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**THE POLITICAL ECONOMY OF FINANCING LOCAL PRODUCTION IN ITALY,  
1950-1990s**

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**Abstract**

Francesca Carnevali's work stressed the key role of politics and institutions in determining a country's banking structure, which in turn shapes its industrial structure. Segmented banking systems in France, Germany and Italy allowed different types of banks to specialize in different market segments, ensuring the fulfilment of smaller firms' financial requirements. In Britain, local banks did not survive the wave of amalgamation of the 1960s. This void left small- and medium-sized enterprises (SMEs) and banks facing high transaction costs on the credit market due to little – or even an absence of – knowledge of the local business environment.

Focusing on the Italian case this paper discusses how major parties in the political spectrum, as well as economic institutions such as the Bank of Italy, agreed to foster SMEs after the Second World War. This led to the establishment of a segmented banking system, in which local banks were preserved to serve the financial needs of SMEs clustered in local production systems. Then the paper moves on to explore the establishment of the medium-credit institutes (the *Mediocrediti* and the Artisan Bank) and their provision of additional financial support to SMEs and to artisan firms.

## 1. The political economy of the banking sector

Banking history has traditionally represented the evolution of the banking sector in various nations as essentially a market-driven path. This led financial systems to work quite efficiently and capital markets were perfectly rational in supplying firms with the funds. If there were credit restrictions, criticism should be leveled at macropolicy and not at banks.<sup>1</sup>

Francesca Carnevali challenged this view by arguing that in the four larger European economies the structure of the banking sector has been profoundly shaped by politics and by the power relations it reflected. In particular, the differences in the banking and industrial structures between these countries were to a large extent the result of the state's attitude towards small firms.<sup>2</sup>

Thus, in the twentieth century Britain became the economy with the most concentrated banking sector and industry in Europe. As local banks disappeared, nothing replaced them to make use of the information possessed by local networks to fund viable investment projects of small firms clustered in regional economies. Instead, the French, German and Italian banking systems remained segmented, with Italy being the highest example of segmentation. In these countries local and regional banks retained the larger share of commercial lending and the state intervened with the promotion of additional public and semi-public lending institutions. A segmented banking system allowed different types of banks to specialize in different types of customers in different geographical areas, ensuring the fulfilment of the credit needs of those smaller firms whose borrowing power from the capital market did not match their political power.

The interplay that took place between the state and social and economic groups representing small firms in France, Germany, and Italy did not happen in Britain, where small firms had little lobbying power and political representation. Moreover, small firms occupied an important place in the cultural identity of the three Continental nations, where they were seen as preservers of social stability and as valuable pools of votes, which was not the case in Britain. Thus, according to Carnevali, when seeking the causes of the decline of small firms in Britain it is to the absence of this dialectical process that one must turn.

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<sup>1</sup> See, for the UK, M. Collins, *Money and Banking in the UK: A History* (London, 1988); F. Capie, "Commercial Banking in Britain," in C.H. Feinstein (ed.), *Banking, Currency and Finance in Europe between the Wars* (Oxford, 1995), 395-413; D. Chambers, "The City and the Corporate Economy since 1870", in R. Floud, J. Floud and P. Johnson (eds), *The Cambridge Economic History of Modern Britain*, vol. 2: *1870 to the Present* (Cambridge, 2014), 255-278.

<sup>2</sup> F. Carnevali, *Europe's Advantage. Banks and Small Firms in Britain, France, Germany, and Italy since 1918* (Oxford, 2005).

By hinging on Carnevali's view, this paper explores how political action in Italy gave rise to the most intense case of banking regulation and provision of medium-term subsidized finance with the explicit aim of actively promoting the expansion of the small firm sector. This was one of the factors, after WW2, which led to the development of strong industrial districts made up of highly efficient and internationally competitive small firms.

This paper is structured as follows. Section 2 reviews the role of politics and institutions in shaping the structure of Italy's corporate economy. Sections 3 and 4 focus on the establishment of institutions charged with the provision of medium-term finance for SMEs and the geographical distribution of subsidized credit. Section 5 deals with the financial infrastructure created to support a specific group of small businesses, i.e. artisan firms. Sections 6 and 7 assess the provision and geographical distribution of credit for artisan firms.

## **2. Politics, institutions, and small firms in Italy**

Italy has an industrial structure which is in many respects unique amongst the most advanced economies, as it is characterized by a dominance of small and medium-sized firms (henceforth SMEs) often clustered in local production systems, and a marginal role of large firms.<sup>3</sup>

In the last 30 years, a widely held rhetoric has seen SMEs as a sort of natural path of Italian industrialization which is essentially market-driven. This view emphasizes the dynamic role of SMEs in traditional sectors, and their ability to exploit the comparative advantage of a country with very easy access to labour without any relevant government or public policy support.<sup>4</sup> In this perspective, some long-term coincident factors were crucial to the success of Italian small firms: the Italian extended family; the preservation of aspects of the late medieval communal civilization in the Centre-North and in particular of craft skills and craft tradition; the existence of merchant traditions connecting the Italian provinces to the world markets; the sophisticated and fragmented distribution channels that represent a demanding intermediate buyer which prompts enormous variety for the "Made in Italy" products; their propensity to aggregate in industrial districts (IDs) – i.e., geographic clusters of small firms each specialized in one or a few phases of the same production process – and

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<sup>3</sup> F. Onida, *Se il piccolo non cresce. Piccole e medie imprese italiane in affanno*. (Bologna, 2004).

<sup>4</sup> L. Cafagna, *Dualismo e sviluppo nella storia d'Italia* (Venice, 1989); G. Federico (ed.), *The Economic Development of Italy since 1870* (Adershot, UK and Brookfield, US, 1994); G. Becattini, *Distretti industriali e made in Italy. Le basi socioculturali del nostro sviluppo economico* (Turin, 1998).

the willingness of local governments to create the infrastructure and services to support small firms' development.<sup>5</sup> Moreover, since the 1970s Italian SMEs and IDs benefited from a number of important trends in the world economy. One trend is the shift from standardized, mass-produced products toward more customized, higher-styled, higher quality goods. Another is the movement of production technology away from inflexible, scale-intensive processes towards those with more flexibility that are suitable for, and adaptable to, small production runs.<sup>6</sup>

At the same time, this rhetoric holds that large companies in capital intensive oligopolistic sectors are something unnatural to Italy and could be established only thanks to government support. As a result, only a few big companies could thrive in the country; these were often protected by the state and enjoyed a large market power in the industries in which they operated.<sup>7</sup> State interventionism brought about a kind of "political capitalism" inside which entrepreneurs pursued growth not for economic reasons (i.e., to pursue economies of scale and scope to cut cost per unit and increase market shares) but to strengthen their bargaining power with political authorities.<sup>8</sup>

A recent work by Colli and Rinaldi<sup>9</sup> has challenged this view by holding that Italy's peculiar industrial structure is to a minor extent the result of the spontaneous action of market forces, i.e., entrepreneurial failures of big business and dynamism of small entrepreneurs. This alternative perspective stresses the role that politics and institutions played in determining the relative performances of both big business and small firms. Institutional failures took place in all the areas in which big business could be supported: internationalization, human capital and technological leadership, and the corporate finance system. As a result, Italian large firms grew protected on the internal market, strong and in a monopolistic position at home but relatively small, and weak, in an international comparison. As far as SMEs were concerned, a body of literature has stressed the importance of measures put in place by the government in favor of small undertakings, thereby fostering their

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<sup>5</sup> M.J. Piore and C.F. Sabel, *The Second Industrial Divide. Possibilities for Prosperity* (New York, 1994), 227-229.

<sup>6</sup> M.E. Porter, *The Competitive Advantage of Nations* (London-New York, 1998), 421-453.

<sup>7</sup> Cafagna, *Dualismo e sviluppo*; Federico (ed.), *The Economic Development*; G. Mori, *Il capitalismo industriale in Italia. Processo d'industrializzazione e storia d'Italia* (Rome, 1977); F. Bonelli, "Il capitalismo italiano: linee generali di interpretazione," in R. Romano and C. Vivanti (eds), *Storia d'Italia. Annali I. Dal feudalesimo al capitalismo* (Turin, 1978), 1195-255.

<sup>8</sup> F. Amatori, "Entrepreneurial Typologies in the History of Industrial Italy: Reconsiderations," *Business History Review*, 85 (2011): 151-180.

<sup>9</sup> A. Colli and A. Rinaldi, "Institutions, politics and the corporate economy," *Enterprise & Society*, 16(2) (2015): 249-269.

proliferation. Such measure ranged from artisanship policy, to soft loan schemes for SMEs, to labour market regulation, and to the insolvency legislation.<sup>10</sup>

After WW2, a favourable view with regard to SMEs was expressed by all the Italian political parties, headed by the two largest ones: the Christian Democratic Party (DC) and the Italian Communist Party (PCI). The major governing party, the DC, had a social project that awarded positive value to the *petite bourgeoisie*, seeking to swell their ranks and thereby extend the ideals of economic independence – small firms, skilled craftsmen – throughout society.<sup>11</sup> In emphasizing the role of small ownership, the DC was heir to the very problem that had eventually urged Catholics into the political arena: the struggle to deflect the proletariat from the attractions of socialism. This “great labour question”, as Leo XIII defined it in the *Rerum Novarum* of 1891, “cannot be solved save by assuming, as a principle, that private ownership must be held sacred and inviolable. The law should, therefore, promote ownership, and its policy should be to induce as many people as possible to become owners”.<sup>12</sup> In effect, the proletariat could be redeemed not as workers, but by conversion to something else, by restoring all the means of production that are indispensable for conducting one’s own livelihood.

Thus, at the heart of the DC’s analysis, the solutions brought to bear on the labour problem centred on the diffusion of property. In the view of the DC, the small producer was the very symbol of integral society: he was both employer and labourer; he worked alongside his or her assistants and related to them in a highly personal way. Consequently, in the small firm, the organisation of work was “more human”, the worker’s dignity “better protected, the sense of responsibility and collaboration more keenly developed”. If large firms engendered the class struggle, the smaller units fostered solidarity, thus transcending the capital-labour divide.<sup>13</sup>

Moreover, the analysis of the DC was influenced by the views of the Catholic economists of the early 20th century, who had stressed the economic rationality of small

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<sup>10</sup> L. Weiss, *Creating Capitalism. The State and Small Business since 1945* (Oxford, 1988); A. Spadavecchia, “Financing Industrial Districts in Italy, 1971-91: A Private Venture?,” *Business History*, 47(4) (2005): 569-93; G.M. Longoni and A. Rinaldi, “Industrial Policy and Artisan Firms (1930s-1970s),” in A. Colli and M. Vasta (eds), *Forms of Enterprise in 20<sup>th</sup> Century Italy. Boundaries, Structures and Strategies* (Cheltenham, UK and Northampton, US, 2010), 204-24; P. Di Martino and M. Vasta, “Companies Insolvency and ‘the nature of the firm’ in Italy, 1920s-1970s,” *Economic History Review*, 63(1) (2010): 137-164.

<sup>11</sup> Weiss, *Creating Capitalism*.

<sup>12</sup> Cited in R.L. Camp, *The Papal Ideology of Social Reform* (Leiden, 1969), p. 84.

