

Long and Medium Term Industrial Credit in Italy

Before discussing the Italian system as it appears to a Frenchman, it may be useful in a short introduction to summarise present practice concerning long- and medium-term credit in France. There is no question of establishing the superiority of one system or the other. Two countries often have problems that are similar but which appear in rather different shape in the two countries; each country solves its problems in its own way and in the end it often happens that different methods lead to similar results.

More than most problems, the question of long- and short-term industrial credit cannot be isolated from its national context. Each country must find a solution which takes account of local circumstances, or financial methods and of the structure of existing banking facilities.

In France, the practice is to distinguish three categories of credit, according to its duration: short, medium and long term.

Short-term credit (i.e. falling due in less than a year) is available at the commercial banks.

At the other end of the scale, three great public concerns (or mixed public-private concerns), the *Crédit National* (for industry) the *Crédit Foncier* (for construction and building) and the *Crédit Agricole*, grant long-term credit (i.e. for more than five years) using resources obtained by the issue of debentures or by advances from the State. The loans granted by these institutions are subject to the same sort of conditions (documentation, methods of repayment, guarantees, etc.) as are found in other countries, especially in Italy.

Between the two preceding categories comes medium-term credit, running from one to five years, for which a system peculiar

to France was devised towards the end of the war, when it was necessary to repair and modernise quickly the equipment of the country before the financial markets had recovered.

When an industrial firm wishes to obtain a medium-term loan it applies to its usual bank which submits a dossier to the *Crédit National*; an ad hoc Committee including a representative of the Bank of France then examines it. If the request is granted a contract is drawn up with at least three signatories (Debtor, Banker, *Crédit National*) and this contract has automatic eligibility at the *Caisse des Dépôts et Consignations* (1) and at the Bank of France. The *Crédit National* gives its signature but does not supply money. The Banker who alone takes the responsibility of the risk of the insolvency of the debtor provides the funds from his resources but he has the power to rediscount the document at any time within the period of the loan (2).

Under this scheme the medium-term loan is thus made by the banks, at their own risk, on the explicit understanding however that their funds will be replenished as need arises, *but with this essential condition that an official body specialising in this business, and the Bank of France itself, acting in advance of the granting of the loan, exercise a strict control on the status of the debtor and the employment of the money.* The Banker, in touch with his client from day to day about short-term loans, does not think it strictly necessary to burden a medium-term credit by guarantees on real property. In fact, the taking of a mortgage, a step rarely taken by a French banker, is confined to *long-term* business.

Inevitably, such an arrangement leads to the inclusion in the portfolio of the Bank of France of a large volume of medium-term credits. But stability was reached during 1954, at least in the financing of industrial equipment, the opening of new credits being covered thereafter by the repayment of old ones.

This summary of French customs is necessarily too simplified and neglects numerous details and many types of application; it will give, however, an overall view sufficient for making intelligible the comparisons which follow.

(1) The French equivalent of the Italian *Cassa Depositi e Prestiti*.

(2) An analogous system functions with the support of the *Crédit Foncier* which is concerned with loans for building.

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The Italian system of long- and medium-term industrial loans is at first sight extremely complex; understanding will be assisted by a brief reference to its history.

Inspired, in the last century, by methods introduced in France by Péreire and generally followed by German banks, the Italian banks, after massive investments in buildings, railways and iron-works, about 1890 suffered a violent crisis, the liquidation of which required the support of the issuing banks for fifteen years. Due to similar causes another crisis, aggravated by severe deflation, occurred after the first world war. Before the Italian economy could recover from this ordeal the great world depression began.

These events, long and severely felt, gave rise to the bank law of 1936, still in force. This law led to the separation of short-term credit, granted by commercial banks, from long- and medium-term credit which is dispensed by "special institutions" prohibited from the business of taking demand or short-notice deposits. The resources of these special institutions are provided essentially by the issue of debentures and "cash bonds" and by advances from the State.

The State had from the first taken a leading part in the birth and expansion of the special institutions. It had created some in order to free the banks from their frozen commitments and others in order to support public utility works; it established others in order to stimulate enterprise in depressed areas where industrial initiative has recently revived. Apart from two or three joint-stock companies, subsidiaries of banking groups (of which one at least would in France be called "nationalised"), the institutions are in form "public law" institutions, and in fact, at least "mixed" enterprises in the sense either that the State furnished the majority or part of the original capital, or that it grants directly or indirectly, important advances.

