding the ‘big four’. BP and ‘cooperative joint-stock banks’ are used as synonyms; the same applies to ‘DB’ and ‘private bankers’. When I use the term ‘commercial banks’ I refer to ‘ordinary joint-stock banks’, ‘cooperative joint-stock banks’, and ‘private bankers’, excluding the ‘big four’.

## 2 Motivation: a reappraisal of small and medium banks

### 2.1 Beyond the big four: the problems of the rest of the banking system

The financial distress of Italian banks between the World Wars is certainly not a novel topic, but existing scholarship has chiefly focused on the ‘big four’. The literature on the ‘Siamese twin relationship’ (Mattioli, 1968) between universal banks and industries in the 1920s, and the ingenious rescue secretly carried out by Italian public authorities when it became evident that these were giants with feet of clay is vast and extremely well researched<sup>8</sup>. Turning clay into ceramic, solutions initially designed for contingent problems were eventually refined to become the cockpit of the Italian economy (Castronovo, 2012). Not only did the institutions stemming from these events mark a significant shift of financial power from the private to the public sphere, but they endured for half a century beyond the Fascist period (Cassese, 1984) – although de Cecco (1997) argued they lost their positive drive in the 1960s, when the men at command and the international macroeconomic scenario changed. The episode represents a watershed of paramount importance in banking as well as in the industrial history of Italy in the XX century.

The distress experienced by the rest of the banking system has received far less attention<sup>9</sup>. General histories of Italian banking such as La Francesca (2004) and Giordano (2007) dedicate only a few pages to local banks during the Great Depression and the period that immediately preceded it. Even though several case

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<sup>8</sup> *Inter alia* Battilossi (2009); Brambilla (2012); Ciocca and Toniolo (1976, 1984); Confalonieri (1994, 1997); L. de Rosa (1983); Falchero (1990); Sanseverino (2009); Saraceno (1978, 1981); Toniolo (1978a, 1978b, 1980)

<sup>9</sup> Notable exceptions being Conti et al. (2003), De Rosa (2007), Ferri (1993), Ferri and Garofalo (1994),

studies on specific regions and banks (or groups of banks) in this period exist<sup>10</sup>, our knowledge of the problems of small and medium banks is still largely impressionistic: an all-embracing analysis of their experience is missing. Furthermore, most contributions are based on narrative approaches, making comparisons between banks studied in separate contributions difficult.

The few quantitative indicators currently available highlight that the problems that small and medium banks experienced were not trivial. Table 1 shows estimates of the Italian banking population and total assets for different legal categories of banks in 1921, 1926, and 1936<sup>11</sup>. After expanding in the early 1920s, the Italian banking system went through a significant consolidation between 1926 and 1936, as the number of Italian banks decreased sharply<sup>12</sup>. This was particularly true for profit-oriented banks, i.e. SOC, BP, and DB. This contraction is even more striking when the ‘big four’ joint-stock banks are disentangled from other ordinary joint-stock banks: the total assets owned by this latter group almost halved between 1926 and 1936, a phenomenon that has not been appreciated enough because figures for joint-stock banks are usually presented aggregated by legal category. The exact nature of this consolidation, however, is unknown: the data currently available do not allow us to distinguish (1) how much of this decrease is due to bank failures, (2) what is the exact temporal dynamic of failures, and (3) whether there are important geographical patterns. One important question is still unanswered: should this reduction be interpreted as a contraction (i.e. with a negative connotation and due to large numbers of failures), or as a consolidation (i.e. with a positive connotation driven by healthy market dynamics)?<sup>13</sup>

### **Table 1 around here**

Though these questions remain unanswered, the aggregate credit series suggest that the distress experienced by small and medium banks was substantial. Figure 1 presents indexes of the contraction in lending, assets, deposits, and correspondent accounts (the base year 1928 = 100, i.e. the pre-crisis peak). All three groups of small and medium commercial banks contracted sharply during the Great Depression. In nominal terms, total lending provided by ordinary joint-stock banks shrank sharply over 1929-31, declining further to a minimum of just 33 in 1935<sup>14</sup>. Cooperative joint-stock bank and private bank lending followed a similar path, although less steep. Whether these dynamics amounted to a credit crunch is a question not taken up

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<sup>10</sup> *Inter alia*: Asso (2017), Asso and Nerozzi (2016, 2018), Bermond (1986, 2002), Brunelli (1999, 2000), Chiapparino (2008), Comei (2008), Conti (2003), De Rosa (1991), De Rosa (2005), Giglietta (2002), Griseri (2009), Pegrari (2004), Polsi (1997), Rienzo (1996, 2004), Rinelli (2002), Robiony (2018), Romani (2000), Segreto (1987), Toniolo (1988).

<sup>11</sup> A number of problems due to the sources employed to reconstruct these figures mean we must exercise caution in interpreting them (Cerrito, 1996): Regarding CRO and MDP, the numbers are accurate and refer to active banks, but it should also be noted that the contraction in numbers between 1926 and 1936 is not due to failures, but due to a 1927 law requiring the amalgamation of smaller institutions. Regarding BP, DB, and BCC, only the figures for 1936 refer to active banks. By contrast, figures for 1921 and 1926 had to be reconstructed by Cerrito (1996) from multiple sources, and include banks that are being liquidated. Regarding SOC, figures were reconstructed from multiple sources and should refer to the population of active banks.

<sup>12</sup> Biscaïni-Cotula, Ciocca (1979), Marinelli Faucci (1980), Balletta (1999), Polsi (2000)

<sup>13</sup> In the late 1920s, mergers were encouraged through generous fiscal incentives. Regio-decreto Legge 23 giugno 1927, n.1206

<sup>14</sup> Real lending using the GDP deflator from Baffigi (2013) reaches a minimum of 46. The ratio of lending to GDP has a minimum of 44.

in this paper. On such matters, the current literature is divided: while Ferri (1993), Ferri and Garofalo (1994) and Toniolo (1995) suggest that this was the case, Mattesini and Quintieri (1997) maintain otherwise. But these figures make clear that the contraction of the small and medium bank sector was severe and deserves further attention.

### Figure 1 around here

## 2.2 Importance of local banks for the Italian economy

As previously noted, the literature on banking distress in interwar Italy predominantly focuses on the big four, with little space dedicated to the problems of small and medium commercial banks. This is unfortunate because recent literature has reappraised the importance of local banks in Italian economic development, especially during the first half of the XX century. Measuring and mapping their problems during the Great Depression is crucial to understand how the supply of credit to firms relying on these banks was affected by the crisis.

Carnevali (2005) explains how the Italian system of production, based on few large industrial firms surrounded by a large number of small ones, and its banking system, characterised by few national banks and numerous local institutions, is not necessarily to be viewed as an inefficient system that failed to modernise, but a valid alternative path to development. In this context she proposes a reappraisal of local banks, as a system that was not merely a manifestation of inefficiency and backwardness, but rather a conscious design with deep historical and political roots. Vasta et al. (2017) propose a counterfactual analysis where the big four are not present in Italian economic playground: they conclude that, at least in the industrialised North, local banks would have played a more important role in financing industries, as they too were closely interlocked with industrial firms. Rinaldi and Spadavecchia (2019) document the distinctly local dimension of these interlocking directorates and their independence from those established by the big four. Local banks, they show, were more focussed on financing manufacturing firms – chiefly light industry.

Several studies have argued that the distribution of local banks and branches around the Italian peninsula emerging from the interwar period has had long term effects on Italian development. Conti and Ferri (1997) suggest that strong networks of local banks help to explain the peculiar structure of the Italian economy based on a large number of small and medium enterprises after 1945. The supply of local banks and branches was ‘crystallised’ by the 1936 banking law, so much that it influenced the supply of credit (Guiso et al. 2004), innovation (Herrera and Minetti, 2007), and even inequality (D’Onofrio et al. 2017) more than 50 years later. Since economists have claimed that this distribution was the result of arbitrary fascist policies – an exogenous ‘historical accident’ – it is important to study the extent to which the distribution of local banks in 1936 was also the endogenous outcome of failures during the 1920/30s. In fact, economic historians (Conti et al. 2003; Conti and Polsi 2004) have found that the fascist regime was not always successful in manipulating local banks, but managed to do so chiefly when these were distressed.

The importance of small and medium banks was widely acknowledged by coeval sources too<sup>15</sup>. According to Bava (1926), the big four had begun to expand their branch network at the national level at the very beginning of the XX century, but the process gained momentum during and after the Great War. As he explains, large banks needed increased funds to meet the increased needs of their industrial clients involved in the war effort, and therefore opened branches in many provincial and regional capitals. Bava criticised this process, claiming that it drained funds from the periphery to the core<sup>16</sup>. The burden of providing credit locally with scarce funds was on the shoulders of small and medium banks.

According to Sraffa (1922), the big four limited their support to a circumscribed number of big firms<sup>17</sup>. Meanwhile, savings banks, rural cooperative banks, and pawn banks were constrained in their investment strategies (Della Seta, 1925; Pantaleoni, 1924). As the General Director of the *Ispettorato del Credito*, Baccaglioni argued, the support that saving banks provided to local economies was well under their potential (Commissione Economica, 1946) because their lending was oriented primarily towards agriculture, real estate, and the public sector. Concerning saving banks, the committee presenting the *Rapporto alla Assemblea Costituente*<sup>18</sup> in 1946 concluded that a shift towards lending to commercial and industrial firms should be encouraged. Therefore, in the 1920-30s providing credit to small industrial firms, commercial firms and local businesses depended very much on the local small and medium commercial banks. Contemporary observers were adamant on this point, Vigorelli (1931) argued that local banks were crucial in providing financial services to those businesses that were too small to be clients of national banks. Einaudi (1930) warned that the banking consolidation underway since the late 1920s would threaten the existence of a many small banks that were functional to the allocation of savings at the local level. In this regard, the Bank of Italy's *Relazione* for 1930<sup>19</sup> explicitly stated an appreciation of the importance of these banks, whose role was complementary to that of the big national banks and thus very beneficial for the Italian economy. This judgement was confirmed by Commissione Economica (1946).

## 3 Sources and data

### 3.1 Archives of banking supervision

#### 3.1.1 General remarks

The operation of Italian banking supervision under the 1926 law implies that there are (at least) two distinct archives collecting information on the Italian banking system between 1926 and 1936: the archives of

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<sup>15</sup> For an overview, see the series of articles published on the topic by *Echi e Commenti* in 1931: 'Grandi e piccole banche', *Echi e Commenti*, 15 February 1931; 'Ancora delle grandi e piccole banche', *Echi e Commenti*, 25 Febbraio 1931; 'Ancora dei grandi medi e piccoli istituti bancari', *Echi e Commenti*, 5 June 1931; 'Risparmio e medie e piccolo banche', *Echi e Commenti*, 25 June 1931; 'La banca regionale' *Echi e Commenti*, 5 July 1931;

<sup>16</sup> According to Einaudi (1930), the claim that large banks were draining local deposits from the periphery to the centre was exaggerated.

<sup>17</sup> Sraffa's judgement has been recently restated also by Brambilla (2012).

<sup>18</sup> After WWII a special Economic Commission was created to advice on economic issues the elected assembly that prepared the Constitution of the Republic of Italy. The Commission surveyed hundreds of experts and economic institutions and prepared detailed reports on all branches of economic activities.

<sup>19</sup> See section 3.3.

banking supervision at the Historical Archives of the Bank of Italy<sup>20</sup> (ASBI\_vig), and the archives of the banking supervision office at the Ministry of the Finance, currently held at the Italian National Archives<sup>21</sup> (ACS\_utcr). ASBI\_vig is a well-known and exploited source by Italian scholars, by contrast, ACS\_utcr has possibly been overlooked – to the best of my knowledge, in the existing literature it has been referenced to only once<sup>22</sup>.

The two archives complement each other: under the 1926 banking law, the Bank of Italy was in charge of supervision but all decisions on sanctions, authorisations, and forbearance were up to the Ministry of Finance. The Bank of Italy operated locally<sup>23</sup>, sent information collected at the headquarter in Rome and then transferred it to the Ministry of Finance in Rome. Therefore, the correspondence between the Bank of Italy and the Ministry of Finance can be used to reconstruct the life of every bank: the Bank of Italy needed to provide the Ministry of Finance with information on how the *Albo delle aziende di credito*, (Official register of credit institutions) had to be updated and amended once a bank ceased its operations<sup>24</sup>.