<sup>13</sup> DC (Democrazia Cristiana), *Atti e documenti (1943-67)*, 2 vols (Rome, 1968), p. 246.

firms.<sup>14</sup> The DC never regarded technological progress as a prerogative of the large factory, but maintained that its benefits could also be exploited by small firms. Thus, small enterprises were considered not as an inferior proxy to large companies, but as an essential element for economic development that was to play a central role in the reconstruction of Italy's economy.<sup>15</sup>

A party that defined itself as “of the centre moving towards the left”, the DC aspired to forge a broad alliance of workers, peasants and middle classes. A policy fostering small firms made good political sense for two reasons. In the first instance, the diffusion of small business would reinforce the class structure of the solidaristic state, and at the same time expand what the party saw as its social base of consensus. Second, by dispersing labour among a myriad of small firms, chances for collective actions from left-wing trade unionism would be minimized and conflict defused. The fundamental concern for the DC was the preservation of a particular class structure whose disappearance would have polarized Italian society between the industrial proletariat and a very small class of large business owners. An expanding middle class of small entrepreneurs would allow the DC to occupy a large “middle ground” and tackle the rise of the Communist party.<sup>16</sup>

When the DC won Italy's first general election after WW2 in 1948, it was heavily dependent on sources of support outside the party's direct control. Its outstanding electoral victory had been obtained with the massive backing of the Church, the financial assistance of big business and the clientelistic support of the southern notables (landowners and professional strata): in short, groups that expected a thoroughly conservative policy from the DC. However, after the lacklustre result at the next general election in 1953, the balance of power within the DC shifted leftwards. Under the new leadership of Amintore Fanfani, the party decided to strengthen its penetration in civil society, breaking away from its dependence on its traditional backers that restricted the level of support available from other social strata. The DC had to stand on its own feet from an organisational standpoint, seeking less binding sources of finance, and reducing the level of conditioning by traditional power structures. In this scenario, the party became more prone to a policy in favour of small firms.<sup>17</sup> In practice this meant the granting of special fiscal regimes and subsidized credit to small and artisan firms, on condition that such firms joined business associations independent

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<sup>14</sup> G. Toniolo, *Osservazioni e discussioni durante le Giornate sociali di Milano. Resoconto delle Giornate sociali di Milano (7-9 febbraio 1907)* (Città del Vaticano, 1951).

<sup>15</sup> Weiss, *Creating capitalism*.

<sup>16</sup> *Ibid.*

<sup>17</sup> L. Mattina, *Gli industriali e la democrazia. La Confindustria nella formazione dell'Italia repubblicana* (Bologna, 1991).

from the Confindustria (the Association of Industrialists) and other regulatory bodies, such as chambers of commerce. In turn such small firm and artisan associations became weighty pressure groups, but also the conduit of the state's industrial policy.<sup>18</sup>

The major opposition party, the PCI, also recognized the importance of attracting the middle classes and small entrepreneurs. The PCI set out its small-firm policy in the immediate post-war years and further developed it at its 8th Congress in 1956.<sup>19</sup> According to the PCI, large enterprises are the most efficient way of organising production, but, in some circumstances – and the Italian case was one of them – they may lead to monopoly or oligopoly: both of them tend to limit production in order to maximise profits. Small firms are not – contrary to the DC's thinking – a “type” of enterprise, by their very nature different from large concerns. Moreover, small firms are not economically efficient. They are, instead, the first stage in the life cycle of capitalist firms, which must either grow or eventually fail. In either case, the presence of small firms opposes the tendency to economic stagnation which stems from the predominance of monopolies. Thus, the expansion of small firms must be encouraged because it facilitates an increase in production, employment and wages, and therefore provides an improvement in the living standards of the working class. This reasoning was intertwined with other considerations regarding the need for the PCI to distract the middle classes from the influence of right-wing forces in order to avoid a possible return to an authoritarian regime. On this basis, small entrepreneurs should become “strategic allies” of the working class.<sup>20</sup> These considerations led the PCI to pursue policies in favour of SMEs and artisan firms that were very similar to those of the DC.<sup>21</sup>

### **3. The establishment of medium-term credit institutions**

The political and economic rationales highlighted in the previous section shaped a banking system geared towards meeting the financial requirements of the small business sector. Important means to this end were credit institutions specialised in the provision of

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<sup>18</sup> M. Maraffi, “L'organizzazione degli interessi in Italia. 1870-1980,” in A. Martinelli (ed.), *L'azione collettiva degli imprenditori italiani. Le organizzazioni di rappresentanza degli interessi industriali in prospettiva comparata* (Milan, 1994), 137-96.

<sup>19</sup> P. Togliatti, “Ceto medio e Emilia rossa,” *Critica marxista*, 2(1964), 130-58; PCI (Partito Comunista Italiano), *La dichiarazione programmatica e le tesi dell'VIII Congresso del PCI* (Rome, 1957).

<sup>20</sup> S. Brusco and M. Pezzini, “Small-scale Enterprise in the Ideology of the Italian Left,” in F. Pyke and W. Sengenberger (eds), *Industrial Districts and Inter-Firm Cooperation in Italy* (Geneva, 1990), pp. 142-59.

<sup>21</sup> Longoni and Rinaldi, “Industrial Policy.”

market and subsidized medium-term credit to SMEs, and their refinancing body the Mediocredito Centrale.

The establishment of credit institutions specialised in the provision of medium-term credit to businesses of any size started at the end of the 1940s and stemmed from the reorganization of the Italian banking system following the banking crisis of 1931-1933, which culminated in the Banking Reform Law in 1936.<sup>22</sup> This conferred upon the Bank of Italy (BoI) the power of shaping the banking sector in terms of market specialization and territorial competence, which were in turn related to the legal status of the banks, and from 1975 to the size of their deposits.<sup>23</sup> The BoI divided the credit system into two branches, one comprising institutions entitled to take short-term savings and providing short-term finance for working capital (henceforth ordinary banks), the other consisting of institutions that take medium- and long-term savings and extend medium- and long-term finance and industrial credit (henceforth medium-term credit institutions, MTCIs).<sup>24</sup>

The separation between the short-term and medium-term credit (henceforth MTC) markets<sup>25</sup> should have ensured stability in the banking system, as it implied harmony between bank assets and liabilities. It also avoided the excessive freezing of capital that had characterized the mixed banks and their collapse,<sup>26</sup> leading to huge losses for the depositors and political repercussions.<sup>27</sup> However, if this had been the only aim, it would have sufficed to impose a clear

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<sup>22</sup> The Italian banking system has undergone three major transitions: in 1893-95, from a credit mobilier to the mixed bank system; in 1931-36 with the end of the mixed bank system and establishment of a clear distinction between short and medium-term credit; and the early 1990s when banks were again authorized to operate on the medium-term market (in accordance with the second EU Banking Directive). A. Gigliobianco, G. Piluso and G. Toniolo, 'Il Rapporto banca-impresa in Italia negli anni cinquanta', in: F. Cotula (ed.), *Stabilità e sviluppo negli anni cinquanta*, Vol. 3: *Politica bancaria e struttura del sistema finanziario* (Rome-Bari, 1999) p. 229; Federico and Toniolo, 'Italy', p. 204; E. Gualandri 'The Restructuring of Banking Groups in Italy: Major Issues', in: J. Revell (ed.), *The Recent Evolution of Financial Systems* (Basingstoke, 1997), p. 157; G. Piluso, 'From the Universal Bank to the Universal Bank: a Reappraisal', *Journal of Modern Italian Studies*, vol. 15/1, pp. 84-103.

<sup>23</sup> S. Cassese, *E' ancora attuale la legge bancaria del 1936? Stato, banche e imprese pubbliche dagli anni '30 agli anni '80* (Rome, 1987), pp. 33-35 and 60-82; For the role attributed to the Bank of Italy by the Banking Reform law, see S. Battilossi, *L'Italia nel Sistema Economico Internazionale, Il Management dell'Integrazione Finanza, Industria e Istituzioni 1945-1955* (Milan, 1996), pp. 92-94 and bibliography therein.

<sup>24</sup> L. Ceriani, 'Italy', in R.S. Sayers (ed.), *Banking in Western Europe* (1962), pp. 124 and 129-130.

<sup>25</sup> The definition of short- and medium-term market changed over time. From 1952 onwards it was as follows: short-term credit up to one year and medium-term credit from one to ten years, except in Southern Italy (up to 15 years), V. Pontolillo, 'Aspetti del sistema di credito speciale con particolare riferimento all'intervento dello Stato', Banca d'Italia, *Bollettino*, 1971/1 (1971), p. 109 and footnote 3..

<sup>26</sup> R. Banfi, 'Gli Istituti di Credito Speciale e il Sistema del Credito Agevolato', in *Rivista Bancaria - Minerva Bancaria*, 1981/1-2 (1981), pp. 30-31.

<sup>27</sup> A. Gigliobianco, G. Piluso and G. Toniolo, 'Il Rapporto banca-impresa in Italia negli anni cinquanta' p. 229, in: F. Cotula (ed.), *Stabilità e sviluppo negli anni cinquanta*, vol. 3: *Politica bancaria e struttura del sistema finanziario* (Rome-Bari, 1999), pp. 225-302. On the structure of the Italian corporate network in the interwar years, see M. Vasta and A. Baccini, 'Banks and Industry in Italy, 1911-36: New Evidence Using the Interlocking Directorates Technique', *Financial History Review* 4 (1997), 139-59.

equilibrium between medium-term assets and liabilities on the banks, and restricting the banks to the short-term credit market would have not been necessary. The decision, supported in particular by Donato Menichella (director of the IRI 1933-1944, director of the BoI 1946-1947 and governor of the BoI 1948-1960) and Alberto Beneduce (president of the IRI 1933-1939, president of several of the so-called Beneduce institutions, and senator from 1939 to his death in 1944) was more about reducing the role of banks in the Italian economy, as in the 1920s banks had risen to the head of industrial and financial groups, were the central actors in a tightly connected corporate network and were ultimately determining the direction of the country's industrial development.<sup>28</sup> Therefore, the ultimate aim of the distinction was to bring the banking system within the realm of the state economic planning.<sup>29</sup>

The rigid separation between medium-term savings and credit meant that ordinary banks could not access the medium-term market, and thus could not transfer surplus funds from short-term operations to the medium-term credit market.<sup>30</sup> In order to navigate around this barrier, ordinary banks established Departments of Industrial Credit (DICs) and Medium-term Credit Institutions (MTCIs), so that they could transfer short-term deposits to the medium-term market, and provide firms with MTC. The transfer took place by acquiring DIC and MTCI bonds, which was a profitable investment in itself, considering these bonds paid higher yields than state securities and were risk free. A further source of profit for banks was the sale of such bonds to the public. Moreover, by establishing DICs and MTCIs, ordinary banks created an intermediary providing firms with assistance in placing their shares on the market.<sup>31</sup>

The main public law banks<sup>32</sup> were the first to establish DICs, the proliferation of which took place in the post-war period in connection with the process of economic growth and the availability of capital that it required.<sup>33</sup> This is confirmed by the fact that the BoI nominated the DICs at the Southern Banks (Banks of Sicily and of Naples) and the Isveimer as the institutions

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<sup>28</sup> Gigliobianco, Piluso and Toniolo, 'Il rapporto banca-impresa', pp. 229-230; G. Toniolo, 'Il profilo economico' p. 72, in: G. Guarino and G. Toniolo, *La banca d'Italia e il sistema bancario, 1919-1936* (Rome-Bari, 1993), pp. 5-101.

<sup>29</sup> M. De Cecco, 'Note sugli sviluppi della struttura finanziaria nel dopoguerra' in De Cecco, M., *Saggi di politica monetaria* (Milan, 1968), p. 42.

<sup>30</sup> Banfi, 'Gli istituti', p. 33.

<sup>31</sup> F. Carnevali, 'British and Italian Banks and Small Firms: a Study of the Midlands and Piedmont, 1945-1973' (Unpublished Ph. D. Thesis, University of London, 1997), pp. 201, 205.

<sup>32</sup> The public law banks were the Banca Nazionale del Lavoro, Banco di Napoli, Banco di Sicilia, Monte dei Paschi di Siena, and Istituto Bancario San Paolo di Torino.