The special institutions for industrial credit were developed in four main phases.

1. As early as 1914, the *Consorzio sovvenzioni su valori industriali* (3) was established (it had been planned before the outbreak

(3) More or less a subsidiary of the Bank of Italy which subscribed 43% of the capital, the rest being found by other public institutions.

of war) for granting to banks loans secured by industrial securities and goods; later it was involved in important business for the National Treasury. The *Consorzio* experienced some periods of great activity, notably during the Abyssinian expedition and the second war, obtaining from the Bank of Italy about 40 milliards of rediscounts, equivalent in to-day's values to about 2,500 milliard lire. The *Consorzio* still exists but is dormant.

2. In 1919 and 1924 two institutions were founded in the field most eager for capital at that time:

(i) The *Consorzio di credito per le opere pubbliche* (CREDITOP) which as indicated by its title was intended to provide for public institutions and agencies against annuities guaranteed by the State, and for public services, e.g. railways.

(ii) The *Istituto di credito per le imprese di pubblica utilità* (ICIPU), which from the beginning has been concerned principally with financing electricity and telephones.

3. A third chapter of the history of long-term credit opened in 1931, with the creation of the *Istituto mobiliare italiano* (I.M.I.), whose task was the unfreezing of bank assets frozen by the economic crisis.

The intervention of the I.M.I. soon proved insufficient. In 1933 the Government founded the *Istituto per la ricostruzione industriale* (I.R.I.), which took over from the banks their industrial participations and became the owner of almost all the capital of the three greatest Banks of the time (*Banca Commerciale Italiana, Credito Italiano, Banco di Roma*). Since then the I.R.I. has assumed a double role: that of a holding company whose subsidiaries are industrial undertakings (this is the form taken by Italian nationalisation); and that of an institution lending at long-term for the benefit of certain industries in which it owns some of the capital. Some of these industries have access also to I.M.I. and CREDITOP. Thus the I.R.I.'s financial functions are purely ancillary, and it is usual in Italian statistics to exclude the I.R.I. from the special institutions for long- and medium-term credit.

4. Such was the situation after the second world war, when the fourth phase of the development of special institutions began.

At first — as was also the case with the *Crédit National* in France — the business of the I.M.I. received fresh impetus. Mar-

shall Aid counterpart funds and loans from the Exim-Bank were put at its disposal; it issued several series of securities, and became one of the main sources of long- and medium-term capital for the great industrial concerns, and it by no means neglected the smaller industries (4).

Then in 1946 the three great banks controlled by the I.R.I. (see above) together formed a Joint-Stock Company, the *Banca di credito finanziario (Mediobanca)*, for the purpose of granting medium-term credit to a select clientele, as well as undertaking the business of what we in France call a "banque d'affaire": organising capital issues, stock exchange placings and the floating of new enterprises.

Recently some other banks copied the three mentioned above and formed, on the same model as the *Mediobanca*, the *Enti finanziamenti industriali (E.F.I.)* which is still in its infancy (5).

Meanwhile, four "Public Law" Banks, (the *Banca Nazionale del Lavoro* which is growing rapidly and recently seems to have taken first place among the Italian banks, the *Banco di Napoli*, the *Banco di Sicilia* and the *Banco di Sardegna*), have each opened certain "special sections" (with separate accounts) for long- and medium-term credit.

Finally as there appeared need for further sources of medium-term credit for small and medium industry (defined by the law as having less than 1,500 million lire of its own capital and employing less than five hundred people), a dozen regional institutions have been opened during the course of the last few years. The regional or local banks participate in the ownership of these institutions which provide loans of up to 50 million lire, with maximum maturity of ten years. The three most important of these institutions are: at Milan, the *Istituto per il credito alle medie e piccole industrie della Lombardia* (Institute for Credit to Medium and Small Industries in Lombardy); at Naples, the *Istituto per lo Sviluppo Economico dell'Italia Meridionale* (Institute for the Economic

(4) In ten years it undertook a thousand operations for the benefit of large enterprises and 5,300 for the benefit of medium and small ones; but naturally the sums involved for the large undertakings were more considerable than those by which medium and small concerns benefited.