### 3.1.2 Archivio Storico della Banca d'Italia, Vigilanza<sup>25</sup>

For the construction of the two datasets that compose the database, the most important archival *Sottofondo*<sup>26</sup> of the ASBI is *Vigilanza sulle Aziende di Credito*<sup>27</sup>. This *Sottofondo* preserves the documentation produced by the Bank of Italy's office in executing the supervision tasks. There are two types of files employed for this reconstruction: (a) individual banks, and (b) general affairs.

#### (a) Individual banks:

Single bank folders were originally organised in series according to the legal category the bank belonged to – e.g. Ba2 for joint-stock banks; Ba5 for cooperative joint-stock banks; Ba7 for private bankers and partnerships. However, when a bank ceased operations the file was moved to the archival series Ba8. The vast majority of the folders used for this study were located in Ba8. Documents on individual banks are usually divided into three distinct files: *Corrispondenza* [Correspondence], *Situazioni* [Balance sheets, and two-monthly reports], *Ispesizioni* [on-site inspections reports]. Normally each of these sections constitutes a file of its own, but for banks disappearing at an early stage, there is only one file containing all three sets of documents. Correspondence regarding a bank's 'life' (i.e. its registration in the *Albo*) is critical to reconstructing

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<sup>20</sup> *Archivio Storico della Banca d'Italia, Banca d'Italia, Rome.*

<sup>21</sup> *Archivio Centrale dello Stato, Ministero del Tesoro, Direzione generale tesoro, Ispettorato generale per i servizi monetari, di vigilanza e controllo, Ufficio tutela del credito e del risparmio.*

<sup>22</sup> Sanseverino (2009)

<sup>23</sup> The Bank of Italy had to have at least one branch in each province (Battilocchi and Melini, 2017)

<sup>24</sup> *Albo delle aziende di credito*: Official register of authorised banks, established in 1927. Each bank had to be registered in the *Albo* to operate legally. Banks were removed from the *Albo* (a) after adjudication of bankruptcy became res judicata, (b) when merged, (c) upon cessation of deposit collection, (d) when liquidation was completed.

<sup>25</sup> A more detailed description of the *Sottofondo* 'Vigilanza sulle aziende di credito' is available in Giaquinto et al. (1992). The ASBI section of this paper relies heavily on this excellent guide.

<sup>26</sup> *Sottofondo* is an archival unit which usually identifies all document produced by a single department. E.g. Bank of Italy -> *Fondo*; Bank of Italy's supervision department -> *Sottofondo*.

<sup>27</sup> ASBI, *Fondo*: Banca d'Italia, *Sottofondo*: Vigilanza sulle aziende di credito.

when it filed for bankruptcy or was put into voluntary liquidation. Local branches of the Bank of Italy were required to provide the headquarters in Rome with information on all stages of the winding down procedure, e.g. for bankruptcy: suspension/ceasing of payments, filing for bankruptcy, adjudication of bankruptcy, adjudication becoming *res judicata*<sup>28</sup>, and the final closure of the bankruptcy liquidation. The information was passed to the Ministry of Finance, where the *Albo* was physically kept. Information on total assets, deposits, and capital can be obtained from *Situazioni*. However, this information is not always available on a consistent basis: some banks that filed for bankruptcy at an early stage did not submit any balance sheet at all; in other cases, it can be inferred that to save space the *Situazioni* were removed from some bank files in the early 1930s: the full documentation is missing, and only a summary with certain balance sheet items<sup>29</sup> is left in the folder – unfortunately, this summary does not include total assets. In certain cases, when no balance sheet information on a bank is available, it is possible to reconstruct its size from the bankruptcy documentation: knowing how much was redistributed to the creditors at the end of the liquidation, what percentage this sum was of their initial credits, adding to this the paid-up capital, and making the assumptions that, by definition, liabilities plus capital is supposed to equal to total assets.

(b) General affairs:

The files here referred to as General Affairs belong to three distinct archival series: ‘Ba Generico’<sup>30</sup>; ‘Ba Generico Filiali’<sup>31</sup>; ‘G – Generico’<sup>32</sup>. The documentation present in these series concerns general issues on the administrative business of how banking supervision then operated on a day-to-day basis. For the early years, ‘Ba Generico’ and ‘G – Generico’ are very similar in nature, while later all ‘Ba – Generico’ documentation is found in ‘G – Generico’. One of the activities linked to supervision was the collection of data and compilation of statistics, and this documentation is of paramount importance for this study. Banking statistics were published in the *Relazione Annuale del Governatore agli azionisti della Banca d’Italia* (Annual report of the Governor of the Bank of Italy). Although the statistics were reported at the aggregate level, in ‘G – Generico’ is possible to find the drafts used to compile the published figures, and these include lists of banks by name as well

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<sup>28</sup> i.e. the the span allowed for appealing against the adjudication had passed: *‘l’omologazione della sentenza di fallimento è passata in giudicato’*

<sup>29</sup> In the 1920s, this document was initially called *Rilevi su la situazione*, but changed in *Modulo Vigilanza n°9* in 1930, and renamed *Modulo Vigilanza n°13* from 1932 onwards. This document was a standardised commented summary of the most important items that had to be closely scrutinised according to the 1926 law, these being deposits, capital, and risk exposure to a single borrower. *Modulo Vigilanza n°9* and *Modulo Vigilanza n°13* provide more details than *Rilevi*, including a one sentence summary of the outcome of the last on-site inspection as well as a general observation on the bank.

<sup>30</sup> Relevant *pratiche* for this study: ASBI, Banca d’Italia, Vigilanza, prat. 535-539, various *fascicoli*.

<sup>31</sup> Relevant *pratiche* for this study: ASBI, Banca d’Italia, Vigilanza, prat. 544-806, various *fascicoli*.

<sup>32</sup> Relevant *pratiche* for this study: ASBI, Banca d’Italia, Vigilanza, prat. 11-13, 244 various *fascicoli* and *sottofascicoli*.

as disaggregated statistics by bank and province. In addition to the documents regarding statistics, the general correspondence between the Bank of Italy headquarters and its local branches provides valuable information on banking conditions in the provinces.

### 3.1.3 Archivio Centrale dello Stato, Min. delle Finanze, Ufficio tutela del risparmio e del credito

The *Ufficio tutela del credito e del risparmio* (office for the safeguarding of saving) was created in 1926 as part of the Ministry of the Finance, under the *Direzione Generale del Tesoro, Ispettorato generale per i servizi monetari, di vigilanza e controllo*, as the Ministry of Finance had been merged with the Minister of the Treasury in 1922. However, in 1936 most of its responsibilities, including the custody and updating of the *Albo* were given to the new corporatist institution *Ispettorato del Credito*<sup>33</sup>. Therefore, with some exceptions<sup>34</sup>, the last document in individual banks' files dates 1935/1936.

The ACS\_utcr archival fund is made up of 264 folders, for a total of more than 5000 files. The first series is that of 'general affairs' and, similarly to the 'G – Generico' and 'Ba Generico' provides crucial information on the actual operation of banking supervision and the challenges of its establishment and operation. While the 'general affairs' series is organised by topic (each file is one topic), the other series are all organised by individual banks: with few exceptions<sup>35</sup>, each bank corresponds to a file. Each series is organised according to the motivation on why the file of the bank was eventually closed and archived.

#### **Table 2 around here**

For this study, the most important series is series referred as 'C)' in Table 2. Similarly to ASBI\_vig, all banks originally in B) were moved to C) after they were permanently closed, thus providing an extensive list of all banks ceasing their operations. C) should include all banks that filed for bankruptcy before March 1936, as the adjudication of bankruptcy becoming *res judicata* automatically triggered the removal from the *Albo*.

Banks' individual files in ACS\_utcr do not have all the balance sheets and technical information available in ASBI\_vig. But correspondence with the Bank of Italy regarding the updating of the *Albo* provides a useful double-check on the timing of their removal as well as general information on bankruptcy and liquidation procedures. Complete inspection reports were not passed to the Ministry, which usually received only a summary version. In the case of complex resolution schemes, however, all information could be requested from the Bank of Italy which was required to provide them.

Although it is common to find duplicates of the same document in the two archives, to make a general distinction, documents available in ASBI\_vig provide more technical information, whereas those in ACS\_utcr tell us more about political backgrounds and decisional processes. The Bank of Italy took care of the technical tasks through its network of local branches and staff of experts, but decisional power and

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<sup>33</sup> Art. 29 Regio decreto-legge 12 marzo 1936, n. 375

<sup>34</sup> Some public banks have documents until 1944.

<sup>35</sup> There are some duplicates, and occasionally a bank has two files

political considerations were up to the Ministry of Finance, which also coordinated the decisions with other political and public authorities, such as other ministries in Rome, the *Partito Nazionale Fascista* (Fascist National Party), and the *Confederazione Generale Bancaria Fascista* (Fascist Banking Confederation), as well as peripheral institutions, such as *Prefetture* and *Consigli dell'economia provinciale*. This set of documents is usually not available in ASBI\_vig and could help to shed light over issues previously unexplored.

### 3.2 Archivio Storico della Banca d'Italia, other series.

Several additional archival series at the Historical Archives of the Bank of Italy have been consulted to have a useful cross check. Though this check revealed that the series described in 3.1 were complete, the additional sources used are described here for the sake of guidance for future research.

*Direttorio – Introna*: Niccolò Introna was the head of banking supervision and *de facto* in charge of the resolution of all small and medium banks; in ASBI<sup>36</sup> there are several folders regarding banks in distress and the actions taken to prevent and/or alleviate their bankruptcy.

*Copialettere riversatissimi del Governatore*<sup>37</sup>: There is a series of seven 'highly confidential' letter books collecting all the secret letters sent by the board of the Bank of Italy between September 1923 and October 1946. Among other issues, banking distress is widely discussed.

*Sottofondo Sconti*<sup>38</sup>: Under the *Sottofondo Sconti* (Discounts) there are 271 folders concerning special rediscounts and advances conceded by the Bank of Italy in the 1920-30s. Each folder has multiple files with information on the requesting banks as well as the reason behind the request. These files were created when a credit firm requested additional discounts beyond the normally agreed limit (named *castelletto*).

*Ispettorato del Credito*<sup>39</sup>: The *Ispettorato del Credito* was established in 1936 as part of that year's reorganisation of the Italian credit system, and lasted until it was abolished after WWII. The *Ispettorato del Credito* managed the *Albo*, so its archival collection is particularly useful to track banks that were in liquidation in 1936 but had not been removed from the *Albo* yet. Though not directly relevant for this study, this is a crucial source of information for banking distress in general.

*Verbali del Consiglio Superiore della Banca d'Italia*<sup>40</sup>: the minutes of the Bank of Italy's Board meetings provide a short summary of all the issues discussed. Not surprisingly, banks in distress were often a topic of discussion, although the summaries do not provide much detail. The minutes show that even the troubles of small banks were mentioned during the meetings.

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<sup>36</sup> ASBI, Banca d'Italia, Fondo Direttorio – Introna, prat. 28-85 various *fascicoli*.

<sup>37</sup> ASBI, Direttorio – Stringher, prat.17, doc.2-4; Direttorio – Introna, prat.8, doc.1-2; Direttorio – Azzolini, prat.43, doc.1-2

<sup>38</sup> ASBI, Banca d'Italia, Fondo Sconti, prat. 16-290 various *fascicoli*.

<sup>39</sup> ASBI, Ispettorato del Credito, Fondo Ispettorato del Credito, prat.864-1188 various *fascicoli* and prat.639-681, various *fascicoli*.

<sup>40</sup> ASBI, Banca d'Italia, Verbali del consiglio superiore, 1926-36

### 3.3 Coeval printed publications

Many coeval publications regarding banking issues were consulted for this study. For the sake of brevity, short names given in square brackets are used to refer to the sources.

[ *Relazione Bdl* ]: Banca d'Italia, Relazione del Governatore in Adunanza generale ordinario degli azionisti tenuta in Roma il ..., Roma, various years.