<sup>33</sup> P.F. Asso and G. Raitano, 'Trasformazione e sviluppo del credito mobiliare negli anni del governatorato Menichella' p. 331, in: F. Cotula (ed.), *Stabilità e sviluppo negli anni cinquanta*, vol. 3: *Politica bancaria e struttura del sistema finanziario* (Rome-Bari, 1999), pp. 309-589; Pontolillo, 'Aspetti', p. 108.

in charge of financing the industrialization of the South.<sup>34</sup> The Bank of Sicily was authorized to establish a DICs in 1949, and a similar body was set up by the Bank of Naples in 1946 (however, it is said to have been functioning from 1944). The DICs focused particularly on Southern SMEs from 1947 when they were endowed by the state, with the latter agreeing to guarantee up to 70 per cent of possible losses. Yet another body of this type, the DIC at the Banca Nazionale del Lavoro, was established on similar terms. These departments exploited the existing banking networks, and their operations could thus be diffused all over the country. A definition of SME was not clarified, but the maximum loan was fixed at £15m. The maximum was increased to £50m in 1954 and in 1960 the limit of advances was increased to the 20 per cent of their paid-up capital.<sup>35</sup>

The Centrobanca, Efibanca and Mediobanca were authorized to issue medium-term loans throughout the country.<sup>36</sup> These MTCIs were supposed to finance themselves by placing bonds and securities on the market, which were also bought up by the deposit banks.<sup>37</sup> Only Mediobanca financed itself with time deposits (from 1 to 5 years) placed by the public at the three Banks of National Interest (BINs, Banca Commerciale Italiana, Credito Italiano, Banco di Roma) and could not issue bonds and securities. The peculiarity of the Mediobanca financing system was due to the peculiarity of the three BINs. These banks specialized in the highest segment of the deposits/credit market and Mediobanca was very selective in its choice of industrial projects to finance, particularly in the 1950s.<sup>38</sup>

This first stage in the creation of institutions dedicated to medium-term finance marks a decentralization of the provision of that type of credit and the progressive blurring of the distinction between short- and medium-term finance, particularly when considering that few of the departments for credit to industry were distinct from the establishing banks, from a legal point of view.<sup>39</sup> In the second stage, the establishment of regional medium-term credit

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<sup>34</sup> Banca d'Italia, *Relazione Annuale*, 1948, p. 151.

<sup>35</sup> Law no 445 of 1950 fixed the maximum loan size at £50m for the regional MTCIs and law no 135 of 1954 fixed the same amount for the Special Departments at BNL, Banco di Napoli and Banco di Sicilia; in 1960 the ICCS established the limit of advances for all the institutions as 20% of the paid-up capital. See Associazione Bancaria Italiana (ABI), *La Legislazione Italiana sul Credito Speciale all'Industria e al Commercio* (Roma, 1963), pp. 179-180.

<sup>36</sup> S. Pergolesi, *Il credito agevolato alle imprese industriali. Le incentivazioni gestite dal Ministero dell' Industria, 1962-1984* (Milan, 1988) p. 25.

<sup>37</sup> V. Zamagni, V., *The Economic History of Italy, 1860-1990* (Oxford, 1993), p. 359.

<sup>38</sup> S. Battilossi, 'L'eredità della Banca Mista. Sistema Creditizio, finanziamento industriale e ruolo strategico di Mediobanca 1946-1956', *L'Italia Contemporanea*, 185 (1991), 625-654.

<sup>39</sup> The distinction between short and medium-term credit has also been partly overcome by authorizing banks to increase their share of medium long-term operations. Pontolillo, *Il sistema*, pp. 14-15.

institutions (henceforth RMTICs, Mediocrediti Regionali), the issue of decentralization is combined with the issue of providing medium-term credit to small and medium-sized firms.<sup>40</sup>

The BoI was aware of the importance of small firms in the Italian economy,<sup>41</sup> which also emerges clearly from a report commissioned by Menichella from the BoI Study Centre. The report shows that firms with fewer than 100 workers employed almost 37 per cent of the national workforce in 1947.<sup>42</sup> Recent research has shown that both the Bank of Italy and the Confindustria considered small firms were at a disadvantage in accessing finance. However, the solutions envisaged by the two institutions were very different. Since 1937, Menichella had indicated that the IMI should establish regional medium-term credit institutions (henceforth RMTICs) with the cooperation of banks, and saving banks in particular.<sup>43</sup> The Confindustria, led by Angelo Costa, saw the IMI as inadequate to perform such a task as its activity was geared towards large firms, particularly in the sectors of electricity and shipping. Only in the management of state subsidies was the IMI displaying a more open attitude towards small firms. However, the key point of the controversy was the role that state subsidies should have played in the financial activity of the RMTICs. Costa was aware that the new institutions had to face fierce competition from the IMI and IRI on the bond market, in order to finance themselves, which would have not allowed them to offer finance at the lowest possible interest rate, which was presented as an indispensable step towards the country's industrial reconstruction. The fulfilment of this aim was seen as dependent on subsidies provided by the state and within the framework of the European Recovery Programme. Menichella was diffident toward the establishment of institutions that would have not been able to support themselves on the market and that would have needed state subsidies beyond specific and extraordinary circumstances.<sup>44</sup>

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<sup>40</sup> G. Piluso, 'Gli istituti di credito speciale', *Annali di Storia Einaudi*, vol. 15: F. Amatori, D. Bigazzi, R. Giannetti and L. Segreto (eds), *L'industria* (Turin, 1999), p. 517.

<sup>41</sup> Banca d'Italia, *Relazione Annuale*, 1952, p. 289.

<sup>42</sup> Asso and Raitano, 'Trasformazione', p. 464. On the perceived importance of small firms, particularly in the late 1950s, see G. Scimone, 'The Italian Miracle', in: J. Hennessy, V. Lutz and G. Scimone, *Economic Miracles* (Leavesden, 1964), pp. 179-182 and 218. The author considers the proliferation of small firms as one of the bases of the Italian economic miracle.

<sup>43</sup> D. Menichella, 'Memoria sottoposta dall'IRI all' esame della Corporazione della previdenza e del credito', (Rome, 1937) published in F. Cotula, C.O. Gelsomino and A. Gigliobianco, *Donato Menichella. Stabilità e sviluppo dell'economia italiana 1946-1960*, vol. I: *Documenti e discorsi* (Rome-Bari, 1997), pp. 128-152. Such perceptions are also clearly expressed by contemporary studies such as G. Dominici, 'La funzione propulsiva del credito nell'industrializzazione del Mezzogiorno e delle Isole', *Bancaria*, 11 (1955), p. 810; N. Garrone 'Il Credito Industriale in Italia', *Rassegna Economica*, 4 (1956), pp. 616-617; A.S. Camilleri, *Industrial Medium-Term Financial Institutions in Italy* (1966), p. 2.

<sup>44</sup> Asso and Raitano, 'Trasformazione', pp. 408-416.

Law 445/50, establishing the first RMTCI in Piedmont, marked a compromise between the two stances, as the possibility that such institutions would receive subsidies was left open. The law opened the possibility for insurance companies to contribute to the establishment of the institutions, by increasing the ceiling on the RMTCI's loans from 15 to 50 million lire and allowing them to operate through the branches of their establishing banks.<sup>45</sup> Although the establishment of the first regional term-credit institution was authorized in 1950, the proliferation of such institutions occurred from 1953 onwards in Northern and Central Italy. Only at a much later stage - the beginning of the 1980s - did the Interministerial Committee for Credit and Savings (henceforth ICCS) authorize the establishment of four RMTCI's in Southern Italy (in the regions of Puglia, Calabria, Basilicata and Sicily) to assist the existing MTCI's (Isveimer and Irfis) in their lending to SMEs.<sup>46</sup>

The proliferation of RMTCI's in the North and Centre of Italy took place following the establishment of their financing institution - the Medio Credito Centrale (MCC) - in 1952, endowed both directly and indirectly by the Treasury.<sup>47</sup> The MCC was deemed necessary by the BoI because the funds available to other RMTCI's were insufficient to allow adequate functioning and their ability to finance themselves by issuing bonds was questioned.<sup>48</sup> Moreover, the monetary authorities considered the MCC necessary to avoid an excessive dependence of the RMTCI's on their establishing banks and to coordinate them.<sup>49</sup>

The MCC refinanced the regional institutions by discounting their bills, buying their medium and long-term bonds; by extending loans using returns from the issuing of its own bonds, and by grants to cover part of the financing to SMEs.<sup>50</sup> The MCC was regulated by the ICCS, which fixed its rediscounting rate, the lending limit and the size of companies that would have been eligible for loans.<sup>51</sup> These were defined as firms with fewer than 500 workers and fixed assets below 1.5bn lire. The fact that the MCC was not placed under the control of the BoI, but under the ICCS, indicates that the MCC was conceived as an

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<sup>45</sup> *Ibid.*, pp. 416-421.

<sup>46</sup> P. D'Onofrio and R. Pepe, 'Le strutture creditizie nel Mezzogiorno', in Banca d'Italia, *Il sistema finanziario nel Mezzogiorno*, Numero speciale dei *Contributi all'analisi economica* (Rome, 1990), p. 235.

<sup>47</sup> The endowment of the MCC amounted to 60bn current lire, out of which 15bn were provided directly by the Treasury. The remaining 45bn were provided by the repayments of loans granted by the Treasury to industrial and agricultural enterprises in order to purchase equipment from the sterling area. See Banca d'Italia, *Relazione Annuale*, 1952, p. 290; Law 258/1950 is published in ABI, *La legislazione*, pp. 89-90.

<sup>48</sup> Banca d'Italia, *Relazione Annuale*, 1952, p. 289.

<sup>49</sup> G. Carli, 'Le Origini del Mediocredito Centrale', *Credito Popolare*, 1984/6 (1984), p. 261.

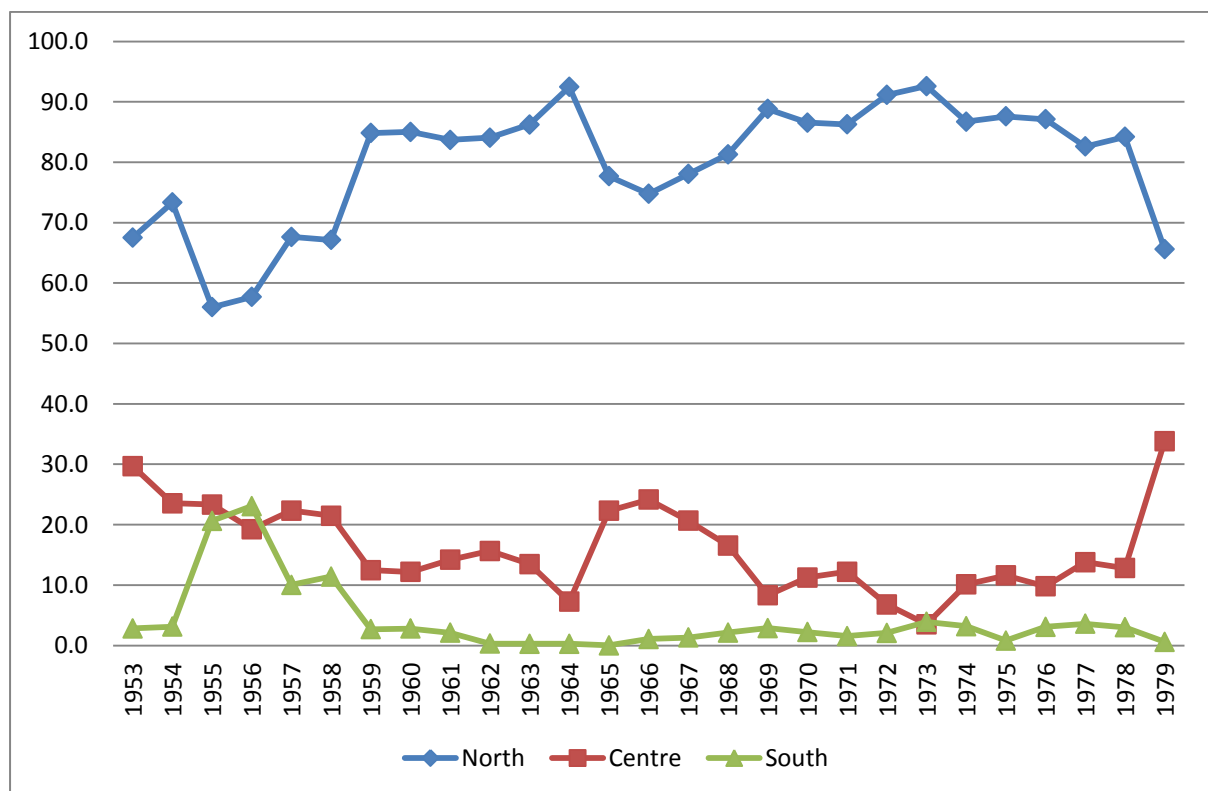
<sup>50</sup> Banfi, 'Gli Istituti', p. 54.