(5) Actually the banks have taken over and reorganised for this purpose an old but inactive Corporation. We should also mention here the *Centrobanca* created on a similar plan by the network of Popular Banks.

Development of Southern Italy, *ISVEIMER*); and at Palermo, the *Istituto Regionale per il Finanziamento alle Medie e Piccole Industrie in Sicilia* (Regional Institute for the Financing of Medium and Small Industries in Sicily, *IRFIS*). It is anticipated that the last two, and similarly a Sardinian Institute of less importance (*Credito Industriale Sardo*, *CIS*) will progressively replace the special sections of the *Banco di Napoli*, *Banco di Sicilia* and *Banco di Sardegna* referred to above.

The establishment of these regional institutions was somewhat difficult owing to the scarcity of savings on which they could hope to draw in their respective provinces. Since 1952 it has become apparent that if they are to develop their business they must be reinforced by a central organisation (which would not itself be engaged in direct lending). Accordingly there was established in 1953 in Rome the *Istituto centrale per il credito a medio termine alle medie e piccole industrie* (Central Institute for Medium-term Credit for Medium and Small Industries), usually called *Mediocredito*. Its role is developing from year to year: in addition to the mobilising of credit for medium-term investment in medium and small industry it has been called upon to provide medium-term finance for exports (6), not only through the regional institutions but also through *I.M.I.*, through the special sections of the banks, through *Mediobanca* and through *E.F.I.* So far, however, only small sums have been involved in this export credit business.

While the regional institutions of northern and central Italy appear to be a homogeneous network of establishments concentrating on credits under 50 million lire and grouped round *Mediocredito*, the institutions of the south (*ISVEIMER* and *IRFIS*) are quite different. They rely on *Mediocredito* scarcely at all, for the development of southern Italy has been made the responsibility of a public organisation (the *Cassa per il Mezzogiorno*) which receives large subsidies from the budget and from the State Treasury and obtains loans from the International Bank for Reconstruction and Development (*I.B.R.D.*). The *Cassa per il Mezzogiorno*, deploying its resources in accordance with a ten-year plan, provides funds for public works, water-works, roads and tourist facilities, and it makes

(6) Cf. "Export Incentive Measures in Italy", in *Banca Nazionale del Lavoro Quarterly Review*, Nos. 36-37, January-June, 1956.

advances through the ISVEIMER and IRFIS to new industries and those which are to be expanded.

ISVEIMER and IRFIS, having until now found at the *Cassa per il Mezzogiorno* all the help they need, are able for the moment to escape the control of *Mediocredito*, resorting to it only for very limited accommodation to cover short-run contingencies. The managements of ISVEIMER and IRFIS are thus not limited by the rules imposed on *Mediocredito* and its network of institutions: the rules, that is to say, restricting their operations to medium and small industries and the amount of individual loans to 50 million lire. In the south it is not unusual for loans to exceed this sum and there are some projects receiving several milliards of lire from the funds which have been derived from the I.B.R.D.

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This brief survey shows that there exists in Italy more than a score of special institutions which for simplicity (perhaps excessive, but to which we are forced in a short exposition) we can put into four categories.

1. Three great institutions of national character, I.M.I., ICIPU, and CREDITOP, and one can add the I.R.I. The total loans of the three strictly "long-term" institutions reached at the end of 1955 808 milliards of lire (not counting the loans to State Railways). The total loans and participations of I.R.I. amounted, at the end of 1955, to round about 359 milliards of lire, in addition to which it has arranged "financings" amounting to 107 milliards.

2. Three Joint-Stock Companies (*Mediobanca*, E.F.I. and *Centrobanca*) and the special Section of the *Banca Nazionale del Lavoro*, which conducts medium-term business all over the country (as regards *Centrobanca* and the B.N.L. Section, for small and medium enterprises only). Their commitments were round about 63 milliard lire at the end of 1955.

3. About ten regional institutions of northern and central Italy, under the aegis of *Mediocredito*, whose loans totalled about 12 milliards at the same date.