From 1927 *Relazione Bdl* includes a section on Tutela del Risparmio (Safeguarding of savings) where it presents aggregated figures on how many banks are registered in the *Albo*, and how many banks were removed in the preceding year. It divides removed banks into two subgroups (a) banks removed because they discontinued deposit collection, and (b) banks removed because they ceased operations altogether. With the *Relazione* of 1929 the Bank of Italy started publishing banking statistics based on the data it collected as a supervisor. Statistical tables on the number of banks and aggregated balance sheets by year and legal category are available from 1926. One limitation of these statistics is that they refer to the entire population of banks, including those already in voluntarily liquidation and no longer actively trading<sup>41</sup>. The first year for which statistics on the number of active banks by legal category is available is 1932 (December)<sup>42</sup>. Data on deposits by province are available from December 1929<sup>43</sup>, and disaggregation of deposits by legal category from December 1932<sup>44</sup>. The first figure for total branches of active banks by legal category refers to December 1932, whereas the first disaggregation by province is published for December 1933<sup>45</sup>.

[ *Annuario ABI* ]: Annuario delle Banche e dei Banchieri d'Italia, various years, Confederazione Generale Bancaria Fascista, Milano.

*Annuario ABI* presents a large, albeit not necessarily complete, list of banks operating in Italy and their network of branches by municipality. For certain banks, normally SOC and large BP, it also provides summary balance sheet data and information on foundation year, legal category, and management board. Updated editions were published every two years from 1921-22. According to Polsi (2000), the 1927/28 edition is the first that should be considered representative enough to be used in historical research.

[ *Notizie ASSONIME* ]: Associazione fra le società italiane per azioni, *Notizie statistiche sulle Società Italiane per Azioni*, Roma, various years.

*Notizie ASSONIME* is a well-known resource for Italian economic historians and was used for example to construct the database IMITA.db<sup>46</sup>. It provides information on Italian joint-stock companies regarding balance sheet items, dividends, board composition, foundation, headquarter, and basic aggregated statistics.

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<sup>41</sup> Bankrupted banks whose liquidation is not yet closed are not included.

<sup>42</sup> *Relazione* for year 1933.

<sup>43</sup> *Relazione* for year 1931.

<sup>44</sup> *Relazione* for year 1933.

<sup>45</sup> *Relazione* for year 1933.

<sup>46</sup> Imita.db, <http://imitadb.unisi.it> is a database collecting information on Italia joint-stock companies with data on balance sheet and directors.

Before the reconstruction of the banking population presented in Cotula et al. (1996), it was the main source of information on the number of joint-stock banks in the period in question. Holding the caveat that before 1932 edition it did not distinguish between banks and financial holding companies, Ferri and Garofalo (1994) and Toniolo (1995) report its figures on bank closures as a proxy for bank failures.

### 3.4 Reconstructed series and datasets

[ Cotula et al. 1996 ]: A team of researchers working at the *Ufficio Storico della Banca d'Italia* put together both micro and macro credit statistics for the main categories of banks between 1890 and 1936. The effort entailed three projects: estimating aggregate credit series by legal category; collecting micro data on individual bank balance sheets; and reconstructing the population of banks by legal category. In this study, the reference Cotula et al. (1996) refers to the aggregated credit series by legal category. Reconstructing the data series for cooperative joint-stock banks, and private banks proved extremely difficult, such that from 1926 to 1936 figures published in *Relazione BdI* were used. These, unfortunately, include banks in liquidation which were no longer trading. No data are available at all on private bankers and rural cooperative banks before 1926.

[ Cerrito 1996 ]: *Anagrafe Cerrito* is a dataset reconstructing the population of Italian banks between 1890 and 1936. Part of the Cotula et al. 1996 project, it lacks information on cooperative joint-stock banks om the period 1926-1936. For 1926-36 the national statistics on bank numbers for cooperative joint-stock banks and private bankers directly reproduce the figures published in *Relazione BdI*, which as noted include banks in liquidation.

[ ASCI, '*Archivio Storico del Credito in Italia*' ] Natoli et al., (2016): ASCI is a database on individual bank balance sheets from 1890 until 1973, which integrates and expands the work done in Cotula et al. 1996. Unfortunately, the years 1926-1936 are the least complete, as balance sheet data on cooperative joint-stock banks and private bankers are missing.

[ IMITA.db ]: IMITA.db is a database assembled by the University of Siena (Vasta, 2006) with data on Italian joint-stock companies from 1900 to 1983. It provides balance sheet data as well as information on boards of directors and supervisory boards. It generally covers only joint-stock banks (SOC) but includes some large cooperative joint-stock banks.

## 3.5 Bankruptcy Law

### 3.5.1 General remarks

Given that this dataset of bank failures is based on the adjudication of bankruptcy by a tribunal, understanding the operation of bankruptcy laws and procedures is crucial. At the time, bankruptcy law was a branch of commercial law, regulated by the *Codice di Commercio del Regno d'Italia* (1882) until commercial

law was merged into the new Civil Code in 1942<sup>47</sup>. Even though commercial law tribunals had been abolished in 1888<sup>48</sup>, commercial law disputes thenceforth being dealt with by civil tribunals, commercial law was autonomous from civil law<sup>49</sup>.

Italian bankruptcy law<sup>50</sup> has received well-deserved critiques by economic historians<sup>51</sup>. The treatment of the bankrupt was conservatively harsh, and the judicial proceedings were costly and biased towards liquidating firms by forcibly selling all their assets without a systematic plan. As a result, 'Bankruptcy law showed its incapacity to recover the value of the distressed business and to reorient its resources to other employments'<sup>52</sup>. A 1903 reform designed to fix these issues introduced solutions that proved unworkable, and ended up being employed only infrequently (Di Martino, Vasta 2010). Every time serious problems emerged in the banking system, bankruptcy law was not up to the situation: solutions had always to be tailored *ad hoc* (Di Martino 2004).

Before the 1936 banking law, there were only two judicial proceedings available to commercial banks for dealing with bankruptcy, the same as for any companies or partnership subject to the Code of Commerce (*C.d.C.*)<sup>53</sup>: *Fallimento*, i.e. compulsory liquidation by the courts if a debtor ceased payments, and *Concordato Preventivo*, a debtor's voluntary request for a judicially supervised composition with the creditors, once the impossibility of servicing a debt is acknowledged. One exception was made for large banks, which had access to a special *Concordato Preventivo (Concordato delle grandi banche)*: in 1924, the emergency provisions designed in 1921-23 to deal with the distress of Banca Italiana di Sconto were formally extended by law to all banks with at least 20 million lira in deposits. One important difference between these procedures is that while *Fallimento* automatically dissolved companies and partnerships, in *Concordato Preventivo* and *Concordato delle grandi banche* the dissolution had to be explicitly approved by shareholders and partners. Indeed, the very purpose of *Concordato Preventivo* and *Concordato delle grandi banche* was theoretically to find a composition that allowed viable firms to continue. In fact, however, only one bank continued operation as an autonomous institution after filing for *Concordato*, because after filing for *Concordato* banks were required to apply again for a bank charter. The Bank of Italy and the Ministry of Finance never conceded a new authorisation unless the bank had paid 100% of their liabilities<sup>54</sup>.

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<sup>47</sup> Regio decreto 16 marzo 1942, n. 262 and n. 267

<sup>48</sup> Legge 25 gennaio 1888, n. 5147

<sup>49</sup> Vivante (1925, 1926)

<sup>50</sup> For a thorough historical overview on the operation of Italian bankruptcy law, see Conti & di Martino (2002); di Martino (2005); di Martino & Vasta (2010).

<sup>51</sup> Carriero et al., (2004); Ciocca (2003); Conti & di Martino (2002); di Martino (2005, 2010); di Martino & Vasta (2010); Hautcoeur & di Martino (2013)

<sup>52</sup> Carriero et al. (2004, p. 527)

<sup>53</sup> Guarino (1993)

<sup>54</sup> The only bank that continued its operation after a bankruptcy procedure, Credito Meranese (Concordato Jan. 1933), committed to pay back all its creditors and was conceded a second chance. See correspondence between the Bank of Italy and the Ministry of Finance in March 1934 in ASBI, Vigilanza, prat.2960, f.1

The third volume of the *C.d.C.* was dedicated to *Fallimento* (bankruptcy) – art. 683-867 *C.d.C.*. Bankruptcy law was also partially reformed in 1903<sup>55</sup> and 1930<sup>56</sup>. To avoid confusion, this paper uses the word *Fallimento* referring to the specific judicial procedure, whereas bankruptcy is used with a broader meaning that includes *Concordato Preventivo* and *Concordato delle grandi banche*. Another necessary lexical remark is that in legal Italian the term *Bancarotta* is ‘bankruptcy fraud’, which is punishable under criminal law – art. 855-867 *C.d.C.* It refers to an independent and parallel criminal procedure under a different tribunal – art 696 *C.d.C.*

### 3.5.2 Fallimento

To be adjudicated, *Fallimento* required the debtor to be in *Cessazione dei Pagamenti* (cessation of payments). Grasping the concept of *Cessazione dei Pagamenti* is crucial to understand *Fallimento*<sup>57</sup>. In theory, it was a sufficient and necessary condition for adjudicating *Fallimento*: a single missed payment (e.g. an unpaid bill that was protested) was enough to trigger the procedure. However, art. 705 *C.d.C.* made it explicit that a debtor in good faith with well-founded reasons should not be adjudicated *Fallimento* in such a case. Article 705 also provided that debtors managing to service their payments only by resorting to fraudulent means should be considered in *Cessazione dei Pagamenti*. According to art. 686 *C.d.C.*, *Fallimento* should be declared by the debtor within three days of ceasing payments. Otherwise, s/he committed the criminal offence of *Bancarotta semplice*<sup>58</sup>. Very often, however, *Fallimento* was triggered by creditors<sup>59</sup>. To do so, a creditor had to appeal to the local tribunal, providing evidence of the missed payment, at which point the tribunal could adjudicate *Fallimento* without even summoning the debtor<sup>60</sup>. If *Fallimento* was adjudicated, within eight days the debtor could file an appeal requesting revocation of the verdict<sup>61</sup>. Individuals involved in a *Fallimento* could become *Fallito/a* themselves, a status that meant civil and political restrictions. Managers and board members of *Fallite* joint-stock companies did not become *Falliti/e* but could still be prosecuted for *Bancarotta* under Criminal Law. After the adjudication of *Fallimento* the tribunal appointed a judge, set a deadline for the verification of debts, decided a date for the first assembly of the party of creditors, and nominated an official receiver to be ratified by the party of creditors. With these steps complete, the compulsory liquidation of the debtor’s assets could start, unless a *Concordato Fallimentare* was reached between debtor and creditors<sup>62</sup>. *Conc. Fal.* was a composition agreement to liquidate assets in an orderly fashion, which

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<sup>55</sup> Legge 24/5/1903, n°197 introduced *Concordato Preventivo* and *Piccolo Fallimento*.

<sup>56</sup> R.d.l. 20/11/1930, n°1595 and Legge 10/7/1930, n°995

<sup>57</sup> The concept of *Cessazione dei pagamenti* was replaced by that of *Insolvenza* (insolvency) in bankruptcy law only with the 1942 reform. Sometimes, judicial documentation reports the tribunal setting the date of *cessazione dei pagamenti* well before the date of adjudication of bankruptcy. This practice of setting a legal date earlier than the the real *cessazione dei pagamenti* was in fact a legal tool to demarcate a ‘suspicious period’ in which contacts stipulated by the debtor before adjudication of *Fallimento* could be voided in case they were aimed at hiding his/her wealth from the creditors – on the basis of art. 707 *C.d.C.* stating “all free alienations and actions subsequent the ceasing of payments are voided in respects to the creditors”.

<sup>58</sup> There were two different criminal offences, *Bancarotta Semplice* and *Bancarotta fraudolenta*. The latter punishing serious wrongdoings such as alteration of the account books.

<sup>59</sup> A third option was for the Tribunal to adjudicate it *ex officio*, but this was not very commonly used. (Rocco, n.d.)

<sup>60</sup> But art. 688 *C.d.C.* allowed the Tribunal to summon the debtor, if wanted.