<sup>51</sup> G. Amato (ed.), *Il governo dell'industria in Italia* (Bologna, 1972), p. 23.

instrument of government intervention, which was placing SMEs at the centre of its intervention in favour of industry.<sup>52</sup>

Figure 1 below displays the geographical distribution of subsidized credit to SMEs. It is clear that the North benefitted most from this credit, which might be due to demand factors as the North was the most industrialized region of the country. Moreover, SMEs in the South had also access to subsidized credit and grants available in the framework of the regional policy. Southern firms might have found regional subsidies more easily accessible or institutions might have preferred to focus on other areas of the country and leave Southern demand to the institutions of the regional policy.

Fig. 1 - *Mediocredito Centrale (MCC): geographical distribution of subsidies to SMEs, 1953-1979*

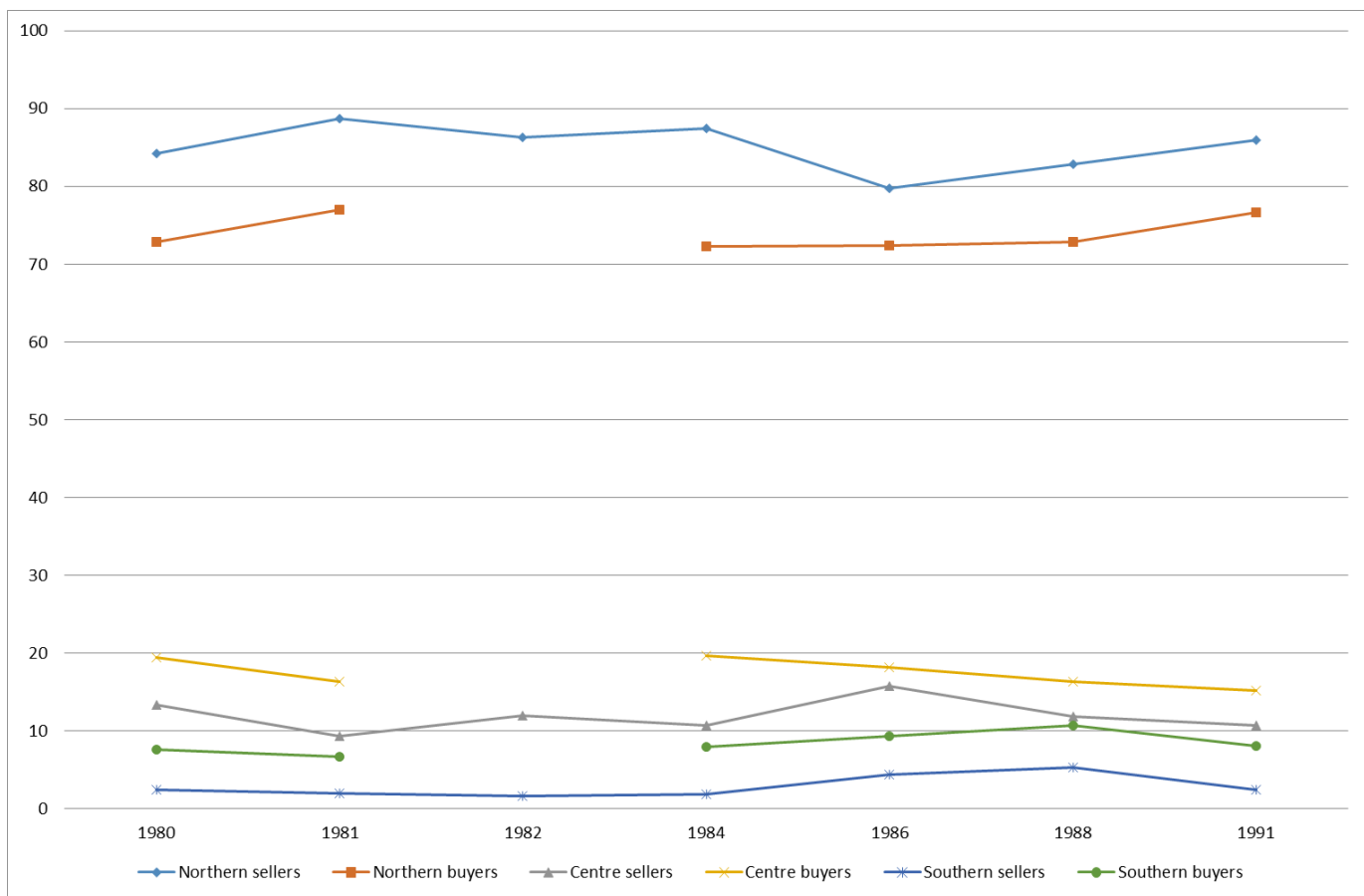


Source: Mediocredito Centrale, *Relazione Annuale*, various years

<sup>52</sup> Asso and Raitano, 'Trasformazione', pp. 427-432.

Data on total subsidies extended by the MCC are not complete for the 1980s. Figure 2 below focuses on the single most important scheme managed by the MCC, i.e. the Sabatini scheme. This scheme provided subsidized credit for the purchase of machine tools and its geographical distribution is consistent with the distribution of total subsidized credit in figure 1.

*Fig. 2 - Mediocredito Centrale (MCC): geographical distribution of subsidies to SMEs, Sabatini scheme for the purchase of machine tools*



Source: Mediocredito Centrale, Relazione Annuale, various years.

Note: Sabatini scheme as a % of MCC subsidies to SMEs: 1980 = 57.4; 1981 = 56.8; 1982 = 61.7; 1985 = 63.8; 1986 = 71.9; 1990 = 74.4; 1991 = 81.9.

## 5. The Artigiancassa: the institutional design

After WW2 the Italian state carried out an artisanship policy on a scale that was unparalleled in Europe. This policy was based on the provision, on the one hand, of lower tax, and

employers' contribution and welfare benefits at reduced premiums and, on the other, of "substitution factors": subsidized credit, services, and promotional initiatives by state agencies.<sup>53</sup>

In 1947 *Artigiancassa* (the Artisan Bank) was created, with an endowment fund of 500 million Lire, of which half was provided by the State and 50 million Lire each by the following five banks: *Istituto di Credito delle Casse di Risparmio Italiane*, *Istituto Centrale delle Banche Popolari*, *Monte dei Paschi di Siena*, *Banco di Napoli* and *Banco di Sicilia*. *Artigiancassa* was set up in order to provide credit for artisan firms, either directly or through the banks participating in the capital, and started its activities in 1948 after having solved three key matters:<sup>54</sup>

1. Identification of the pool of beneficiaries of loans. For this purpose, an artisan firm was defined as "based mainly on labour and oriented towards the production of goods", the cost of which should be "composed in a significant percentage by the work employed to produce them". This definition automatically excluded service activities and the repair of products;
2. The type of credit to be disbursed, which it was decided could be both short-term and medium-term loans;
3. The collateral required for the granting of loans, which were divided into personal securities for operations of working credit, and real securities for capital equipment loans.

In addition to resorting to its endowment fund, *Artigiancassa* could fund its operations by rediscounting bills and issuing bonds and securities, but was not authorized to collect deposits. Actually, until its transformation into a joint-stock company in 1993 – apart from a short time and for a limited amount of money in the 1970s – the endowment fund was the only source that was used.<sup>55</sup>

From 1948 to 1952, *Artigiancassa* disbursed 6,705 loans for a total of 4.7 billion Lire, 90 per cent of which were medium term. The loans were granted to only 1 per cent of the

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<sup>53</sup> Although most frequently employers of labour, Italian artisans are taxed at the same rate as their workers and receive equivalent family allowances; they pay lighter social security contributions than other employers and are exempted from those for their apprentices; they benefit from a generous health and pension scheme, subsidized by the state; they receive technical and marketing assistance from various government agencies and have access to low-cost investment and running capital, publicly subsidized and guaranteed. See Weiss, *Creating Capitalism*, pp. 55-60.

<sup>54</sup> F. Parrillo, 'Politica di sviluppo del credito all'artigianato', *Rivista di politica economica*, 49 (1959), 1185-1248.

<sup>55</sup> A. Baccini, *Artigiancassa. Da Istituto di credito speciale a Banca per le imprese artigiane* (Florence, 2002), p. 13.

approximately 650,000 artisan concerns recorded by the 1951 census. And nearly half of the transactions concerned companies located in the Lazio region, home to only 5.3 per cent of Italy's artisan firms, while *Artigiancassa's* loans were almost non-existent in northern Italian regions, where artisan firms were far more numerous.<sup>56</sup>

The problems that emerged in the first five years of activity resulted in the need for a reform of the *Artigiancassa* in 1952. The reform (Law 959/52) established the abandonment of the concept of a specialized national institution for lending to artisan firms, prohibiting *Artigiancassa* from granting new loans. *Artigiancassa* was transformed into a re-discount institute for the banks participating in the endowment fund and all the credit societies, savings banks, and rural and artisan banks, which were thenceforth authorized to grant medium-term capital equipment loans to artisan firms. In contrast, short-term loans were excluded from the facilitations. In the application of the law, at this point, artisan firms were considered to be those concerns that resulted as such in relation to the terms of the 1948 decree concerning family allowances.<sup>57</sup>

*Artigiancassa's* endowment fund was increased to 5,500 million Lire by means of a government allocation of 5,000 million Lire. In addition, a fund of 1,500 million Lire was created at *Artigiancassa* – disbursed in the measure of 300 million Lire each year for five years – for state grants for interest relief on loans to support artisan firms, disbursed by the authorised banks. The reform introduced four important changes with regard to the previous system:<sup>58</sup>

1. a broader credit offering. The soft loans for artisan firms could now be distributed through a network of banks reaching all parts of Italy, which amounted to 5,201 branches in 1954 (66.2 per cent of total bank branches);
2. direct responsibility of the banks involved, which assumed the legal title and risk of the loans subject to the facilitations managed by *Artigiancassa*;
3. the entry of these banks, involved in the disbursement of short-term loans, into the circuit of medium-term credit. This was a second and more direct departure – after the one

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<sup>56</sup> Ibid., Tab. 1. During these five years *Artigiancassa* showed a marked propensity towards medium-term loans, which amounted to more than 85 per cent of the credit disbursed.

<sup>57</sup> According to this decree, a firm was considered to be artisan if it met the following requirements: 1) the proprietor participated in the manual work performed within the firm; 2) the firm exercised one of the activities included in a specific list prepared by the Ministry of Labour; 3) the firm employed no more than five workers, or no more than three workers – depending on the type of activity performed – excluding apprentices and members of the proprietor's family. See P. Gualtierotti, *L'impresa artigiana* (Milan, 1977).

<sup>58</sup> Parrillo, 'Politica di sviluppo'.

envisaged with the creation of the DICs and the MTCIs – from the rule of separation between commercial credit and industrial credit, as ratified by the 1936 Banking Law;

4. to reconcile the authorization awarded to these banks to grant medium-term loans to artisan firms with their requirements for liquidity, *Artigiancassa* was utilized to release frozen assets through re-discounting operations.