4. The three institutions of southern Italy and the islands (ISVEIMER, IRFIS and CIS) backed by the *Cassa per il Mezzogiorno*,

and the three special sections of the *Banco di Napoli*, *Banco di Sicilia* and *Banco di Sardegna* which are being progressively superseded. The combined 1955 loans of these six organisations were about 96 milliard lire.

That makes a total of about 980 milliards of lire on loan (not counting loans by I.R.I. and the 192 milliards granted to the State Railways) and we have not included in this account:

(a) F.I.M. (an organisation, now in liquidation, for financing the engineering industry) (7) and the *Consorzio sovvenzioni su valori industriali* (now inactive) whose residual credits are valued at 37 and 12 milliard lire respectively.

(b) Several institutions dealing in medium-term loans of a special nature: the Section of the *Banco di Sicilia* dealing with mines (16 milliard of loans); the Sections of the *Banca Nazionale del Lavoro* covering the film industry (10 milliards), and hotels and the tourist trade (10 milliards); the Section of the *Istituto di Credito Fondiario delle Venezie* (13 milliards), etc.

The resources of the industrial credit institutions granting long- and medium-term loans were provided, broadly, as to two-thirds by their own capital and by the issue of fixed-interest securities; the rest was supplied by the State, by Marshall Aid or by I.B.R.D.

The greater part of the loans has gone into electricity, gas, steel, engineering and transport.

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Before finishing with the institutions and passing on to the loan procedure we shall briefly consider the statutory provisions whereby the State exercises control over the distribution of loans and over the employment of public funds whilst assuring a representation of private business and of regional interests. The balance of influence varies greatly from one institute to another.

The capital of the three great Institutes was provided principally by the *Cassa Depositi e Prestiti* and the *Istituto Nazionale Assicurazioni* (National Assurance Institute), that is to say, in the

(7) Cf. ROBERTO TREMELLONI, "Premises and Tasks of the Special Fund for Financing the Italian Engineering Industry", in *Banca Nazionale del Lavoro Quarterly Review*, No. 3, October 1947.

last analysis by the State, but with the participation of certain banks and savings banks. In each organisation a meeting of the participants, acting in the same way as a meeting of shareholders, appoints a certain number of the members of the Board. The other members, including the President, are nominated by the Minister of the Treasury. He also has to preside over ICIPU and CREDITOP. In the three organisations, and also in I.R.I., the preponderant influence of the public authorities is clearly established.

The capital endowment of the central *Mediocredito* is entirely provided by the State which nominates the members of the General Assembly of participants, of whom a third are proposed by the Interministerial Committee on credit and saving, and another third are chosen from the banks and savings banks.

The Government nominates the members of the Board from the General Assembly, and the President of the Board who must be from outside the General Assembly. Thus (and it is the same in the *Cassa per il Mezzogiorno*) the preponderance of the State is indisputable, but representation of the business world is not neglected.

The system of the regional Institutes varies from a tolerably broad independence from public control to a nicely calculated distribution of influence between the State, private interests and regional authorities. At Milan, where the capital of the Institute does not include participation by the State, the organisation — in the shape of a "public law organisation" — is an autonomous enterprise. This arrangement is natural in Northern Italy where economic initiative is highly developed. A powerful and very old savings bank in the principal city of Lombardy supports the medium-term credit Institution. In southern Italy the *Cassa per il Mezzogiorno* supplies 40% of the institutions' capital, the *Banco di Napoli* and the *Banco di Sicilia* 40% between them, and the other banks in the area 20%. The Minister of the Treasury nominates the President (in Sicily this must be done in agreement with the political President of the region) but the Council is appointed by the participants proportionately to their share in the capital endowment. Thus there appears to be a predominance of local influence moderated by the control of the *Cassa per il Mezzogiorno*.

This completes our account of administrative arrangements peculiar to each institute and we now proceed to the operating practices.

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Long-term credit in Italy is based on the same sources of finance, the same methods of investigation, and the same guarantees as in France. Funds are provided by the issue of bonds or by advances from the State. The investigation of requests for accommodation involves some enquiries by the consultant engineers, as in the *Crédit National*. The guarantees nearly always take the form of mortgages.