<sup>61</sup> Art. 693 *C.d.C.*

<sup>62</sup> A *Concordato Fallimentare*. could be reached at any point in time, not only right after the verification.

could allow the continuation of the firm if it was a joint-stock company (art. 853 *C.d.C.*). To be operational, *Conc. Fal.* had to be approved by the creditors and probated by the tribunal. Following a *Conc. Fal.*, as part of the agreement, the debtor could be removed from the official list of *Falliti* and reacquire civil and political rights after all the terms had been fulfilled. As the lawyer Bolaffio recalled, compulsory judicial liquidation of assets “is the least employed device to deal with *fallimenti* of a considerable patrimonial entity, since the faster, pacific and economical solution of *concordato [fallimentare]* is preferred to the difficult, aleatory and expensive forced asset liquidation.”<sup>63</sup>

### 3.5.3 Concordato Preventivo

*Concordato Preventivo* and *Concordato delle grandi banche* were technically pre-bankruptcy proceedings designed to avoid the punitive measures of *Fallimento*, and had to be requested by the debtor before ceasing payments. *Concordato Preventivo*<sup>64</sup> was explicitly designed for ‘unfortunate debtors in good faith’ to allow them to find a composition agreement with creditors under judicial supervision. After the petition of the creditor, the tribunal verified that the debtor’s proposal satisfied several requirements: (1) accounting books in order; (2) a clear criminal and commercial record; (3) a guarantee of paying at least 40% of the liabilities<sup>65</sup>; and (4) no evidence of criminal behaviour. If all the requirements were met, the tribunal admitted the debtor to the proceeding, appointed a judge, and summoned the creditors. Otherwise, it adjudicated *Fallimento*. It also nominated a judicial commissioner (*Commissario Giudiziale*) whose task was to analyse the business and get a clear picture of its real assets and liabilities. The resulting report was presented to a meeting of creditors chaired by the judge. A simple majority representing at least  $\frac{3}{4}$  of the liabilities was required for the party of creditors to accept the proposal. If the composition proposal was rejected, *Fallimento* was adjudicated. Even if the meeting of creditors approved the proposal, the tribunal could still refuse to approve it if the *Commissario Giudiziale*’s report revealed that the initial requirements were not met. In truth, in certain cases banks were adjudicated *Concordato Preventivo* and even more frequently *Concordato delle grandi banche* despite evidence having emerged that the management was not exactly ‘in good faith’; the ‘interest of the creditors’ in avoiding a *Fallimento* prevailed over procedural concerns.

### 3.5.4 Concordato Preventivo delle grandi banche

From 1924, banks with at least 20 million lira in deposits and 5 million in capital could file for a special *concordato preventivo*<sup>66</sup>. Following the dismal experience with the *Banca Italiana di Sconto* in 1921-22, the Italian authorities realised that summoning every creditor of a large bank was burdensome<sup>67</sup>. Moreover, even the preliminary checks of the first phase proved incredibly time consuming for credit institutions of any considerable size. Therefore, in these *concordati*, the preliminary phase was *de facto* voided of any concrete

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<sup>63</sup> Cit. Bolaffio, (1934), p. 625

<sup>64</sup> Legge 24/5/1903, n°197

<sup>65</sup> The unacceptability of *concordati preventivi* with less than 40% was reinforced by Legge 10/7/1930, n°995. C.f. Bolaffio (1931), pp. 32–33

<sup>66</sup> R.d.l. 8/2/1924, n°136 organised consistently all those norms previously introduced to deal with *Banca di Sconto*’s failure. However, the 1924 law was itself an ad hoc response to the failure of *Banca di Credito e Valori*. C.f. footnote n°2 in Bolaffio (1932), p. 15

<sup>67</sup> Candian (1937), p. 321

meaning<sup>68</sup> and the meeting of creditors was replaced by a smaller committee (three to five members) appointed by the tribunal among those creditors with banking expertise. However, this committee was just an advisory body, in contrast with the normal proceeding where the assembly's approbation was required. Therefore, creditors retained only the right to object to the probation. All banks that qualified for *Concordato delle grandi banche* at least tried to file for it. In some cases, this was rejected and *Fallimento* was adjudicated instead.

### 3.6 Inconsistencies and problems of coeval publications and official figures

#### 3.6.1 General remarks

The research on primary sources carried out for this study has shed light on how secondary sources were compiled, highlighting the danger of misinterpretation. Namely, the annual figures on banks ceasing operation in *Relazione Bdl* should not be considered an accurate reflection of cessations taking place in that year; similarly, dissolutions of joint-stock banks reported in *Notizie ASSONIME* are likely to appear with a lag due to the operation of *Concordati*.

#### 3.6.2 Problems with *Relazione Bdl*.

Until 1930 *Relazione Bdl* includes a section stating how many banks suspended operations due to bankruptcy or initiation of voluntary liquidation, this being a separate section from that on banks ceasing activity. However, from the *Relazione* of 1931 onwards the figures on banks that had filed for bankruptcy are directly included in the group of banks removed from the *Albo*. This reflects a change in the way the *Albo* was managed by the Ministry of Finance and the Bank of Italy: until the end of 1931 bankrupt banks were removed from *Albo* only after their judicial liquidation was closed; from the beginning of 1932 bankrupt banks were removed as soon as the adjudication of *fallimento* or *concordato preventivo* became *res judicata*. This apparently marginal detail has an important implication: in fact, *Relazione Bdl 1931* reports a large number of bankrupt banks removed from the *Albo* in block. This huge number (213!) of bank closures in 1931 is also reported in table 6 in Ferri and Garofalo (1994). In truth, this is a gross overestimate of banks ceasing operation in 1931 because most of these banks had been adjudicated bankruptcy in the preceding four years, but had not removed from the *Albo* because their judicial liquidation had not been closed yet. Not all bankrupt but still in liquidation banks were removed in 1931: the revision process took time, and some of the 1920s banks were removed later than 1931. It would have been impossible to understand this problem without consulting the archival material, which was not available at the time Ferri and Garofalo (1994) wrote their paper.

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<sup>68</sup> Bolaffio (1931), pp. 28–30. The preliminary phase was the verification of the four requirements. However, the requirement of a guaranteed 40% minimum was restated and strengthened by Legge 10 Luglio 1930 n.995. Bolaffio (1931), pp.32-33

### 3.6.3 Problems with Notizie ASSONIME.

The official figures on joint-stock bank dissolutions, which have been used as proxies of bank distress in the literature<sup>69</sup> are affected by the legal operation of *concordato preventivo*. Unlike *fallimento*, filing for *concordato* did not dissolve joint-stock companies automatically, as *concordato* was conceived to technically allow the continuation of firms even after a composition. In practice, the Bank of Italy and the Treasury, in conjunction with the *Confederazione Bancaria Italiana*<sup>70</sup>, established that banks that filed for *concordato* could not continue their activities, but had to be liquidated. Still, the liquidation was not automatic but had to be decided by the shareholder meeting subsequently. Therefore, the dissolution appears in the *Notizie Statistiche* with a lag. As an example, consider the Credito Emiliano. This bank filed for *concordato* in September 1932, but its dissolution was probated by the local tribunal only in January 1933. Another example is the Banca Bergamasca di Depositi e Conti Correnti, which filed for *concordato* in January 1932, but was put into liquidation – and thus dissolved – only in January 1933.

## 4 Dataset reconstruction

### 4.1 Reconstruction strategy

The reconstruction involves three steps:

- (1) Identifying the names of all banks of interest filing for bankruptcy – i.e. ordinary joint-stock banks (SOC), cooperative joint-stock banks (BP), and private bankers/partnerships (DB).
- (2) Matching these banks with one or more files in each of the two archives (ASBI\_vig and ACS\_utcr).
- (3) Extracting relevant information from the archival files and additional sources.

The challenge presented by this process is the sheer number of banks relevant for this study: in total, the number of files consulted for this paper goes beyond a thousand. Plus, all banks are manually matched by unique ids with existing Italian banking databases, such as *ASCI* and *IMITA*, making the link with these datasets immediate.

### 4.2 Identifying all bankrupt SOC, BP, and DB.

The starting point is the ASBI's pre-publication drafts of the *Relazione Ball* listing banks removed from the *Albo* once the adjudication of *fallimento* and *concordato preventivo* were finally validated and became *res judicata*<sup>71</sup>. Completeness of this list is cross-checked against the ACS\_utcr section on 'Credit firms removed for

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<sup>69</sup> Lacking official figures, previous research on Italian banking crises in the interwar period had to rely on speculations on banking closures. For example Ferri, (1993) assumed that “although bank closures do not necessarily coincide with bank failures, there is a strong correlation between the two”. A ‘classical’ account on banking and financial crises in Italy by Ferri and Garofalo (1994) adopts the same approach. In one of the most famous English contribution on Italian banking in the Interwar period, Toniolo (1995) also relies on figures on banking closures from *Bollettino Statistico delle Società per Azioni*. However, it must be stressed that when all these contributions were written, the archives this research is built on, were not available yet. Therefore, relying on those figures was indeed the best approach possible at the time Ferri, Garofalo and Toniolo wrote their papers.

<sup>70</sup> The *Associazione Bancaria Italiana* (A.B.I., Italian Bankers’ Association) of the time.

<sup>71</sup> ASBI\_vig, prat.11, f.1, sf.1-3; prat.11, f.2-11; prat.13, f.1-3; prat. 244, f.1, sf.1-3, prat. 244, f.2-3.

permanently ceasing activity<sup>72</sup>. Three additional robustness checks are performed. The *Rassegna Economica del Banco di Napoli* published information on distressed and failed banks regularly between 1931 and 1935. In addition, the files of all banks that ceased to be correspondents of the Bank of Italy between 1927 and 1935 have been checked. Finally, all the minutes of the *Consiglio Superiore della Banca d'Italia* between 1926 and 1936 have been checked. The latter two approaches ensure that the new dataset cannot lack any credit institution of meaningful size, as being a correspondent of the Bank of Italy was necessary to access its rediscount facility, and it was utterly unlikely that the failure of a large bank was never mentioned in any meeting of the Bank's board, which often discussed even failures of small institutions. The extension backwards to July 1925 is possible thanks to the survival of a list in Stringher's papers at the Bank of Italy<sup>73</sup>. In July 1926, Stringher explicitly asked to all branches of the Bank to provide him with a list of all banks that had closed their doors in the previous year. Subsequently, in early 1929 all branches were asked to send a full list of all banks ceasing their operations since September 1926, therefore providing us with an exhaustive list by province for Sept 1926/Mar 1929 – these are found in single provincial files in the series *Ba Generico Filiali*. The only month left out is therefore August 1926, but none of the robustness checks has found a bank failing in that month.

#### 4.3 Matching bankrupt SOC, BP, and DB with one or more files in each archive.

Banks are matched with the correspondent folder in ASBI\_vig by searching for their name in the archival consultation software on the computers of the study room at the Historical Archives of the Bank of Italy. In order to match banks with the files from ACS\_utcr, all archival guides marked as *B* to *I* in section 3 are processed using OCR techniques, cleaned manually, and merged, yielding a digital list in Excel format consisting of more than 5000 entries. Matching is then performed on this list.

#### 4.4 Extracting relevant information on bankrupt SOC, BP, and DB from archives or additional sources.

- (i) Headquarters and geocoding  
Information on headquarters is usually present in the sources used for initial identification of bankrupt banks; when unclear, information is taken from archival sources. The bank is subsequently geocoded manually by matching the coeval name of the municipality where the bank was headquartered with the current name, and merging it with an Istat file giving latitude, longitude, and elevation of *località* in 2001<sup>74</sup>.
- (ii) Balance sheet data  
The purpose of collecting balance sheet items is to have an estimate of the approximate size of banks. The dataset includes information on: total assets; total deposits; total correspondent and other liability side current accounts; total capital and reserves. The ASCI database only has information for a (large) sample of *SOC* for 1926-36, therefore all other information had to be extracted from the archives, or alternatively from *Annuario*

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<sup>72</sup> ACS\_utcr, Società cancellate per cessata attività (1926-1935), bb.1-40, ff.1-876.

<sup>73</sup> ASBI, Direttorio Stringher, prat.32, f.1., sf.5

<sup>74</sup> “coord\_loc\_2001.xls”, kindly given to me by my supervisor Dr. Brian A’Hearn, who obtained it from [http://geodati.gfoss.it/wiki/index.php/Dati\\_liberi\\_-\\_Località\\_Istat](http://geodati.gfoss.it/wiki/index.php/Dati_liberi_-_Località_Istat) on 26 August, 2016. Unfortunately, the link was no longer active when this paper was written.