In 1956 the Italian Parliament, after overcoming the resistance of the MPs linked to the Confindustria and to the two largest trade unions (the left-wing Cgil and the Catholic Cisl), approved the Artisan Act (Law 860/56), that defined the boundaries of artisanship. Unlike the German and French systems, where the artisan qualification was defined on the basis of professional lists of activities, the Italian artisan firm was defined on the basis of the number of employees.<sup>59</sup> The 1956 Act established an extension of the legal definition of an artisan firm that was unequalled in Europe. Artisanship was therefore defined not as a professional category, then, but as a legal regime, membership of which entitled the owner to a wide variety of benefits, including access to subsidized credit.<sup>60</sup> This legal arrangement opened the doors of artisanship to a variety of newcomers having little to do with activities of a strictly artisanal nature, resulting in a dramatic increase in the number of artisan firms, i.e., of the pool of potential beneficiaries of the subsidized credit provided by *Artigiancassa*.<sup>61</sup>

The enactment of the 1956 Artisan Act was followed by a series of provisions that extended the operative assignments of *Artigiancassa*. A law passed in the same year provided for:<sup>62</sup>

1. an extension of the credit facilitations for the formation of the stocks of raw materials and products required for the firm's production cycle, which could not exceed 20 per cent of the loan agreed for capital equipment, or the value of plant;<sup>63</sup>

2. authorization was also granted to allow private banks to work with *Artigiancassa*. With this measure, the entire Italian banking system was authorized to grant soft loans to artisan firms;

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<sup>59</sup> The Artisan Act established a maximum of 10 persons employed (or 20 including apprentices), with exceptions for cooperatives, artistic trades (e.g. ceramics, fashion, etc.), limited companies and partnerships, "as long as members are personally involved in the work, and as long as such work has a pre-eminent role on capital."

<sup>60</sup> C. Barberis, 'L'artigianato in Italia', in C. Barberis, G. Harvey and O. Tavone (eds), *L'artigianato in Italia e nella Comunità Economica Europea* (Milano, 1980), pp. 7-82.

<sup>61</sup> Weiss, *Creating Capitalism*.

<sup>62</sup> Parrillo, 'Politica di sviluppo'.

<sup>63</sup> This figure was increased to 30 per cent in 1964.

3. the extension of the maximum duration of the re-discount applied by *Artigiancassa* from two to five years, freeing banks still further from the risks associated with frozen assets.

A subsequent law of 1958 increased the endowment fund of *Artigiancassa* from 5,500 to 10,500 million Lire. Moreover, this law established that the net profits resulting from the financial statements of *Artigiancassa*, after deducting a rate of 20 per cent to be allocated to the reserve fund, were to be disbursed to the banks participating in the endowment fund, up to an amount equivalent to 4 per cent of the stake held by each of them. In this manner, from 1958 onwards, the state was awarded a dividend on its stake in the endowment fund, which was destined to integrate the interest relief grant fund. This measure was extremely important because it established the interest relief grant fund upon a permanent basis, while the 1952 law had financed it for only five years.<sup>64</sup>

From 1964 to 1986 there were a further 15 allocations to the endowment fund, which at the end of that year stood at 1,788,5 billion lire. No further allocations took place in the following ten years until the privatization of *Artigiancassa* and its acquisition by the Banca Nazionale del Lavoro in 1996. Allocations took place in a sporadic way until the mid-1970s. They became more frequent and substantial in the years from 1975 to 1986, in which 11 of the 18 allocations were concentrated, accounting, in real terms, for 77.7 per cent of total fund allocated to the endowment fund (see Figure A.1 in the Appendix).<sup>65</sup>

Over time the interest relief fund became the most important intervention by *Artigiancassa*. From 1958 to 1996 it benefited of 41 allocations, that amounted to 9,157 billion lire overall. These took place on a more regular basis than those to the endowment fund. Nonetheless, most of them also occurred in the years 1976 to 1986, which accounted for 69 per cent of the total money allocated to the fund in real terms. In this case, and differently from the endowment funds, allocations continued also in the 1987-96 decade, even at a lesser extent (see Figure A.2 in the Appendix).

These provisions were integrated, in 1964, by the creation of a central guarantee fund at *Artigiancassa* – fed by a state allocation of 1.4 billion Lire – which facilitated loans in the absence of sufficient securities covering up to 70 per cent of individual bank loans. There were a further eight allocations between 1966 and 1978, bringing the fund up to 12.175 billion Lire (see Figure A.3 in the Appendix). Then this fund was no longer enhanced until 1997, when a further 50 billion lire were allocated to it.<sup>66</sup>

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<sup>64</sup> Parrillo, 'Politica di sviluppo'.

<sup>65</sup> Baccini, *Artigiancassa*, pp. 32-37.

<sup>66</sup> *Ibid*, Table A4.

## 6. Subsidized credit by *Artigiancassa*: overall results

Overall, from 1953 to 1996, *Artigiancassa* assisted 1,805,896 loans with subsidized credit worth 54,361 billion lire. Of these, 22.7 per cent also benefited from the discounting operation and 14.7 per cent of the state guarantee (see Table A.1 in the Appendix). It is possible to identify four phases in the activity of *Artigiancassa*. The first one goes from 1953 to 1966. The number of loans increased slightly until 1962 and dropped to the level of the late 1950s after that date (see Figure 3). The average loan value follows the same dynamics as the total amount of the loans disbursed (the correlation coefficient between the two variables is 0.90). The proportion of discounted loans is high until the late 1950s (always above 40 per cent with a 75 per cent peak in 1957), then it drops substantially in the early 1960s before it jumps again to 60 per cent in 1965 (see Figure 4).

The second phase goes from 1967 to 1976 and is characterized by a growth in both the number and the average value of loans, with the latter increasing from 45 to 83 million lire (at 1998 prices). The proportion of discounted loans drops to less than 30 per cent while guaranteed loans also make their appearance, but their proportion never exceeds 15 per cent of total loans disbursed. The third phase includes the years from 1977 to 1988 and seems to mark a deep change in the strategy of *Artigiancassa*. The increased state funding enabled *Artigiancassa* to expand its activity substantially. In fact, from 1977 to 1988 it granted 987,169 subsidized loans, that is 2.7 times as many as in the 1953-76 period, when there were 370,117 overall. If in the 1953-76 period *Artigiancassa* granted an average of 15,422 loans a year, in the 1977-88 period the number of loans rose by 5.3 times to 82,264 a year. The more bountiful resources that had been made available to *Artigiancassa* were used to increase the total amount of subsidized loans, but not their average value that decreased from 72.7 million lire in the 1967-76 years to 64.0 million in lire in the 1977-88 years (at 1998 prices).

Thus the impression is that until the mid-1970s, when funding was relatively scant, available resources were channelled to a relatively small number of artisan firms, selected from those that presented the most promising possibilities for development, which were boosted by granting them loans of an increasing unitary amount. Conversely, the increased funding of *Artigiancassa* from the mid-1970s to the late-1980s seems to have responded to a different logic, that is to make subsidized credit available to everybody (or at least to as many artisans as possible) by scattering it into a large number of loans of a smaller average amount. This seems a strategy more coherent with the DC's original social project that was to foster the proliferation of micro-firms and not to boost the growth of individual firms. However,

such a change in the *Artigiancassa's* policy is also compatible with a consensus-building strategy aimed at appeasing a vast stratum of the middle-class whose support was perceived as very important to the electoral fortunes of both the DC and the PCI at a time in which lobbying by artisan associations had become more pressing than in the previous decades.<sup>67</sup>

The scattering of loan disbursement to the largest number of applicants seems even more impressive (or puzzling) if we observe that it occurred at a time when the expansion of the artisan sector had come virtually to a halt. In fact, the number of artisan firms registered with provincial Chambers of Commerce rose by 68 per cent (from 664,073 to 1,115,297) in the 1958-66 years and by another 17 per cent in the 1967-76 period (at the end of which they numbered 1,305,859). Their increase slowed further down in 1977-88 years, when they reached a 1,455,547 peak in 1984 before dropping to 1,421,762 in 1988 despite the new 1985 Artisan Act (Law 448/85) had further enhanced the size-limit set to be registered as an artisan firm.<sup>68</sup> Thus, the overall increase in the number of artisan firms in the 1977-88 years amounted to just 9 per cent, which – in an economic perspective – would probably justify an opposite strategy to that pursued by *Artigiancassa*, that is, to concentrate the provision of subsidized credit in a smaller number of loans of a higher amount to prompt the growth of the more promising concerns.

Lastly, the fourth phase goes from 1989 to 1996 and is characterized by a decrease of the number of loans disbursed and by a stability of their amount, whose average remained at same level as in the 1977-88 period.

The proportion of loans granted by *Artigiancassa* to total subsidized credit disbursed in Italy rose from 0.45 per cent in the 1953-66 years to 0.80 percent in 1967-76 years and reached a 2.22 peak in the 1980-88 years. Thus, the activity of *Artigiancassa* grew not only in absolute terms but also as a proportion of the whole system of subsidized credit in Italy to highlight the will of the policy-maker to prompt the artisan sector that had its highest thrust in the 1980s.<sup>69</sup>

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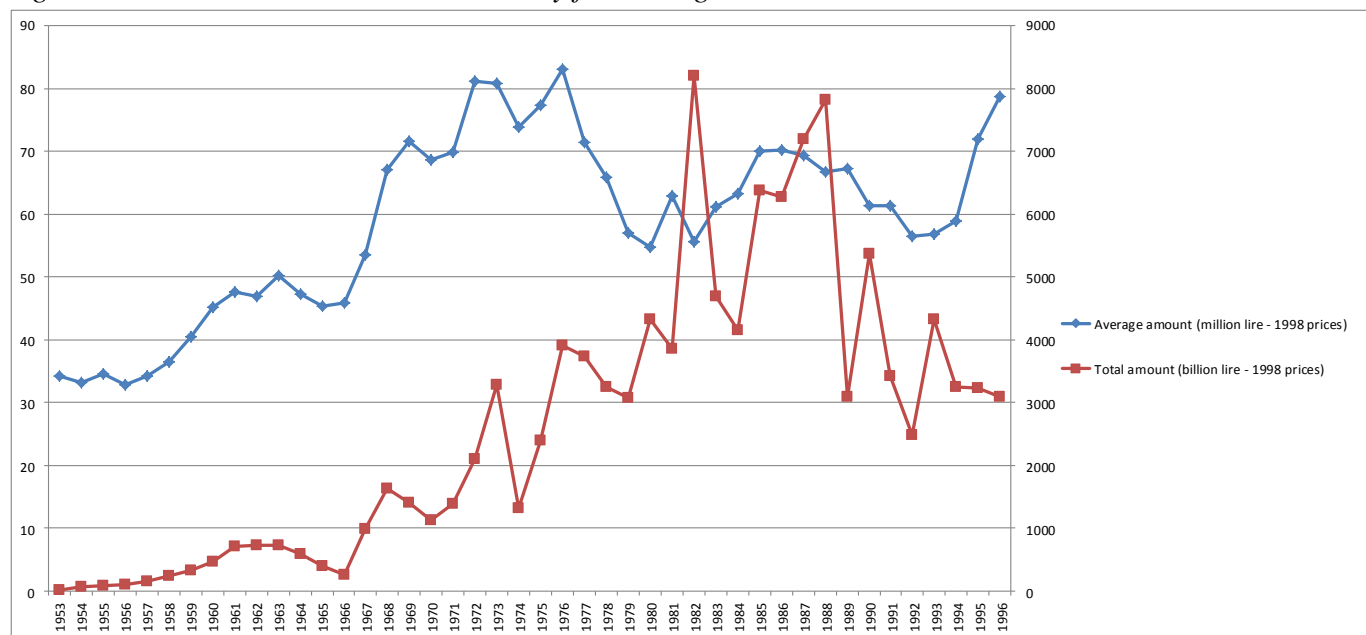
<sup>67</sup> D. Pesole, *L'artigianato nell'economia italiana. Dal dopoguerra a oggi* (Milan, 1997).