But in Italy *medium-term* credit is treated nearly the same as long-term, that is to say, more strictly than in France, and the course of its development has been determined by the rigorously orthodox policy of the Bank of Italy. The latter, fortified by the Banking Statute of 1936, seeks to prevent commercial banks from granting medium-term credit and resolutely excludes it from its own portfolio. In acting thus, it is influenced not so much by abstract considerations of monetary doctrine as by the painful lessons of experience. As is well known, the Italian banks have experienced certain periods of illiquidity to which they have no wish to return. That is why the Bank of Italy, exercising its power in the public interest, has encouraged the foundation of special institutes to which is confined the granting of long-term credit.

The use, in favour of medium-term credit, of the procedure of the third signature given by an organisation of the type of the French Crédit National (or of the Caisse des marchés, or the Banque du Commerce Extérieur) is completely rejected in Italy. The special institutions give no medium-term credit which would not oblige them to eat into their own resources immediately. And they cannot, otherwise than by issue of debentures, replace resources by resort to rediscount at the banks, still less at the Bank of Italy. Of course necessity has occasioned some relaxation of these conditions. That is why the *Mediocredito* was founded and the *Cassa per il Mezzogiorno* is allowed to help the southern institutions. But these two centres of rediscount have not themselves, for the time being, resources other than those provided by the State.

Having stated these principles let us examine in order Italian ideas and practice concerning the duration of loans, their objects, the possible recipients, the investigation of cases prior to the granting of loans, the guarantees taken, rates of interest and the intervention of the two special rediscounting institutions.

A) *The duration of loans.* Loans for less than a year are within the competence of commercial banks; the latter do not grant credits for more than one year. The division between medium- and long-term loans is neither as rigid nor as important as in France, since neither from the point of view of the origin of the funds employed nor, as we shall see, from the point of view of guarantees required is there much difference between the two categories. The Italian law of July 25, 1952 concerning the *Mediocredito* fixed the dividing line between the two categories at ten years. But there are some Italian bankers who, having regard to the rapidity with which modern machinery becomes obsolete, prefer redemption in five years. In these circumstances it is more instructive to examine the actual policy followed by the institutions than to search exhaustively for hard and fast rules.

The I.M.I. rarely grants loans for less than five years duration or for more than fifteen or sixteen years, so that it appears to a Frenchman to be an organisation for long-term rather than medium-term credit. The same seems to be true of CREDITOP and ICIPU.

In certain institutions in northern and central Italy the duration seldom exceeds five years; there the permitted maximum is ten years but in practice banks keep well below this limit. Moreover, the *Mediocredito* is only ready to give "rediscounts" for up to two years, although it may renew the accommodation after a new examination of the borrower's position.

In the southern institutions which rely on the *Cassa per il Mezzogiorno* loans are granted for periods of five to ten years. Until the recent creation of these institutions, special sections of the *Banco di Napoli* and of the *Banco di Sicilia* operated in the same way; since then however they have confined themselves to shorter credits.

The two private law companies contract few loans of less than five years, but the course of amortisation keeps the average life of outstanding loans down to about three years.

B) *The Object of loans.* They are all destined to be invested in plant or equipment, to the exclusion of all use as circulating capital. It has often been objected that this principle is too narrow in the context of medium-term credit; a firm's liquid resources are not divided and it is impossible to ensure that medium-

term credit is not used to finance stocks. This argument has also been heard in France.

The two private law companies, *Mediobanca* and E.F.I., are more free and appear to adapt themselves easily to the needs of their customers.

C) *Beneficiaries; the importance of loans.* The large institutions have not shunned small business: they have granted numerous loans of relatively modest amount to enterprises of all sizes. But, although it is not possible to support this impression by statistics, it seems that large loans, granted to a few big concerns, constitute much the greater part of their operations. The beneficiaries come from all the branches of industry, but three big items, forming 75% of I.M.I.'s balance sheet, relate to transport and communications, electricity, steel and engineering. As we have already seen, electricity is the main customer of ICIPU, and public works and railways are those of CREDITOP.

The *Mediobanca* at Milan, though its figures are not comparable to those of the great institutions, is mainly interested in the big organisations, in their subsidiaries, or in enterprises working for them.