*ABI*. The process of data entry has to be done manually because the information in the standardised supervision forms is handwritten, making OCR impossible at the current stage of technology. I therefore collect information only for one benchmark year for all banks: 1927 (December)<sup>75</sup>. If collecting data for 1927 is impossible<sup>76</sup>, the closest year available is taken, with due annotation of the relevant year. For some banks filing for bankruptcy before the introduction of the 1926 banking law with no archival information, total assets are taken from the edition of the *Corriere della Sera* reporting news of the failure. The hierarchy according to which a source is preferred is as follows:

- 1) ASCI December 1927
- 2) ASCI closest date (1924-1928)
- 3) ASBI\_vig December 1927
- 4) ASBI\_vig closest date (Dec1926-Dec1928)
- 5) *Annuario ABI* December 1927
- 6) *Annuario ABI* (Dec1925-Dec1928)
- 7) IMITA.db 1927 or closest date
- 8) *Corriere della Sera*

(iii) Legal category

If the bank is present in Cerrito (1996), its legal category is taken from that source. If not, the legal category is taken from the *Albo* in ACS\_utcr. If the bank could not be matched with an ACS\_utcr file, the information comes from ASBI\_vig files.

(iv) Timing

As a general rule, the earliest information concerning bankruptcy in the archival documents is reported as the date of bankruptcy. However, if a bank is initially put into voluntary liquidation, then files for bankruptcy at a later stage, the date the bank is initially put into liquidation is used for ‘timing’. If the director of a bank committed suicide before filing for bankruptcy, the date of the death is used for ‘timing’. If a bank shuts its doors and the date reported precedes the first information available on bankruptcy, the day the bank shuts its door is used for ‘timing’. An additional variable, ‘type of proxy’, specifies the exact nature of the proxy date, e.g. filing for *Concordato Preventivo*, adjudication of *Fallimento*, starting liquidation, etc.

## 5 Interpretation, caveats, and future research

### General remarks and limits of this reconstruction

This section presents the magnitude, timing, and geographical dimensions of bank failure. An important caveat is that this reconstruction does not capture the full extent of distress experienced by small and medium commercial banks. If a distressed bank was rescued by a third party, avoiding a bankruptcy procedure, it does not show up in the reconstruction presented here. Thanks to previous research we know that the Italian public authorities had an active policy of resolving distressed banks; many more banks would have filed for bankruptcy if this had not been the case. Fully unravelling the story of banking distress and resolution efforts is beyond the scope of this article, but relying on existing work by Comei (1998) and

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<sup>75</sup> Ideally, I wanted to take 1926 but ASCI does not have information on *SOC* for that year.

<sup>76</sup> For example because the bank had ceased its activity before December 1927, or because the bank did not submit its balance sheet to the Bank of Italy in 1927.

Giglietta (2002) it is possible to put together an incomplete list of distressed but resolved banks<sup>77</sup>. Comei (1998) provides a comprehensive list of banks that were given government funds through the Istituto Liquidazioni<sup>78</sup>. Giglietta (2002) lists all distressed banks that were rescued through Banca Agricola Commerciale del Mezzogiorno [AGRICOM], established in 1929 by the Banco di Napoli precisely to deal with banking distress in the *Mezzogiorno*. As table 3 shows, the size of these banks is not negligible, having total assets of ca. 5 billion Lire. A final complete assessment of banking distress in Italy cannot be done without taking these banks into account, but this task is left to future research. Furthermore, in interpreting the numbers provided in this section, the reader must bear in mind the limitations and shortcomings described in sections 3 and 4.

### **Table 3 around here**

#### Magnitude

The magnitude of bank bankruptcies measured by total assets, deposits plus correspondent balances, and capital plus reserves is presented in table 4, while table 5 attempts some comparison with the respective total categories<sup>79</sup>. Approximately 8% of the Italian banking system went through bankruptcy procedures, but the figure is much higher, ca. 19%, when small and medium sized commercial banks are considered. Hardest hit was the smallest category, private bankers; more than a third of the assets owned by these banks went through bankruptcy proceedings<sup>80</sup>. At the other extreme cooperatives were the least involved in bankruptcy proceedings, the share relative to total assets being “only” 11%. The weightiest category, ordinary joint stock banks, suffered bankruptcies involving 21% of total assets. To put these figures in comparison, one should consider that the total deposits of US banks that suspended operations at some point during 1926-35 was roughly 16% of the total banking system<sup>81</sup>. However, as Table 3 reminds us, the total assets involved in a broader measure of banking distress could be double those involved in bankruptcy alone.

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<sup>77</sup> Another important episode of banking resolution that prevented bankruptcy was that of *Istituto di Credito Marittimo*, whose distress was resolved by *Istituto di Ricostruzione Industriale* in the mid-1930s (Giulianelli, 2017).

<sup>78</sup> The funds were allocated with two secret government decrees on 31<sup>st</sup> December 1930 and 31<sup>st</sup> January 1932. The two decrees are available in Guarino and Toniolo (1993) doc. 144 and doc. 155.

<sup>79</sup> Once again, it should be stressed that there is some imprecision in these comparisons. It being impossible to collect balance sheet data for every year, I focussed on a benchmark year (1927). However, data for this year were not always available, so that in some cases the balance sheet variables refer to a different year. Obviously, 1927 could not be taken for bank closing before 1927; these banks are therefore removed from the comparisons. Furthermore, deposits plus correspondent accounts and capital plus reserves are not always available, thus the value presented here underestimate the real magnitude. Nevertheless, these problems are serious only for small banks, thus the true aggregates cannot be too far from those presented here.

<sup>80</sup> The figure would be even higher if we consider that Banca Zaccaria Pisa, with a balance sheet of ca 150 mln in 1927 accounting for 7.2% of all DB total assets, avoided a bankruptcy procedure only thanks to the intervention of COMMIT, CREDIT, Istituto Italiano di Credito Marittimo, and Società italiana per le strade ferrate meridionali which sustained its distressed liquidation. ASBI, Vigilanza, prat.8158, f.2

<sup>81</sup> My calculation based on Board of the Federal Reserve (1976). According to Richardson (2006), who studied the available archival records of all bank suspensions from 1929 up until the bank holiday of 6<sup>th</sup> March 1933: not all bank suspensions ended up in a bankruptcy procedure though: out of 7101 banks suspending operations between January 1929 and March 1933 only 5191 went through a bankruptcy procedure, i.e. were wound down without being able to fully pay their depositors.

Table 6 displays the bank population by category in 1926 and 1936, allowing us for the first time to explain how much of the system's contraction in 1926-36 was due to bankruptcies. One out of four DB and SOC existing at the end of 1926 went through a bankruptcy procedure between January 1927 and March 1936, meaning that bankruptcy explains almost half of the contraction experienced by these two categories. By contrast, even though the contraction experienced by BP was quite substantial, only 26% of bank disappearances can be attributed to bankruptcies, as only 13% of joint stock cooperative banks existing at the end of 1926 filed for bankruptcy in the following years. Once more, one wants to take these numbers with a pinch of salt, given the limitations of the population figures spelled out in section 3.4.

**Table 4 around here**

**Table 5 around here**

**Table 6 around here**

## Timing

Figure 2 presents the total assets and number of banks filing for bankruptcy each year between July 1925 and March 1936, while figure 3 breaks the reconstruction down by legal category and semester. The new data confirm that bank failures were frequent already in the mid-1920s, in line with qualitative accounts in the literature<sup>82</sup>. But the individual size of these early failures was usually quite small – with two notable exceptions<sup>83</sup>. The increase in both the number and assets of bankrupted banks in 1927 could be attributed to the effect of the deflationary measures of ‘Quota 90’, whose effects made the chickens come home to roost for the Catholic banks<sup>84</sup>. The spike in total assets in late 1928 early 1929 is primarily due to the collapse of the major banks of this group<sup>85</sup>, but also to that of the banking group controlled by Alvaro Marinelli<sup>86</sup>. The stock market crash in autumn 1929 provoked the failure of at least six private bankers in Rome and Milan already in 1929, and the unfolding of the international crisis forced many small banks already in

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<sup>82</sup> In fact, bank failures were endemic throughout the 1920s, as many local banks filed for bankruptcy before the period covered by this reconstruction. Just to recall the largest ones, *Inter Alia*: Cassa Rurale di Bagnolo (Fallimento 31st May 1923); Banca Nazionale del Reduce (Concordato Preventivo 29th July 1923); Banca del Lavoro e della Cooperazione (Concordato Preventivo 24th August 1923); Banca di Credito e Valori di Roma (Concordato Preventivo 16th January 1924); Credito provinciale Modenese (Concordato Preventivo asked 21st January 1924); Banco San Lorenzo di Genova (27th February 1924); Banca dell'Associazione Agraria Parmense (Concordato Preventivo asked 10th March 1924); Banca Agricola Industriale del Sannio (Fallimento 21st May 1924); Banca Commerciale di Terra di Lavoro (Fallimento 17th June 1924) Banca Adriatica (Stopped payments 13th October 1924); Banca Centrale di Cambio di Milano (Concordato Preventivo 14th April 1925).

<sup>83</sup> Banca Garibaldi di Imperia (ca 150 mln assets, Apr. 1926) and the private banker Max Bondi (ca 90 mln assets, Jan 1926). Both failures should be attributed to speculation and bad management (Ferrari, 2017; Bonelli and Barsali, 1969).

<sup>84</sup> For a comprehensive overview of the distress of Catholic banks see: Caroleo, 1976; de Stefani, 1960; de Rosa L., 1983; de Rosa G., 1991; Toniolo, 1993; Conti 2003; Falchero, 2012; Robiony, 2018.

<sup>85</sup> Piccolo Credito di Ferrara (241 mln assets, Nov 1928), Credito Meridionale (232 mln assets, Nov 1928), Società Bancaria Marchigiana (200 mln assets, Jan 1929), and Piccolo Credito di Cuneo (153 mln assets, Apr 1929); Credito Padano (Jul 1929).

<sup>86</sup> Conti (2003) reconstructed the story of Marinelli: formerly a fish dealer, he climbed the social ladder thanks to political connections with the Fascist Party and reckless financial operations. Remarkably, he orchestrated a smear campaign against the head of the Bank of Italy's banking supervision, Niccolò Introna, when the Bank intervened to curb his speculations (Polsi, 2002).

trouble to file for bankruptcy in 1930. A large part of the bankrupted assets in this year belonged to Catholic banks that were left behind by the rescue orchestrated by the Italian government and the Bank of Italy.

At first sight, the decline in bankruptcies in 1931 might seem puzzling. After all, 1931 is known to be the worst year of the banking crisis in Europe, due to the financial contagion from Central Europe and the suspension of the Gold Standard by Germany and Britain. However, a confidential report by the Bank of Italy's banking supervisors reveals that – unlike the 'big four' – the exposure of small and medium commercial banks to the German economy was negligible<sup>87</sup>. By contrast, the bulk of the rescue interventions summarised in table 3 were carried out in 1931, artificially reducing the number of outright failures in the year. Though far from conclusive proof, the experience of the Banca della Lucchesia suggests that these rescues might also have been driven by the fact that in 1931 Italy was issuing a very large tranche of public debt, and Mussolini explicitly asked that financial turmoil should be avoided during the period of the issuance<sup>88</sup>.

The year 1932 stands out as the worst year for bank failures during the Great Depression both in terms of the number of banks and total assets involved. Unione Bancaria Nazionale di Brescia and Banca Bergamasca di Depositi e Conti Correnti closed their doors and filed for bankruptcy at the beginning of the year, and between August and October, the entire banking system of the province of Piacenza disappeared (Polsi 1997), with repercussions in the neighbouring provinces of Pavia and Parma. The subsequent year, 1933, is marked by a sharp reduction in numbers of failures and is the last in which we observe large banks filing for bankruptcy, these being Banca del Trentino e dell'Alto Adige di Trento and the Banca Castagnola di La Spezia. After that, very few banks filed for bankruptcy between January 1934 and March 1936.

### **Figure 2 around here**

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<sup>87</sup> ABSI, Vigilanza, prat.537, f.1: In August 1931 the Bank of Italy conducted a secret survey to calculate the exposure of Italian banking system to Germany. Only 18 banks were exposed, substantially so in only three cases - Banca Commerciale Italiana, Credito Italiano, and Banco di Roma. Of the 15 other banks, only Banca Bergamasca di Depositi e Conti Correnti eventually filed for bankruptcy (in 1932). Yet its exposure (3145 Mark, ca, 14152 Lire) was so small that it could have never been the cause of failure. Therefore, the idea that there wasn't any contagion from Germany to Italy seems plausible.