<sup>68</sup> The new size limits were the following: a) if no series work was undertaken: up to 18 employees (including up to 9 apprentices). The maximum number of employees could be enhanced to 22 if the additional employees were apprentices; b) if series production was undertaken: up to 9 employees, (including up to 5 apprentices). The maximum number of employees could be enhanced to 12 if the additional employees were apprentices; c) transport firms: up to 8 employees; d) construction firms: up to 10 employees (including up to 5 apprentices). The maximum number of employees could be enhanced to 14 if the additional employees were apprentices.

<sup>69</sup> Baccini, *Artigiancassa*, Table 5.

De Cecco and Ferri<sup>70</sup> showed the anti-cyclical trend of subsidized credit in Italy which was principally due to the necessity for firms to extend their debts during recessions. *Artigiancassa* stands as an exception to this since it shows a pro-cyclical behaviour. In fact, there is a positive correlation between the dynamics of the amount of loans granted by *Artigiancassa* and business cycles (0.18). This might be the consequence of the behaviour of banks that probably saw as less risky to lend money to artisans during the expansionary phases of the business cycle.

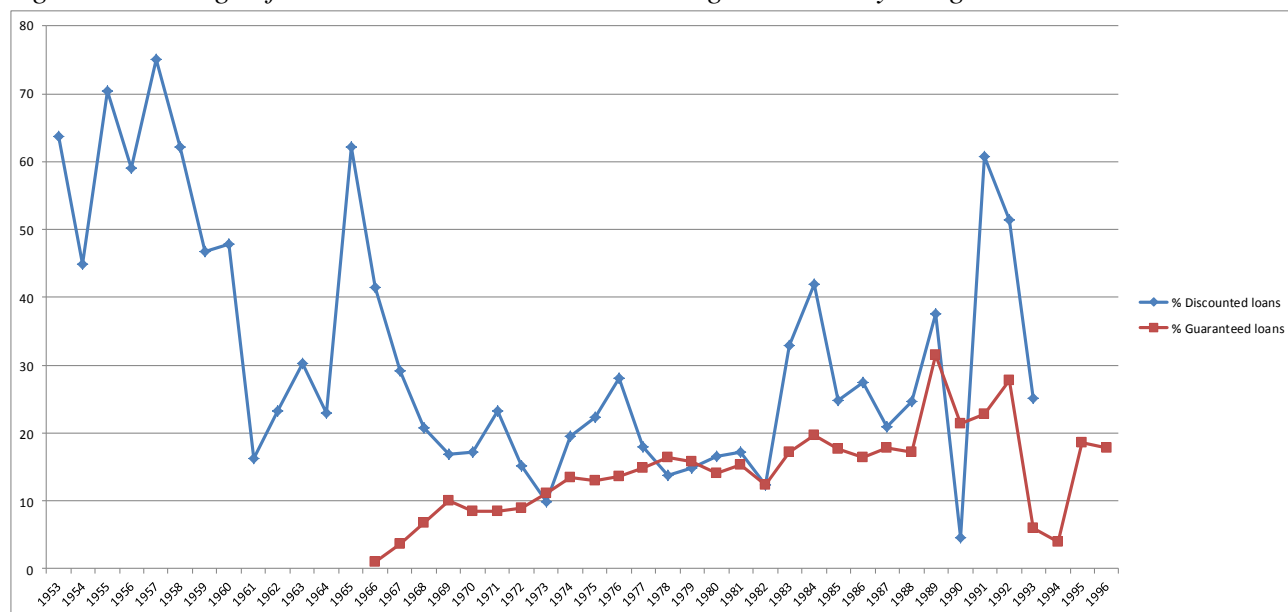
Fig. 3 - Loans that received interest subsidy from Artigiancassa



Source: Baccini (2002)

<sup>70</sup> M. De Cecco and G. Ferri, *Le banche d'affari in Italia* (Bologna, 1996)

Fig. 4- Percentage of subsidized loans discounted and guaranteed by Artigiancassa



Source: Baccini (2002)

## 7. Artigiancassa: the regional pattern

Moving from the national to the regional distribution of loans by *Artigiancassa*, two interesting patterns emerge. The first shows that firms located in the North and in the Centre have been long favoured over the Southern counterparts. Secondly, there is a correlation between those areas receiving the larger proportion of loans, and the regions where artisan firms have been particularly vibrant, even if this trait fades over time.

In the mid-1950s the geographical distribution of loans still showed a strong concentration in the Lazio region. As a result, in 1955 the Centre regions accounted for more than 50 per cent of the loans disbursed, followed by the North with little less than 30 per cent and by the South with 18 per cent (see Figure 5). Then the North started a staggering increase which led it to reach a 76 per cent peak in 1968, whereas the shares of the Centre and of the South decrease substantially. Since the 1970s the Centre remains stable with about 20 per cent of the loans disbursed, the North progressively reduces its share whereas the South increases it. The upsurge of the South becomes substantial starting from 1978, that is in the period of the largest allocations to the Interest Relief Fund, to probably highlight a link between the two events.

The North-Eastern and Central regions – the so-called “Third Italy”, the area well known for its development based on SMEs and industrial districts – benefited most from state support both in absolute terms and in relation to the size of its artisan sector (see table A.2 in

the Appendix). This area accounted for 41 per cent of all concerns and almost 60 per cent of beneficiaries by 1971. Firms located in the Northwest were also favoured in loan distribution (27 per cent of concerns and 32 per cent of beneficiaries) whilst the backward South was clearly penalized (32 per cent of concerns and only 9 per cent of beneficiaries).

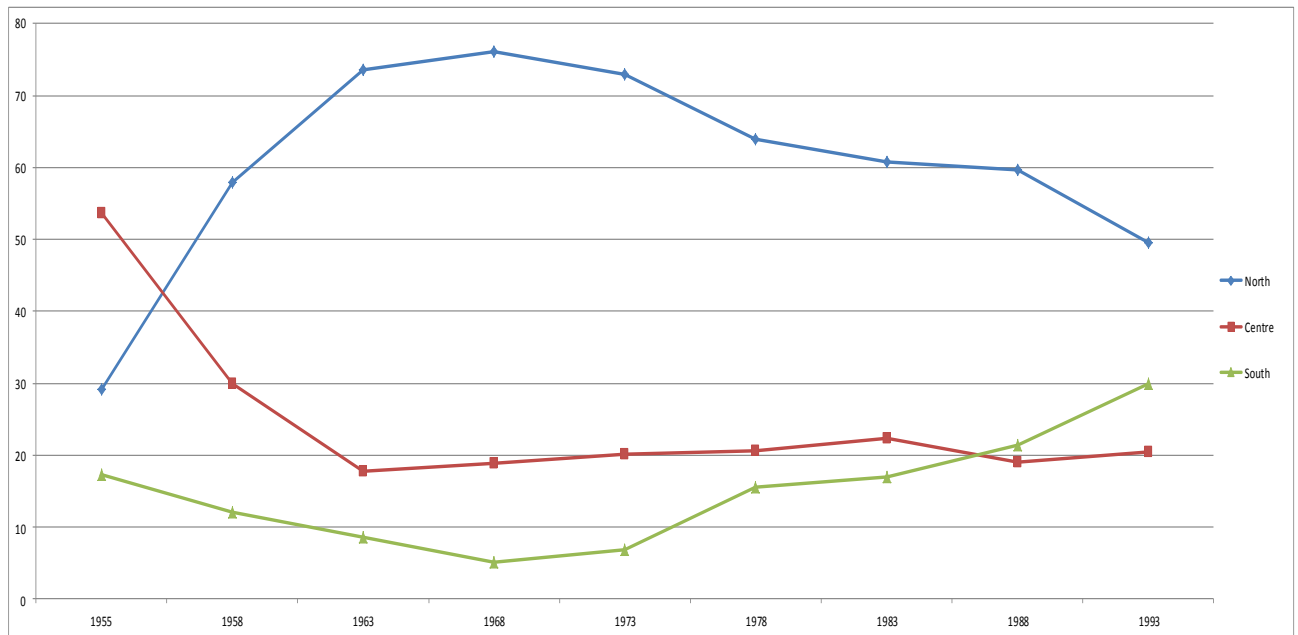
However, in the 1970s, firms located in the Centre-North – and especially in the North-East – continued to receive a larger proportion of funds than their southern counterparts, even though the gap had diminished at the end of the decade (see Table A.3 in the Appendix). The gap had further reduced in 1988, to show that the increased funding of *Artigiancassa* from the mid-1970s to the late 1980s was used also to rebalance loan allocation in favour of the more backward South. In 1993 for the first time the Southern regions accounted for a proportion of beneficiaries higher than the proportion of concerns. Such a readdressing of loan allocation was probably a way to compensate Southern firms for the fact that they could no longer benefit from funds that in the previous years were provided by the Agency for the economic development of the South (the *Cassa per il Mezzogiorno*) that had been closed down in 1992.

These results were determined by three principal factors: 1) the evolution of the policy of *Artigiancassa*, which over time turned out to attribute greater importance to the penetration of subsidized credit also in Italy's more backward and peripheral regions; 2) the structure of the banking system, as the banks – especially the local banks – that assumed the direct responsibility of the loans subject to the facilitations managed by *Artigiancassa* were located mainly in the regions of the “Third Italy”; 3) the regional concentration of the demand for subsidized loans. In fact, the latter was sustained by the artisan associations – the Confartigianato in the “white” regions and the Cna in the “red” ones – that acted as intermediaries between artisan firms and the banks and were in turn very strong in the “Third Italy”.<sup>71</sup>

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<sup>71</sup> Baccini, *Artigiancassa*, pp. 45-48.

Figure 5 – Artigiancassa: geographical distribution of subsidies



Source: Baccini (2002)

## 8. Provisional conclusions

Italian SMEs and IDs came to the forefront of scholarly research in the late 1970s when their resilience to the oil-shock crises became evident. This pattern of business organisation gained international attention with milestone work by Brusco, Piore and Sabel, Best and Sabel and Zeitlin.<sup>72</sup> While stressing their importance, this literature also interpreted SMEs and IDs as a spontaneous industrial pattern and a revival of modes of production pre-existent to the emergence of mass-production systems. Researchers did acknowledge the contribution of institutions to the development of SMEs and IDs. However, those institutions were mainly local, such as local government, associations of artisans and industrialists and chambers of commerce, which provided valuable services.

The path-breaking work by Francesca Carnevali brought to our attention the nexus between a suitable banking structure and the development of SMEs in Italy, as well as Germany and France. Conversely, this nexus helps explain the decline of SMEs in Britain. The Italian banking system fragmented geographically and in terms of market segments

<sup>72</sup> Brusco, 'The Emilian Model: Productive Decentralization and Social Intgeration,' *Cambridge Journal of Economics* 6(2) (1982): 167-184; Piore and Sabel, *The Second Industrial Divide*; M. Best, *The New Competition: Institutions and Industrial Restructuring* (Cambridge, 1990); C.F. Sabel and J. Zeitlin, 'Historical Alternatives to Mass Production: Politics, Markets and Technology in Nineteenth Century Industrialization,' *Past and Present*, 108(1) (1985): 133-176.

enabled local banks, mainly cooperative and savings banks, to flourish together with the local business community. As banks and firms belonged to the same regional economic fabric it was much less costly for the former to acquire non-formalised information on the latter, thus reducing asymmetric information.<sup>73</sup>

Studies on the financing of SMEs in the USA, an economy closer to the ‘Anglo-Saxon’ model than the continental European one, strengthen Carnevali’s argument. Studies on the financing of SMEs in the late 19<sup>th</sup> - early 20<sup>th</sup> century and in the late 20<sup>th</sup> century show the importance of local commercial banks (the counterpart of ordinary banks in the Italian system). The research on the later period highlights also the importance of ‘relationship’ lending, where banks are in contact with the firms and its business environment for a prolonged period of time.<sup>74</sup> Similarly to the Italian banking system, the American one was segmented geographically and in terms of market segments. The Glass-Steagall Act of 1933 restricted ordinary banks to their traditional activity of accepting deposits and lending. These were prohibited from buying shares in corporations or undertaking investment banking activities. Moreover, commercial banks, both National (Federal) and State banks were restricted to opening branches within the boundaries of their home state. Banks did try to overcome this restriction by forming associations with banks in other states.<sup>75</sup> However, it was not until the early 1990s that the wave of cross-state consolidations took place with the repeal of the interstate banking restrictions.<sup>76</sup>

The central tenet of Carnevali’s thesis is that the banking structure was not the result of market forces, but rather it was shaped by political and economic institutions on the basis of political, social and economic considerations. Linda Weiss had already pointed out the non-neutrality of the Italian state to the industrial pattern of the country. However, rather than focusing on the banking system, Weiss explained the introduction of policy tools and financial subsidies for SMEs and artisan firms as the Christian Democratic Party’s attempt to promote a diffused ownership, so to avoid a polarization of society between large firms and

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<sup>73</sup> F. Carnevali, ‘Between Markets and Networks: Regional Banks in Italy’, in A. Godley and D.M. Ross (eds) *Banks, Networks and Small Firm Finance*, (London, 1996), 84-100; G. Conti and G. Ferri, ‘Banche locali e sviluppo economico decentrato’ in: F. Barca (ed.), *Storia del capitalismo italiano dal dopoguerra a oggi* (Rome, 1997), pp. 429-465.