Legally, the regional institute must limit any one loan to 50 millions and can lend only to firms employing less than 500 people and having at their disposal funds less than 1.5 milliard lire. These restrictions are imposed on the institutions of northern and central Italy but, to the extent to which they use the funds of the *Cassa per il Mezzogiorno* and of the I.B.R.D., the southern institutions escape the limitations imposed by law on the *Mediocredito*. Thus they do not so completely exclude the great enterprises, especially when the project in question is investigated in conjunction with the I.B.R.D.

D) *The investigation of dossiers prior to the granting of loans.* The I.M.I., which is concerned rather with long than with medium-term credit according to French standards, uses methods of investigation precisely similar to those of the French *Crédit National*. Demands for loans reach it either through one of the five representatives which it maintains in the largest provincial cities or through the Bank of Italy. Judging by statistics shown in its annual reports, it is very strict and the percentage of refusals is high.

Whatever the amount or term of the loan requested an investigation is always made by a consultant engineer attached to I.M.I.

In the regional institutions requests for medium-term credit are made on standard-type forms whose pattern it is easy to picture. In general the firm's ordinary bank is consulted, but an investigation always takes place, either by a qualified accountant or, where the business is of exceptional importance (as in Southern Italy), by a technical expert.

In the special Sections which work in close contact with the banks to which they are attached, methods are freer and approximate, it seems, to those of French banks when they prepare a dossier for medium-term credit addressed to the *Crédit National*.

E) *Guarantees*. As a general rule the security is real property, generally by mortgage, even in the case of medium-term credit. This seems to be true for some 80 to 85% of loans agreed to by regional institutions and even by the special Sections. These arrangements are to some extent customary in Italy, perhaps partly because of the sharp division between short- and medium-term credit: once credit is given supervision cannot be maintained, and it is therefore necessary to protect it by sound guarantees. The requirements of the French *Crédit National* in the matter of mortgage guarantees for long-term credits are nearly the same, but much less severe for medium-term credit.

Italian banks complain of the extent of the privileges allowed to these institutions. The reply to this is that the normal cover for short-term credit lies, not in fixed property which may be more or less heavily mortgaged, but in stock or self-liquidating assets. We can say that the sharp division between the two types of credit raises problems of the relations between banks and institutions in their use of resources having regard to the demand for investment on the one hand and the need for day-to-day finance on the other. The founding of the institutions is still recent and it will take time to establish the habit of co-operation.

F) *Rates of Interest*. These vary considerably in Italy as in France, following the pattern of the sources which supply the loans; like the *Crédit National*, the I.M.I. divides its accounts into ordinary business and special business based on State funds. For certain categories of loans the State bears part of the interest charged by the institutions. The scale of rates paid by the borrowers varies

from 3% to 8½%. It is not possible to estimate the average rate and we must moreover frankly confess that it would also be pure guesswork where France is concerned. We may however guess that such an average rate would be higher in Italy than in France, perhaps by a full point or a little more, a difference that may be considered as reflecting the spread between the rates at which bonds can be issued.

G) *Intervention of the Central Institutions*. There is little to say of the procedure of the *Cassa per il Mezzogiorno* which advances funds to the southern institutions in the same way as in France the State supports the Popular Banks or the *Crédit Agricole* in certain of their operations.

More strange to French eyes is the method of the *Mediocredito* which supports the regional institutions in many ways: by rediscounting bills, by granting loans or underwriting shares or cash bonds issued by them. Whether it is making advances or taking up bonds the *Mediocredito* has assigned to it by the institutions, as special guarantee, an amount of credit operations equal to the total of funds advanced, as well as whatever security is attached to those operations. It limits its support to 50% at most of each loan and to a period of two years, but is free to prolong its assistance if it finds this appropriate. Thus it exercises a very close control over the kind of projects to which the money is to go, and it compiles very complete dossiers, but it does not proceed, except in rare cases, to enquiries into the actual conduct of the business. It concentrates its efforts on the stage at which the money is being raised. In its desire to maintain complete freedom of judgment at all times, *Mediocredito* refuses to take part in the investigation made by the institutions prior to the granting of a loan. The institutions are administered independently, as is *Mediocredito* itself.