<sup>88</sup> After long negotiations in 1930, Banca della Lucchesia was created in January 1931 from the merger of two distressed local banks under the direction of the Prefetto of Lucca. However, by early 1931 the situation had become unsustainable and on 21 May, the President of the Bank and the Podestà of Lucca wrote a letter to Mussolini asking for help. On 22nd May, from the Ministry of the Treasury a succinct but eloquent letter is sent to Pasquale Troise, Deputy Governor of the Bank of Italy:

“From the Ministry of the Interior, they brought here the attached documents, adding that S.E. il Capo del Governo would be grateful if the collapse of the Banca della Lucchesia is avoided during the underwriting of the [Public] loan. On behalf of the Minister, please take the issue into consideration, and let us know something on these regards”

After moral suasion by the Bank of Italy on the institutional creditors of the bank, which bought some time for orchestrating a proper resolution, the bank was eventually put into liquidation in July 1931, and subsequently merged with the Banca Nazionale del Lavoro. ACS, Ministero del Tesoro, Direzione Generale Tesoro, Ispettorato generale per i servizi monetari di vigilanza e controllo, Ufficio tutela del credito e del risparmio, Aziende di credito iscritte all'Albo, bb.75, f.1815

### Figure 3 around here

#### Geography

Mapping banking failures is possibly the most important contribution of this article because it makes possible the first quantitative comparative assessment of banking failures in different regions of Italy. However, in interpreting these results one wants to bear in mind that in interwar Italy there were massive regional differences in the level of banking development. As table 7 shows, measured by deposits per capita, Southern regions were much less financially developed than the Northern ones, and this was indeed reflected in their banking system. Therefore, the bankruptcy of a 20 million lire bank in Lombardy should be interpreted very differently than the bankruptcy of a similarly sized bank in Apulia.

### Table 7 around here

Figure 4 presents the location of the headquarters and the total assets of commercial banks filing for bankruptcy between July 1925 and March 1936. The first feature that emerges is that there was hardly a part of Italy that was spared bank failures throughout this period: only Sardinia, southern Tuscany, and Eastern Emilia Romagna appear to be unscathed. This is especially true if we look at the numbers of institutions rather than at their size: small banks failed all around the Italian peninsula. However, not all regions experienced severe banking crises, as larger banking failures were more geographically concentrated.

The timing dimension is important: if one only looks at the 1930s the picture is partial. Regions like Piedmont, Apulia, and Campania did not have bankruptcies in the 1930s, because important banks had already failed in the late 1920s<sup>89</sup>. Once the timing of bankruptcy is taken into account, it is clear that some regions appear to be spared by banking crises during the Great Depression only because their banking system had already been purged of weaker elements in the late 1920s. This is particularly true for the South, the North West, and the Adriatic coast.

The spike in total assets for 1932 evident in figures 2 and 3 was accounted for by a clearly delimited area between Lombardy and Emilia Romagna. In January-February two large banks in Brescia<sup>90</sup> and Bergamo (both in Eastern Lombardy) filed for bankruptcy. In September-October, a run started in the province of Piacenza and soon spread to Parma, forcing the closure of a group of Catholic banks headed by *Banca S. Antonino* of Piacenza and all other commercial banks in the province of Piacenza<sup>91</sup>. Calabria suffered from a major banking crisis that originated in the province of Cosenza, which then expanded to smaller banks in nearby provinces<sup>92</sup>. In 1933, in Trentino Alto-Adige the largest bank was forced to file for bankruptcy after a run by depositors in June<sup>93</sup>. The bankruptcy of the main private banker in the province of La Spezia in December 1933, which left the province without any local commercial bank, is the last episode of outright

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<sup>89</sup> Piedmont: Bermond (1986, 2002); Apulia: Comei (2008); Campania: Rienzo (2000) ASBI, Banca d'Italia, Vigilanza, prat.8144, fasc. 1-3; ASBI, Banca d'Italia, Sconti, prat.330, fasc. 2

<sup>90</sup> Pegrari (2004)

<sup>91</sup> Polsi (1997)

<sup>92</sup> Rienzo (2004)

<sup>93</sup> Brunelli (1999, 2000)

failure of significant size that we observe in the 1930s. Following this episode, all bankruptcies in 1934-36 are of negligible size.

**Figure 4 around here**

The main shortcoming of figure 4 is that the mapping is based on the municipality where bank headquarters are based, implying that all assets of branches outside the headquarter municipality are wrongly attributed to it. This is problematic because many banks at the time had developed a network of branches which often extended beyond provincial and regional borders (Polsi 2000). In theory, the ideal approach would be to take into account how assets were distributed across branches, and calculate for each region the assets of bankrupted bank branches as a share of the regional total assets. More formally, the regional indicator  $f_i$  would be constructed as equation 1. Where  $i$  is the region, *failed bank* are banks filing for bankruptcy between 1927 and 1936, and  $A$  is assets in a benchmark year (1927). However, constructing  $f_i$  with this approach would be impossible: not only we do not have data on the regional distribution of assets among the various branches of individual banks but we also lack statistics of total regional assets<sup>94</sup>.

Equation 1

$$f_i = \frac{\sum_{\text{failed banks}} A_i}{\sum_{\text{all banks}} A_i} \quad \begin{array}{l} i: \text{region} \\ A: \text{assets} \end{array}$$

A second best alternative is to construct a similar indicator using number of bank offices (i.e. headquarters plus branches) instead of assets<sup>95</sup>. The share of offices owned by banks filing for bankruptcy during the crisis on the total number of bank offices existing before the crisis should be a good proxy for the intensity of the banking crisis in the region. The first official list of bank branches was published only in 1939, and therefore is of no use for our purpose. The *Annuario ABI* is the best source to employ. I choose the 1927 edition because it represents the banking system in March 1927, early enough to capture most, albeit not all, failing banks before their bankruptcy. According to Polsi (2000), the 1927 edition is the best compromise in terms of capturing the Italian banking system before the crisis while also being sufficiently complete to

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<sup>94</sup> The main problem is the missing denominator. The first aggregate figures (on total deposits per province) are available for December 1929. However, using December 1929 would omit a large part of the banking failures in the South that happened before that date. For the numerator, one alternative and theoretically feasible solution would be to redistribute the assets using local population as proxy for activity – i.e. assuming that a branch in a large city such as Milan collects more deposits than a branch in the countryside. Another strategy would be to carry out a thorough archival research in individual banks' archives, hoping to find information on the distribution of deposits/assets per branch. However, in the light of the effort required and the low chance of finding complete data for all banks for the same year, a cost-benefit analysis of this strategy discourages this approach at this stage of research.

<sup>95</sup> This approach has shortcomings too. It is based on the simplistic assumptions that all branches are the same size. This is certainly historically inaccurate, but nonetheless the resulting bias should not be large enough to alter the overall picture.

be representative. For each region<sup>96</sup>, I counted all the offices belonging to the banks filing for bankruptcy in 1927/36 that are present in *Annuario ABI* 1927. A unit bank without branches is counted as a single office. Then I calculated their share the total number of offices as in equation 2.

Equation 2

$$f_i = \frac{\sum_{\text{failed banks}} O_i}{\sum_{\text{all banks}} O_i} \quad \begin{array}{l} i: \text{region} \\ O: \text{offices in 1927} \end{array}$$

**Figure 5 around here**

Based on this method, acknowledging the shortcomings and approximations that it requires, figure 5 presents the first – to the best of my knowledge – comparative account of regional banking failures during the interwar period. First and foremost, it shows that Southern Italy experienced a more severe crisis than the North<sup>97</sup>. In Apulia and Campania, almost half of the branches existing in March 1927 were involved in bankruptcy proceedings in subsequent years, a finding that reconciles well with the accounts by Comei (2008) and Rienzo (2000). Calabria, Basilicata, and Abruzzi and Molise followed close behind, with between 38 and 44% of their branches affected. Had the Banco di Napoli not intervened through the Banca Agricola Commerciale del Mezzogiorno to relieve banking distress in the 1930s, the figures would have been much worse. In Sardinia, no banks failed outright, while the situation in Sicily was not as calm as in Sardinia, but not as bad as tragic as in the rest of the South.

In central Italy, the Adriatic coast appears more severely affected than the other side of the Appennines. The Marche region was severely hit by the collapse of Società Bancaria Marchigiana which left the region in latent distress throughout the 1930s (Chiapparino 2008). However, the apparent calm in Latium was, in truth, only apparent: without the bail-out of Banco di Santo Spirito the picture would have been different (De Matteo 2001). Similarly, had the Monte dei Paschi di Siena not rescued the Banca di Firenze and Credito Toscano (Asso and Nerozzi, 2016; 2018), the number of Tuscan branches affected by bankruptcy procedures would have been much higher than the 7% displayed for Tuscany. In Umbria, the collapse of Banca dell'Umbria controlled by Alvaro Marinelli (Conti 2003) was a severe blow for the local banking

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<sup>96</sup> In order to create regional boundaries consistent with data displayed in table 7, Valle d'Aosta is aggregated to Piedmont, Friuli and Trieste to Veneto, and Molise to Abruzzi.

<sup>97</sup> The *Annuario ABI* being published in Milan, it could be the case that Southern banks are less represented in the publication. It is unlikely that this could subvert the results and the interpretation proposed. Overlooked banks were most likely tiny and single branched; it is very unlikely that banks with a branch network large enough to change the results were ignored by the publication. Moreover, to bias the results these banks should not only be missing, but also surviving the crisis. Finally, the regional differences in failure rates are so strong that even admitting that few banks were missing and survived there would need to be a very large of number of them to change the results. Nevertheless, I cannot rule out *a priori* that it was the case.

system, but calm was restored when the Monte dei Paschi intervened to guarantee its *concordato preventivo* and took over its branch network.

Veneto and Friuli Venezia Giulia were all but spared any banking distress (De Rosa 1991; Robiony 2018); although some important Catholic banks such as the Credito Veneto and Banca della Venezia Giulia failed, the rescue of the Banca Cattolica del Veneto and the presence of a close-knit fabric of cooperative banks kept the system afloat. Trentino Alto Adige is the only northern region where the crisis had an impact similar to that in the South, as studied in the work done by Brunelli (1999, 2000). Emilia Romagna is really a tale of two regions, masked by the regional aggregation. Emilia was ravaged by bank failures throughout the period, from the fall of Piccolo Credito di Ferrara, the first Catholic bank to close its doors, to the collapse of the Banca Sant'Antonino di Piacenza in late 1932. By contrast, Romagna appears as an island of peace where a strong network of saving banks and the Credito Romagnolo di Bologna guaranteed financial stability throughout the period.

The picture in the northwest is rather complex: many banks failed there (figure 4), and this should not come as a surprise considering that this was the industrial core of the country and industrial production collapsed during the Great Depression. But Piedmont, Lombardy, and Liguria accounted for more than 40% of total Italian deposits (table 7) and hosted 30% of Italian bank branches (*Annuario ABI 1927*). Although high in absolute terms, the relative weight of bankrupt banks was smaller than in other parts of Italy. Piedmont and Liguria experienced an early crisis in the 1920s, but in the 1930s the threat of a widespread crisis was avoided thanks to the orderly liquidation of Gualino's Banca Agricola Italiana (Bermond 2002). In Lombardy, the crisis was severe during the Great Depression and reached its peak with the failure of two large banks in Brescia and Bergamo in 1932. However, unlike in the South, even in these two provincial capitals there were other large local banks ready to fill the void left.

## 6 Conclusions

In this paper, I present the first all-embracing account of commercial banks filing for bankruptcy in Italy between July 1925 and March 1936. This work lays the foundation for a comprehensive dataset documenting all forms of banking distress, with information at individual bank level on size, location, and timing. So far, only outright failures, i.e. banks filing for bankruptcy, are present in the dataset, but future research should expand coverage to cases of hidden and resolved distress. The archival sources surveyed in this article would in fact allow a complete reconstruction of all categories of distress. Until that work is completed, only tentative conclusions can be drawn on bank failures in Italy during the period considered. Nevertheless, some interesting results already emerge at this stage of the research.