<sup>74</sup> R. Cull, L.E. Davis, N.R. Lamoreaux and J. Rosenthal, ‘Historical Financing of Small- and Medium-size Enterprises’, *Journal of Banking and Finance* 30 (2006), pp. 3017-3042.

<sup>75</sup> R. S. Sayers *American Banking System* (Oxford, 1948), 19-20.

<sup>76</sup> A.N. Berger and G.F. Udell, ‘Small Business Credit Availability and Relationship Lending: The Importance of Bank Organisational Structure’, *The Economic Journal*, Vol. 112/477, (2002), pp. F32-F53.

the proletariat. The ruling party saw the middle class as a strong component of its constituency.<sup>77</sup>

This paper has discussed the political and economic rationales behind the structure of the banking system and explored the system of medium-term credit and financial subsidies established in the country to promote the development of SMEs, which were viewed as an important component of the Italian economy by the end of the Second World War. The discussion has shown how all political forces, as well as trade unions and the BoI, agreed on fostering SMEs.

Finally, this paper and Carnevali's comparative work on banking systems can be placed within the context of Rondo Cameron's nexus between a country's financial institutions and its industrialization. Most importantly the plank of their arguments is fully consistent, i.e. financial systems are shaped by legal, social and political traditions as well as the country's economic conditions.<sup>78</sup>

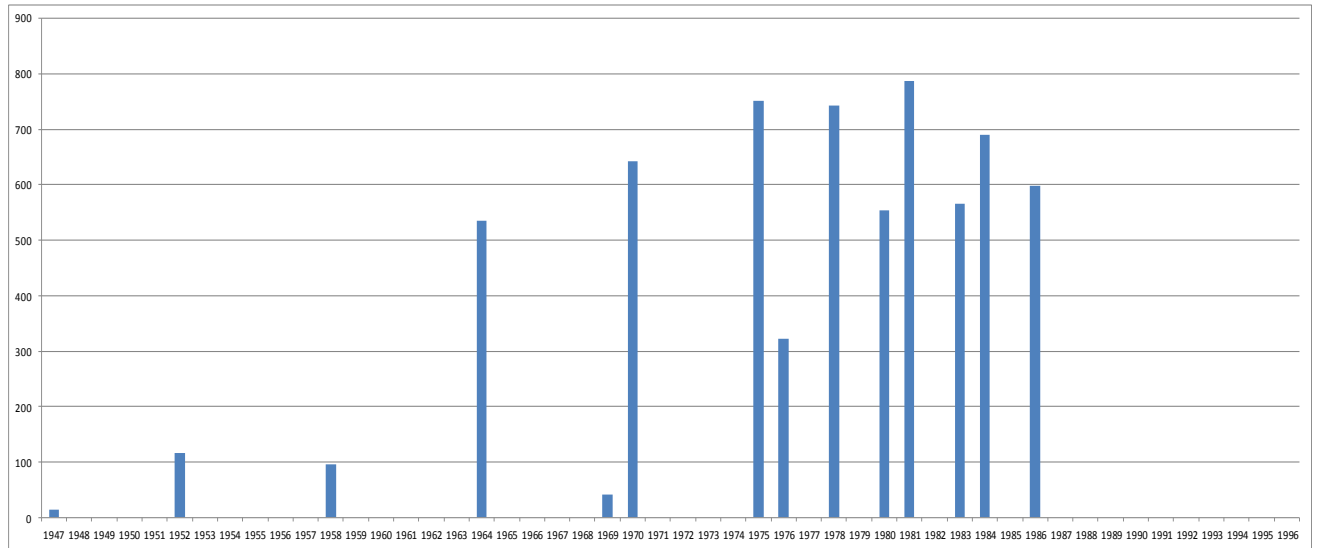
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<sup>77</sup> Weiss, *Creating Capitalism*, 55-80, 104-126.

<sup>78</sup> R. Cameron, O. Crisp, H.T. Patrick and R. Tilly, *Banking in the Early Stages of Industrialization. A study in Comparative Economic History* (New York, 1967), p. 290

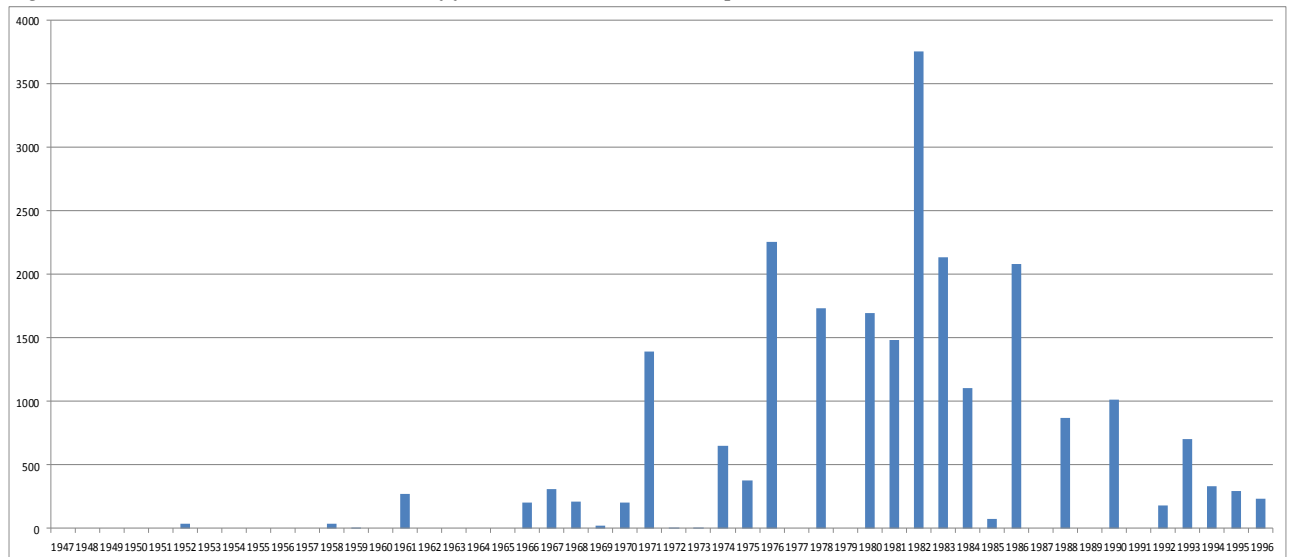
## APPENDIX

Fig. A.1 - Allocations to the endowment fund (million lire – 1998 prices)



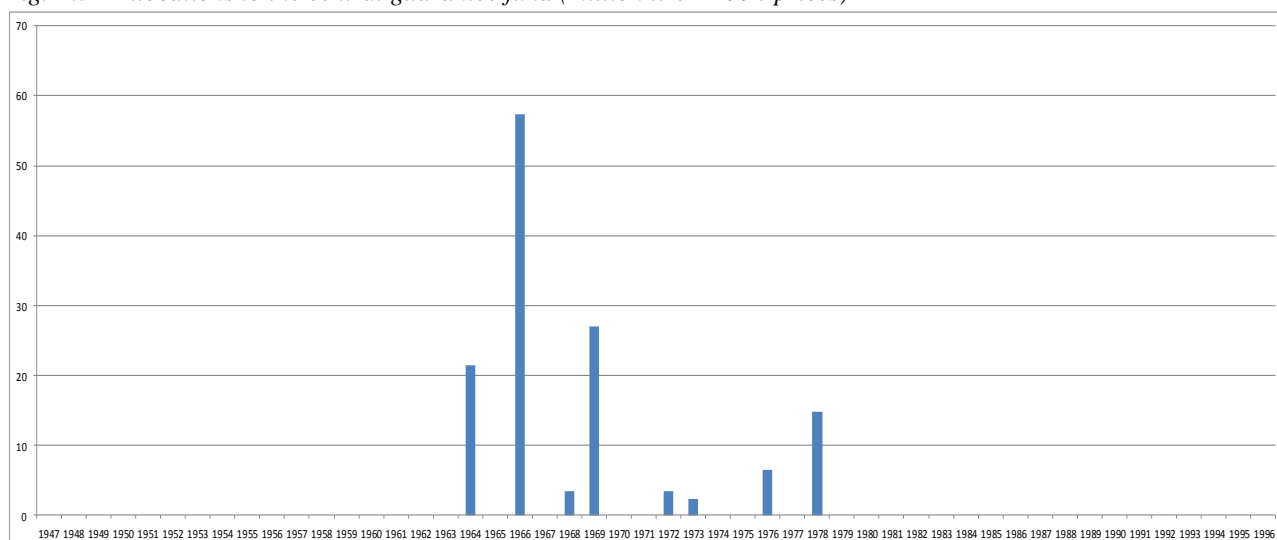
Source: Baccini (2002)

Fig. A.2 - Allocations to the interest relief fund (million lire – 1998 prices)



Source: Baccini (2002)

Fig. A.3 - Allocations to the central guarantee fund (million lire – 1998 prices)



Source: Baccini (2002)