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Such are the structure, principles and methods of the long- and medium-term credit institutions; we must now consider their place in the whole structure of financial institutions.

In Italy medium- and long-term loans granted by *all* the Special Credit Institutions (industrial, land and building loans, loans for the improvement of agriculture and the storing of crops, and loans

perhaps saving is differently distributed; possibly company savings have not the same importance in the two countries. Supplies in the capital market depend as much (and sometimes more) on the income structure as on the total of incomes. At the end of an article, already long, we can only mention these points, and they are of course open to argument. The fact nevertheless remains that the Italian capital market has yielded more ample supplies of funds than the French.

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What conclusions can we draw?

The legal separation of short- from medium-term credit is certainly a healthy rule from the point of view of the liquidity of Italian banks; liquidity is further assured by the fact that a large part of the banks' liabilities is not payable on demand, being in fact an accumulation of savings.

In France orthodox doctrine has not been observed so rigorously. Constrained by the deterioration of the capital market and anxious to obtain, above everything else, quick results in industrial reconstruction we in France deviated for the time being from classical ways. We have however intended to restore a more normal position after some years, and the volume of medium-term bills representing equipment finance has already ceased to grow.

There are also differences of a technical kind. In France the signature of the *Crédit National* serves to separate the notions of risk and illiquidity. In Italy the medium-term Institution assumed both the risk and the burden on cash resources. *Mediocredito* never engages in advance to make the credit liquid. Is it not possible to conceive a system where responsibility is more concentrated, and probably this is right.

On the other hand, the institutional separation of short- from medium-term credit can create difficulties in relations between the banks and the special institutions. It can cause the special institutions to seek real property guarantees even for medium-term credit. For once the credit is granted they are less well placed than a banker to follow the course of the business. Every method has disadvantages as well as advantages.

Such are the principal reflections suggested by an examination of the two systems. Both pretty clearly need to rely on a well-

supplied capital market. Italy seems to have been relatively more fortunate than France, in this regard, during the last few years.

This point, which is on the borderline of our present subject, would merit a special investigation of its own: in any case it is apparent that the possibilities for issuing fixed-interest securities are fortunately increasing in both countries.

The most original feature of the Italian system is its network of regional institutions, which we now know could not have developed without the support of a central institute, the *Mediocredito*. This arrangement, in which influence is divided between public authority and the banks, constitutes an interesting experiment in the encouragement of industrial development in regions and through small firms which need simultaneously State aid and private initiative. The experiment is in its infancy but, after some hesitation, the start has been promising enough. Now, when France is trying to stimulate activity in certain provinces which lag behind the great industrial zones, this example merits close attention.

I have allowed myself these comparisons between the two countries in the hope of adding interest to an otherwise purely technical study, and am not implying that any difference between the two systems makes one, *in abstracto*, preferable to the other. The story of Italian banks differs from that of French banks. Financial practices and needs on one side of the Alps differ from those on the other. Looking at the variety of Italian institutions a Frenchman realises for example, that there are — economically speaking — two Italies, that of the North and that of the South. Therefore it is not surprising that French and Italian answers to the same questions can diverge at several points.

Up to the present it does not seem that the franc has suffered from the liberality of facilities in France for obtaining medium-term credit to support ravaged industries. At the end of 1943, before the ordeal was ended, it was the French monetary authorities themselves who, thinking then of the future, took the initiative (fortunately, we can say from experience) to establish these facilities. These same authorities are perfectly ready, still, to assume new responsibilities of control in a sector which was quietly ignored before the war. The need for investment is no less intense in Italy. Stimulated by the necessity of raising the level of employment, obliged to repair war damage, deprived of its colonies and con-

centrating its efforts on the metropolitan territory, the country is taxing its ingenuity to develop industry and gives to a visitor at this time the impression of a very remarkable vigour. The effort to achieve a more reasonable balance between North and South has led to well-chosen programmes of capital development, and a serious start has been made in the execution of these programmes.

The economy is now fully active, but neither the Government nor the central bank can forget the liquidity crises of the past, in which the Italian banks suffered more acutely than did the French. They therefore follow a cautiously orthodox policy, striving to reconcile the requirements of expansion with the strict protection of the lira.

Paris

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