Bank failures were endemic through most of the interwar period, peaking in the early 1930s. From 1934 – at least two years before the introduction of the 1936 banking law – they subsided to negligible levels. As bank failures had been frequent even before 1929 and cannot be attributed entirely to the Great Depression, so the reduction in distress from 1934 cannot be attributed exclusively to the easing of the economic crisis.

Future research should explore institutional explanations, in particular the roles of the 1926 banking law and of IRI and IMI<sup>98</sup>.

The results presented here allow a preliminary answer to the important question of whether the reduction in the banking population between 1926 and 1936 was a contraction or a consolidation. Bankruptcies explain only 20% of the reduction in the number of commercial banks. But important differences exist between categories of banks: for SOC and DB bankruptcies explain almost half the closures, whereas for BP the figure is much lower. DB appear to be the worst hit category, suggesting that the interwar crisis accelerated the disappearance of this historic form of banking. Reconstructing the banking population with archival microdata for BP, SOC, and DB would make it possible to delve further into this issue and identify the cause of disappearances which cannot be attributed to bankruptcy.

In terms of magnitude, i.e. the size of the balance sheets of failed banks, bankruptcies were not negligible. At the same time, the crisis was not as severe as in the USA, possibly the most iconic widespread banking crisis of the interwar period. In these respects, however, any conclusion should be put on hold until a full picture of all categories of distress is available. Anecdotal evidence suggests that the numbers are much higher when distressed but resolved banks are considered. If this is true, future research should investigate the drivers of the resolution process: were resolutions politically motivated? What was the political economy behind?

One of the most interesting results of this research is the geographic trend that emerges. Consistent with existing narratives, the South appears to be more adversely affected than the North, even though in absolute terms the banks failing in the North were larger. The interwar years were a period of divergence between the North and the South (Felice, 2019), thus banking distress and divergence appear to be correlated. The interesting question is then in which direction causation ran.

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<sup>98</sup> Istituto di Ricostruzione Industriale (IRI) and Istituto Mobiliare Italiano (IMI).

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Table 1

**The Italian banking system by legal category, 1921-36**

Legal Category (acronym)	1921	1926	1936	1921	1926	1936
	Number of banks			Total assets (mln Lire)		
Joint-stock banks (SOC)	275	425	184	31,567	39,813	30,517
Coop. joint-stock banks (BP)	769	660	329	6,297	9,162	6,419
Private bankers (DB)	n. a.	306	147	n. a.	2,014	1,040
Saving banks (CRO)	191	202	91	9,924	16,128	22,474
Pawn banks (MDP)	27	26	8	675	1,218	1,015
Rural coop. banks (BCC)	2151	2545	1202	n. a.	1,386	876
Big Four j. s. b.	4	4	3	22,513	20,519	19,455
Ordinary SOC	271	421	191	9,054	19,295	11,063

Sources: total assets are from Cotula et al. (1996) and Natoli et al. (2016). Banks in 1921 and 1926 are from Cotula et al. (1996). Banks in 1936 are from Banca d'Italia (1977).

Figure 1

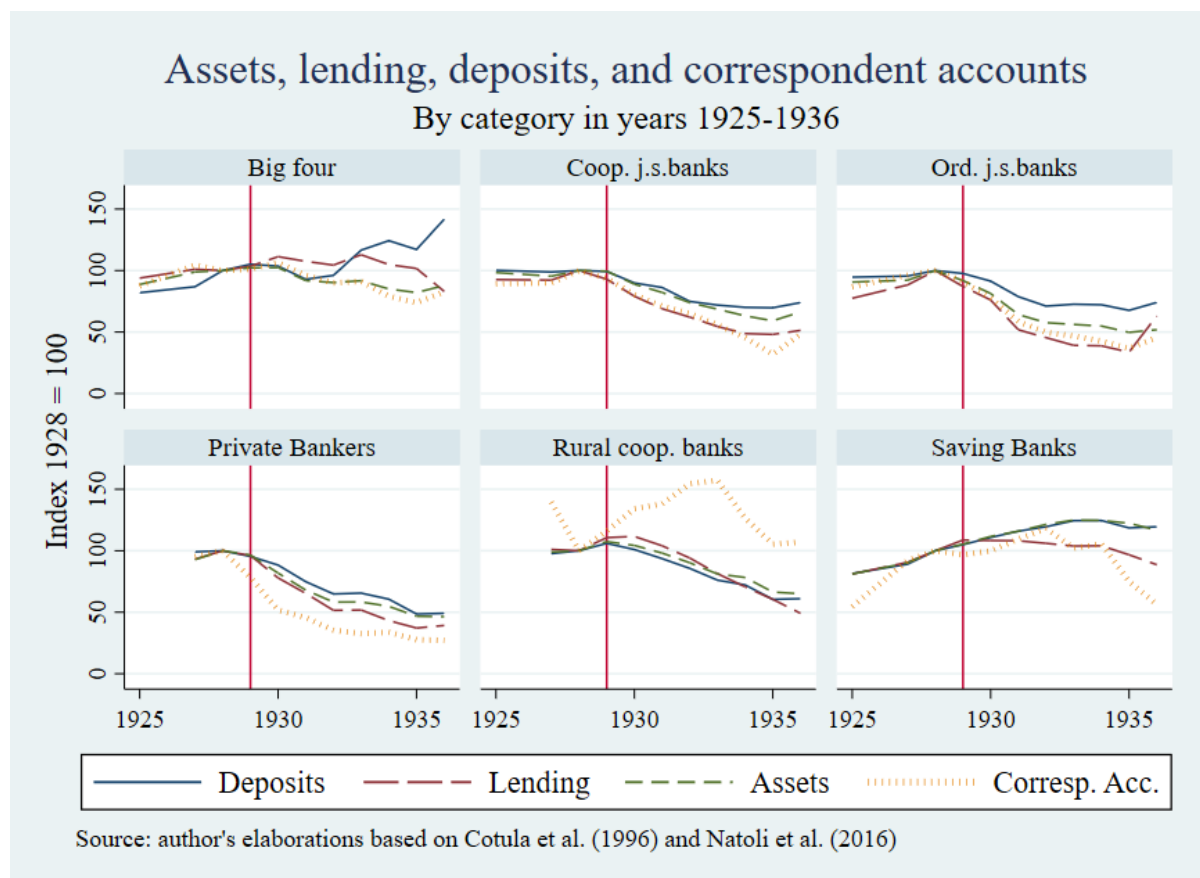


Table 2

A)	<i>Affari generali (1925-1943)</i>	General affairs.
B)	<i>Aziende di credito iscritte all'Albo (1926-1944)</i>	Credit institutions registered in the <i>Albo</i>
C)	<i>Società cancellate per cessata attività (1926-1935)</i>	Credit institutions removed for permanently ceasing activity
D)	<i>Società cancellate per cessazione della raccolta dei depositi (1926-1939)</i>	Credit firms removed for discontinuing deposit collection
E)	<i>Aziende di credito ordinario assorbite (1926-1936)</i>	Credit firms removed after merger
F)	<i>Casse di risparmio e monti di pietà assorbiti (1927-1933)</i>	Saving and Pawn banks removed after merger
G)	<i>Aziende di credito di nuova costituzione non riconosciute (1927-1935)</i>	Newly established credit institutions, not authorised
H)	<i>Società non iscritte all'Albo anche se numerate (1926-1936)</i>	Credit firms which were not registered to the <i>Albo</i> , but were nonetheless given a positional number in the Treasury's archive
I)	<i>Aziende di credito costituite non iscritte all'Albo (1927-1938)</i>	Newly established credit institutions not registered in the <i>Albo</i>
L)	<i>Istanze (1927-1934)</i>	Requests
M)	<i>Ispezioni presso il consorzio della provincia e dei comuni trentini (1919-1935)</i>	Inspections of the consortium of the province and municipalities of Trentino.

Table 3

## List of known bank distress resolution interventions

Bank Name	Resolution intervention	Total Assets (mln Lire)	Balance sheet date
Banco Santo Spirito	Istituto di Liquidazioni	272.51	31-Dec-28
Banca Popolare di Ferrara	Istituto di Liquidazioni	91.61	31-Dec-29
Banca Agricola Provinciale di Rovigo	Istituto di Liquidazioni	52.73	31-Dec-27
Banca delle Venezie	Istituto di Liquidazioni	111.75	31-Dec-27
Credito Toscano	Istituto di Liquidazioni	337.29	31-Dec-27
Banca di Firenze	Istituto di Liquidazioni	126.50	31-Dec-27
Banca delle Marche e degli Abruzzi	Istituto di Liquidazioni	230.50	31-Dec-29
Banca Cattolica del Veneto	Istituto di Liquidazioni	455.17	31-Dec-30
Banca Agricola Italiana	Istituto di Liquidazioni	1,155.49	31-Dec-30
Piccolo Credito Novarese	Istituto di Liquidazioni	419.41	31-Dec-27
Banca Nazionale dell'Agricoltura	Istituto di Liquidazioni	418.16	31-Dec-30
Banca Provinciale Lombarda	Istituto di Liquidazioni	281.97	31-Dec-32
Banco di San Prospero e San Gimignano	Istituto di Liquidazioni	298.84	31-Dec-32
Monte di Pietà di Cagliari	Istituto di Liquidazioni	13.37	31-Dec-30
Banca Agricola Commerciale di Pavia	Istituto di Liquidazioni	269.15	31-Dec-27
Casse rurali Istriane	Istituto di Liquidazioni	N/A	-
Banca degli Agricoltori Monferrini	Istituto di Liquidazioni	15.05	31-Dec-27
Banca popolare di Reggio Emilia	Istituto di Liquidazioni	56.82	31-Dec-27
Istituto Carnico di Tolmezzo	Istituto di Liquidazioni	14.97	31-Dec-27
Banca cooperativa Bresciana	Istituto di Liquidazioni	61.70	31-Dec-27
Banca popolare di Alfedena	AGRICOM	88.17	31-Dec-27
Banca popolare di Caiazzo	AGRICOM	9.67	31-Dec-27
Banca del Sud	AGRICOM	137.29	31-Dec-27
Banca popolare di Napoli	AGRICOM	23.41	31-Dec-27
Banco Abruzzese	AGRICOM	127.84	31-Dec-27
Credito Calabrese	AGRICOM	9.42	31-Dec-27
Banca di Frattamaggiore	AGRICOM	19.64	31-Dec-27
<b>Total:</b>		<b>5,098.52</b>	

Note: this is not a comprehensive list of all distressed and resolved banks

Sources: Nominal lists from Comei (1998) and Giglietta (2002). Total assets from Natoli et al. (2016) and ASBI, Vigilanza, various folders.