Table A.1. Loans granted by Artigiancassa, 1953-1996 (current values - million lire)

|      | Subsidised loans |           | Discounted loans |         | State guaranteed loans |         |
|------|------------------|-----------|------------------|---------|------------------------|---------|
|      | No.              | Amount    | No.              | Amount  | No.                    | Amount  |
| 1953 | 270              | 416       | 172              | 257     |                        |         |
| 1954 | 1,836            | 2,804     | 822              | 1,274   |                        |         |
| 1955 | 2,658            | 4,288     | 1,870            | 2,961   |                        |         |
| 1956 | 2,966            | 4,763     | 1,751            | 2,825   |                        |         |
| 1957 | 4,393            | 7,330     | 3,294            | 5,414   |                        |         |
| 1958 | 6,483            | 12,036    | 4,023            | 7,284   |                        |         |
| 1959 | 7,900            | 16,451    | 3,696            | 7,424   |                        |         |
| 1960 | 10,532           | 25,189    | 5,048            | 12,099  |                        |         |
| 1961 | 15,069           | 38,994    | 2,458            | 5,671   |                        |         |
| 1962 | 15,396           | 42,156    | 3,592            | 8,888   |                        |         |
| 1963 | 14,682           | 45,137    | 4,454            | 12,629  |                        |         |
| 1964 | 12,398           | 38,787    | 3,368            | 9,862   |                        |         |
| 1965 | 8,699            | 27,073    | 5,413            | 16,356  |                        |         |
| 1966 | 5,572            | 17,905    | 2,315            | 7,169   | 55                     | 144     |
| 1967 | 18,494           | 70,652    | 5,373            | 20,992  | 665                    | 2,756   |
| 1968 | 24,263           | 120,009   | 5,039            | 24,198  | 1,634                  | 8,648   |
| 1969 | 19,625           | 104,330   | 3,298            | 17,095  | 1,944                  | 11,215  |
| 1970 | 16,525           | 92,631    | 2,837            | 16,069  | 1,387                  | 8,732   |
| 1971 | 20,016           | 114,591   | 4,668            | 26,416  | 1,684                  | 11,031  |
| 1972 | 25,969           | 182,549   | 3,911            | 26,467  | 2,323                  | 17,909  |
| 1973 | 40,540           | 312,197   | 3,989            | 31,783  | 4,494                  | 37,462  |
| 1974 | 17,796           | 148,745   | 3,437            | 30,596  | 2,386                  | 21,496  |
| 1975 | 30,983           | 319,574   | 6,898            | 64,793  | 4,007                  | 43,385  |
| 1976 | 47,052           | 605,985   | 8,688            | 105,743 | 6,399                  | 83,671  |
| 1977 | 52,290           | 683,126   | 9,336            | 128,354 | 7,773                  | 106,119 |
| 1978 | 49,447           | 659,085   | 6,841            | 97,310  | 8,116                  | 117,821 |
| 1979 | 54,095           | 735,616   | 8,014            | 116,393 | 8,531                  | 128,107 |
| 1980 | 79,065           | 1,246,976 | 13,151           | 197,015 | 11,186                 | 190,039 |
| 1981 | 61,475           | 1,327,831 | 16,679           | 344,817 | 9,416                  | 216,958 |
| 1982 | 147,414          | 3,271,874 | 18,236           | 431,632 | 18,249                 | 458,772 |

|      |         |           |        |           |        |           |
|------|---------|-----------|--------|-----------|--------|-----------|
| 1983 | 76,736  | 2,153,650 | 25,257 | 661,550   | 13,221 | 379,109   |
| 1984 | 65,620  | 2,105,142 | 27,463 | 804,774   | 12,867 | 407,327   |
| 1985 | 91,125  | 3,514,311 | 22,573 | 859,694   | 16,127 | 622,899   |
| 1986 | 89,270  | 3,671,747 | 24,593 | 886,883   | 14,604 | 603,091   |
| 1987 | 103,561 | 4,401,214 | 21,669 | 958,444   | 18,417 | 815,177   |
| 1988 | 117,132 | 5,024,887 | 28,937 | 1,316,645 | 20,112 | 936,675   |
| 1989 | 45,898  | 2,113,419 | 17,227 | 852,756   | 14,457 | 677,863   |
| 1990 | 87,665  | 3,897,504 | 3,902  | 195,621   | 18,778 | 1,010,397 |
| 1991 | 55,798  | 2,646,827 | 33,907 | 1,741,183 | 12,641 | 669,577   |
| 1992 | 43,942  | 2,023,352 | 22,591 | 1,277,340 | 12,195 | 696,195   |
| 1993 | 75,992  | 3,669,914 | 19,080 | 1,166,861 | 4,537  | 273,470   |
| 1994 | 55,155  | 2,869,223 |        |           | 2,214  | 134,327   |
| 1995 | 44,793  | 2,997,902 |        |           | 8,314  | 576,264   |
| 1996 | 39,367  | 2,995,722 |        |           | 6,992  | 537,238   |

Source: Baccini (2002: Table A.7).

Table A.2 - Regional distribution of artisan proprietors and firms financed by Artigiancassa, 1953-1971.

| Region                 | Firms financed (1953-1971) | Artisan proprietors <sup>1</sup> | % of regional firms financed |
|------------------------|----------------------------|----------------------------------|------------------------------|
| Piedmont               | 7.8                        | 8.6                              | 12.9                         |
| Valle d' Aosta         | 0.1                        | 0.2                              | 3.2                          |
| Lombardy               | 22.2                       | 15.3                             | 20.5                         |
| Liguria                | 2.0                        | 3.2                              | 8.7                          |
| <i>Total Northwest</i> | <i>32.1</i>                | <i>27.3</i>                      | <i>16.6</i>                  |
| Trentino-Alto Adige    | 0.6                        | 1.5                              | 5.9                          |
| Veneto                 | 11.9                       | 7.7                              | 22.1                         |
| Friuli-Venezia Giulia  | 1.7                        | 2.2                              | 10.8                         |
| Emilia-Romagna         | 19.0                       | 10.1                             | 26.7                         |
| <i>Total Northeast</i> | <i>33.2</i>                | <i>21.5</i>                      | <i>21.9</i>                  |
| Tuscany                | 8.9                        | 8.0                              | 15.8                         |
| Marches                | 8.5                        | 3.4                              | 35.4                         |
| Umbria                 | 2.5                        | 1.6                              | 23.3                         |
| Lazio                  | 5.6                        | 6.2                              | 12.9                         |
| <i>Total Centre</i>    | <i>25.5</i>                | <i>19.2</i>                      | <i>19.0</i>                  |
| Abruzzi                | 1.4                        | 2.3                              | 9.0                          |
| Molise                 | 0.4                        | 0.7                              | 7.8                          |
| Campania               | 1.8                        | 6.0                              | 4.2                          |
| Apulia                 | 1.7                        | 5.6                              | 4.2                          |
| Basilicata             | 0.2                        | 1.0                              | 3.1                          |
| Calabria               | 1.2                        | 2.8                              | 6.1                          |
| Sicily                 | 2.3                        | 10.9                             | 3.0                          |
| Sardinia               | 0.2                        | 2.6                              | 0.9                          |
| <i>Total South</i>     | <i>9.2</i>                 | <i>32.0</i>                      | <i>4.1</i>                   |
| <i>Total Italy</i>     | <i>100.0</i>               | <i>100.0</i>                     | <i>14.2</i>                  |

Source: Weiss (1988, Tables F-G).

<sup>1</sup> Artisan concerns registered with provincial Chambers of Commerce on 31 Dec. 1970.

Table A.3 – Regional distribution of artisan proprietors and firms financed by Artigiancassa, 1973, 1978, 1983, 1988, 1993

| Region                       | 1973         |                    | 1978         |                    | 1983         |                    | 1988         |                    | 1993         |                    |
|------------------------------|--------------|--------------------|--------------|--------------------|--------------|--------------------|--------------|--------------------|--------------|--------------------|
|                              | Loans        | Firms <sup>1</sup> | Loans        | Firms <sup>2</sup> | Loans        | Firms <sup>3</sup> | Loans        | Firms <sup>4</sup> | Loans        | Firms <sup>5</sup> |
| Piedmont                     | 10.0         | 8.5                | 14.2         | 9.1                | 4.8          | 8.8                | 12.4         | 9.4                | 10.0         | 9.1                |
| Valle d'Aosta                | 0.2          | 0.3                | 0.0          | 0.3                | 0.3          | 0.3                | 0.3          | 0.3                | 0.1          | 0.3                |
| Lombardy                     | 25.2         | 15.8               | 17.7         | 17.1               | 29.6         | 18.5               | 18.2         | 18.3               | 10.2         | 18.4               |
| Liguria                      | 2.1          | 3.2                | 2.2          | 3.2                | 2.8          | 3.1                | 3.5          | 3.2                | 4.7          | 3.1                |
| <i>Total North-West</i>      | <i>37.5</i>  | <i>27.8</i>        | <i>34.1</i>  | <i>29.7</i>        | <i>37.5</i>  | <i>30.7</i>        | <i>34.4</i>  | <i>31.2</i>        | <i>25.0</i>  | <i>30.9</i>        |
| Trentino-Alto Adige          | 1.9          | 1.4                | 0.8          | 1.6                | -            | 1.6                | -            | 0.8                | -            | 1.6                |
| Veneto                       | 14.0         | 8.0                | 10.8         | 8.9                | 7.6          | 9.3                | 7.5          | 9.8                | 7.2          | 9.8                |
| Friuli-Venezia Giulia        | 1.0          | 2.2                | 0.6          | 2.3                | 0.6          | 2.4                | 1.5          | 2.3                | 1.9          | 2.3                |
| Emilia-Romagna               | 20.5         | 10.0               | 19.5         | 10.1               | 15.1         | 10.0               | 17.8         | 9.8                | 13.7         | 9.7                |
| <i>Total North-East</i>      | <i>37.4</i>  | <i>21.6</i>        | <i>31.7</i>  | <i>22.9</i>        | <i>23.3</i>  | <i>23.3</i>        | <i>26.8</i>  | <i>22.7</i>        | <i>22.8</i>  | <i>23.4</i>        |
| Tuscany                      | 9.0          | 8.0                | 9.1          | 8.0                | 10.3         | 7.9                | 6.7          | 8.3                | 4.9          | 8.2                |
| Marches                      | 5.3          | 3.5                | 6.2          | 3.6                | 6.7          | 3.6                | 4.7          | 3.7                | 5.0          | 3.6                |
| Umbria                       | 2.4          | 1.5                | 2.6          | 1.5                | 3.4          | 1.7                | 1.7          | 1.7                | 1.0          | 1.7                |
| Latium                       | 2.4          | 6.6                | 2.8          | 6.5                | 2.3          | 6.2                | 4.2          | 6.3                | 7.3          | 6.1                |
| <i>Totale Centre</i>         | <i>19.1</i>  | <i>19.6</i>        | <i>20.7</i>  | <i>19.6</i>        | <i>22.7</i>  | <i>19.4</i>        | <i>17.3</i>  | <i>20.0</i>        | <i>18.2</i>  | <i>19.6</i>        |
| Abruzzi                      | 1.1          | 2.2                | 1.4          | 2.5                | 1.5          | 2.3                | 1.7          | 2.1                | 2.2          | 2.4                |
| Molise                       | 0.2          | 0.6                | 0.7          | 0.6                | 0.5          | 0.5                | 0.5          | 0.6                | 0.9          | 0.5                |
| Campania                     | 0.7          | 5.7                | 1.8          | 5.8                | 3.2          | 5.6                | 3.2          | 5.8                | 5.2          | 5.8                |
| Apulia                       | 2.0          | 5.3                | 4.8          | 5.3                | 4.3          | 5.3                | 4.4          | 5.7                | 4.3          | 5.5                |
| Basilicata                   | 0.4          | 0.8                | 1.4          | 0.8                | 1.5          | 0.9                | 1.0          | 1.1                | 1.2          | 1.0                |
| Calabria                     | 0.5          | 2.6                | 1.7          | 2.3                | 1.5          | 2.1                | 1.6          | 2.3                | 0.7          | 2.4                |
| Sicily                       | 0.7          | 11.1               | 1.1          | 10.5               | 2.2          | 7.4                | 4.5          | 5.8                | 9.4          | 5.8                |
| Sardinia                     | 0.4          | 2.6                | 0.7          | n.a.               | 1.7          | 2.4                | 4.5          | 2.7                | 10.3         | 2.7                |
| <i>Total South and isles</i> | <i>6.0</i>   | <i>31.0</i>        | <i>13.5</i>  | <i>27.8</i>        | <i>16.5</i>  | <i>26.6</i>        | <i>21.5</i>  | <i>26.1</i>        | <i>34.0</i>  | <i>26.1</i>        |
| <i>Total Italy</i>           | <i>100.0</i> | <i>100.0</i>       | <i>100.0</i> | <i>100.0</i>       | <i>100.0</i> | <i>100.0</i>       | <i>100.0</i> | <i>100.0</i>       | <i>100.0</i> | <i>100.0</i>       |

Source: Baccini (2002: Tables A.11-A.12)

<sup>1</sup> Artisan concerns registered with provincial Chambers of Commerce on 31 Dec. 1973.

<sup>2</sup> Artisan concerns registered with provincial Chambers of Commerce on 31 Dec. 1978.

<sup>3</sup> Artisan concerns registered with provincial Chambers of Commerce on 31 Dec. 1983.

<sup>4</sup> Artisan concerns registered with provincial Chambers of Commerce on 31 Dec. 1990.

<sup>5</sup> Artisan concerns registered with provincial Chambers of Commerce on 31 Dec. 1993.

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