**Table 4**

<b>Aggregated balance sheets of bankrupted banks 1925-1936</b>			
<b>Year of bankruptcy</b>	<b>Total Assets</b>	<b>Deposits and correspondent accounts</b>	<b>Capital and reserves</b>
1925	103.01	22.87	16.63
1926	413.92	98.55	18.86
1927	683.31	456.79	55.39
1928	778.60	592.55	71.35
1929	903.92	687.98	73.27
1930	1039.09	827.14	76.95
1931	176.20	108.43	29.92
1932	1687.29	1418.49	112.55
1933	637.30	568.21	35.85
1934	63.71	49.05	8.16
1935	22.93	18.51	3.03
1936	27.55	23.58	2.65
Total	6536.82	4872.14	504.62
<b>by Legal category</b>			
BP	1066.80	911.74	63.56
DB	1005.19	460.16	57.19
SOC	4464.84	3500.24	383.87

Note: all figures are in million Lire

Sources: see section 3 and 4; Cotula et al. (1996); Natoli et al. (2016)

**Table 5**

**Share of balance sheets of bankrupted banks in 1927-36 on totals in 1927**

<u>Category</u>	<u>Total Assets</u>		<u>Deposits and correspondents</u>		<u>Capital and reserves</u>	
Bankrupt BP	1,059.99		906.91		62.40	
Bankrupt DB	739.65		455.79		53.47	
Bankrupt SOC	4,220.25		3,388.02		353.25	
Total	6,019.89		4,750.72		469.13	
	Total 1927	% Share	Total 1927	% Share	Total 1927	% Share
All BP	9,249.10	11.46%	8,211.40	11.04%	683.20	9.13%
All DB	2,078.60	35.58%	1,644.90	27.71%	877.50	6.09%
All SOC	41,556.20	10.16%	31,271.50	10.83%	4,538.80	7.78%
SOC excl. big 4	19,655.96	21.47%	15,125.24	22.40%	2,168.80	16.29%
All commercial banks excl. big 4	30,983.66	19.43%	24,981.54	19.02%	3,729.50	12.58%
All commercial banks with big 4	52,883.90	11.38%	41,127.80	11.55%	6,099.50	7.69%
All credit institutions	75,143.30	8.01%	57,757.00	8.23%	8,033.50	5.84%

Note: all figures are in million Lire  
 Sources: see section 3 and 4; Cotula et al. (1996); Natoli et al. (2016)

Table 6

**Bankruptcy and the contraction of bank population in 1926-36**

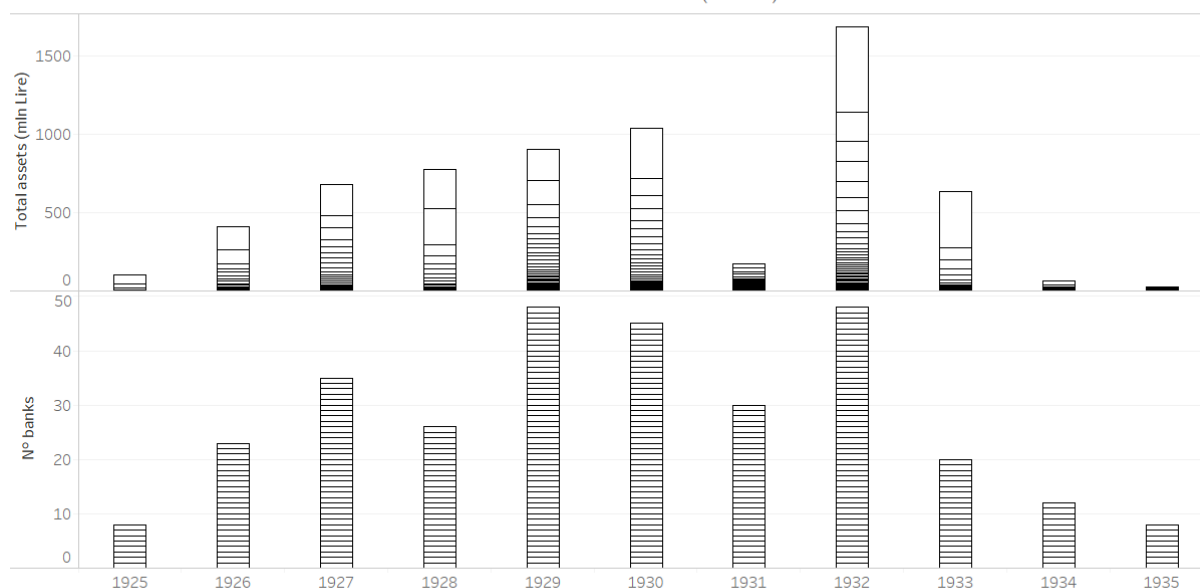
Legal Cat	Existing in 1926	Bankrupt in Jan 27- Mar 36	Share of bankrupt on 1926 banks	Existing in 1936	Closures explained by bankruptcy
SOC	425	110	25.88%	184	45.64%
BP	660	88	13.33%	329	26.59%
DB	306	78	25.49%	147	49.06%

Sources: Cotula et al. (1996); see section 3 and 4

Figure 2

**Commercial banks filing for bankruptcy in Italy [July 1925 - March 1936]**

Number of banks and total assets (mln Lire)



Notes: 1925 refers to July-December only. 1936 refers to January-March only.  
 Sources: see sections 3 and 4.

Figure 3

Commercial banks filing for bankruptcy in Italy by legal category and per semester

Number of banks and total assets (mln Lire) [July 1925 - March 1936]

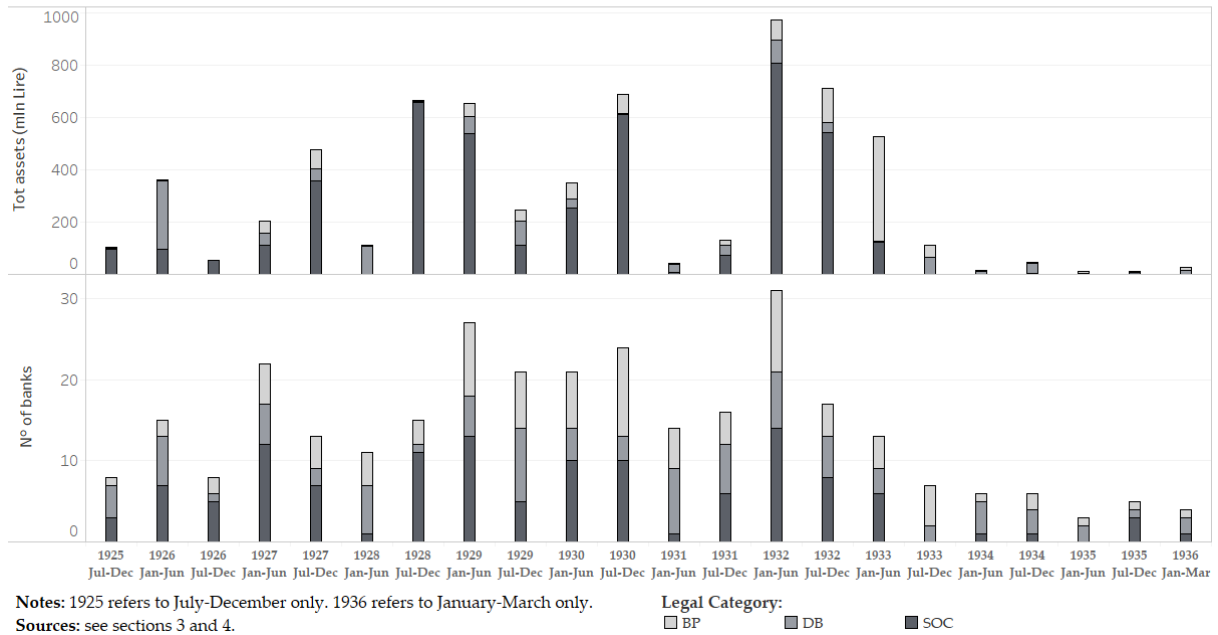


Table 7

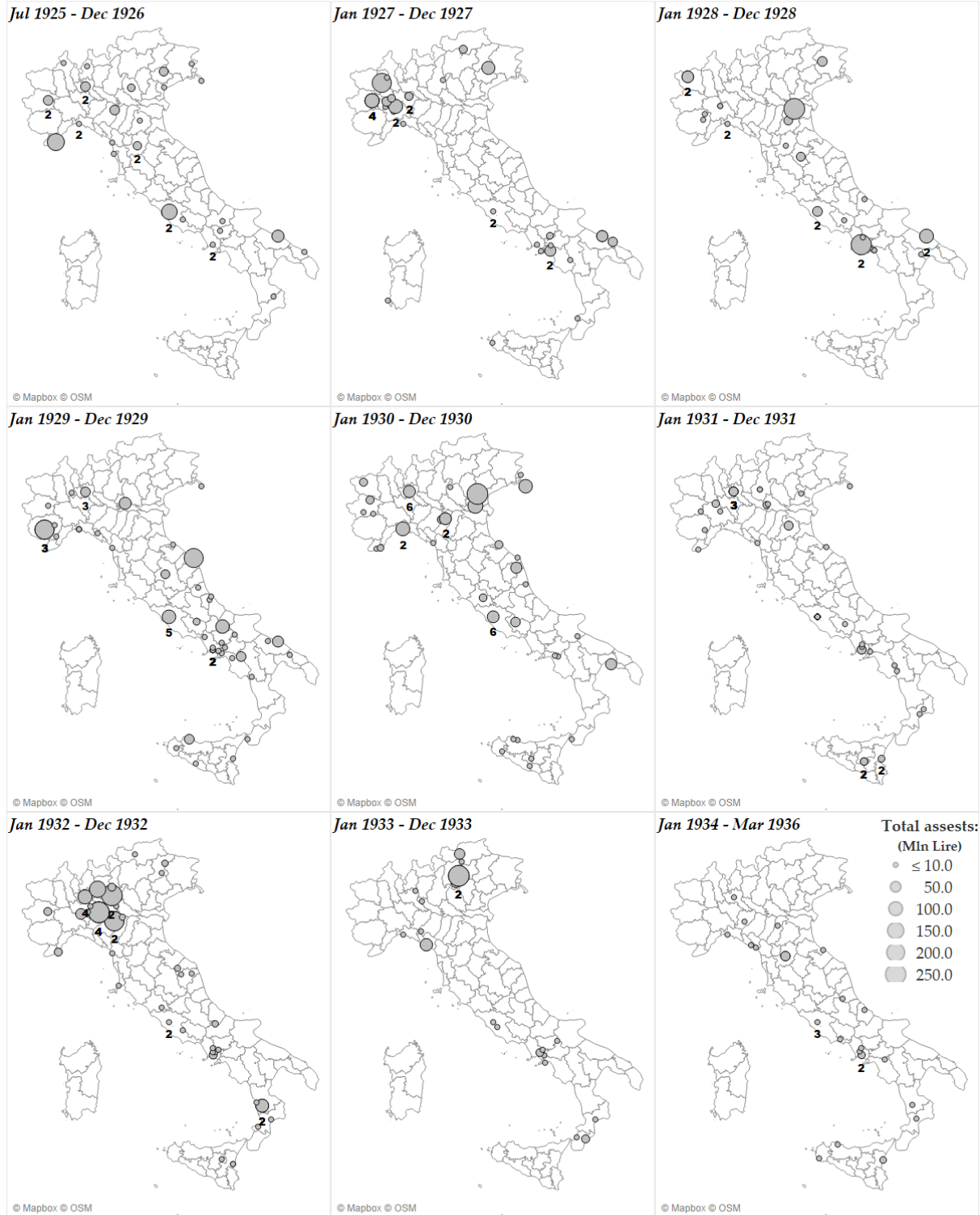
Bank and postal deposits of Italian regions in 1929

Region	Total deposits 1929 (mln)	Postal deposits 1929 (mln)	Bank deposits 1929 (mln)	Population 1931 (mln)	Total deposits per capita	Bank deposits per capita
Lombardy	10,538.00	805	9,733.00	5.54	1,900.99	1,755.77
Piedmont and Aosta	7,355.70	1,868.00	5,487.70	3.45	2,131.69	1,590.34
Veneto, Friuli and Giulia	4,601.50	447	4,154.50	4.12	1,115.98	1,007.57
Emilia Romagna	4,051.30	273	3,778.30	3.22	1,258.77	1,173.95
Tuscany	3,700.10	398	3,302.10	2.89	1,279.26	1,141.66
Latium	2,855.70	705	2,150.70	2.41	1,185.95	893.17
Sicily	2,777.60	836	1,941.60	3.9	712.78	498.25
Campania	2,504.80	1,008.00	1,496.80	3.51	713.67	426.47
Liguria	2,382.30	747	1,635.30	1.44	1,657.88	1,138.03
Calabria	1,115.20	443	672.2	1.67	668.2	402.77
Apulia	1,047.40	333	714.4	2.49	421.22	287.3
Abruzzi and Molise	1,008.80	456	552.8	1.5	673.18	368.89
Trentino Alto Adige	996.4	26	970.4	0.66	1,509.38	1,470.00
Marche	949.7	99	850.7	1.22	779.88	698.59
Umbria	437.6	77	360.6	0.69	630.48	519.54
Sardinia	350.7	175	175.7	0.97	360.39	180.55

Sources: Author's own elaborations on *Relazione Bdl* for year 1931; Della Torre (2000); ISTAT (1933)

Figure 4

Total assets and number of Italian commercial banks filing for bankruptcy



Notes: Maps at municipality level. Markers correspond to the sum of total assets of all banks filing for bankruptcy in the displayed period. When more than one bank files for bankruptcy in the year, the number of banks considered is labelled below. No label means only one bank.  
Sources: see sections 3 and 4

Figure 5

Share of bank offices owned in 1927 by banks filing for bankruptcy between January 1927 and March 1936

