

NATIONAL MONETARY COMMISSION

The Banks of Issue in Italy

BY

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Chief General Secretary of the Bank of Italy

WITH AN ARTICLE BY

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AND

The Text of the Italian Banking Law



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THE BANKS OF ISSUE IN ITALY.

PREFACE.

The stormy vicissitudes which the Italian banks of issue have passed through in the last half century make their history particularly interesting, because they show the inevitably ruinous effects of bad banking systems and of disregarding the strict standards by which institutions authorized to issue paper money should be rigorously governed.

The history of Italian banks, whether in good or in evil, affords material from which may be deduced useful instruction. It shows the causes of disturbances of circulation and credit and points to the remedies.

And yet, we may repeat, even in this regard there is nothing new under the sun; other countries, for the same causes and reasons had passed through these same vicissitudes before Italy experienced them and had, like Italy, felt the pernicious effects of a wretched system of banks of issue or their bad government, since it is not possible to violate the fundamental laws that govern credit and circulation, or any other economic laws, without being obliged to suffer the disastrous consequences sure to follow.

Indeed, the banking disasters of Italy may be considered as typical repetitions of those which had already happened in other countries. What, for example, is the substantial difference between the large subsidies

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given by the Italian banks of issue, particularly the Banca Nazionale, to the building industry (and, in general, to town and country property) and the disastrous application of the theory of John Law? And as for the paper circulation representing government debts, is this by chance an Italian specialty or invention?

On the contrary, it must be stated with regard to this last point, that while the Italian Government has within a few years reimbursed the banks for the loans they had made it, and at present has in circulation only its notes, almost all governments are still to-day and probably always will be debtors to the banks of issue for large amounts, although some of them have their own notes in circulation as well.

But the stormy vicissitudes of Italian banks are particularly interesting, not only because of the various moral, political, and economic elements which caused them, each of which has a special character and furnishes the theme for a special study, but also, since being recent, they gain that greater importance possessed by things and events that are closer in time and space.

In fact, the banking crises experienced by other countries had come to be considered ancient history, and were almost forgotten. Besides, the opinion had prevailed for some time past that the examples of the ruinous effects of the bad regulation of banks of issue would prevent, up to a certain point, the repetition of past errors.

It cannot be denied, of course, that banking crises have gradually become less frequent and less serious, in spite of the increased work that the banks of issue are

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obliged to do to satisfy the greater necessities of trade and the progressive growth of economic activity. On the one hand the complicated mechanism of banks and credit is at present developed, especially in countries that are more advanced economically, so as to reduce to its smallest proportions the use of metallic and paper money in circulation, by means of the extensive employment of other means of exchange and the enormous increase of clearing houses; while, on the other hand, the regulations relating to the issue of paper money have become more rigid and severe, thus diminishing the probability of the harmful expansion of the paper currency and the abuse of credit.

What is more, the ease and promptness with which the market of one country can enter into business relations with markets of other countries and be assisted by them, and the solidarity which has come about among the great international financial powers, frequently operate with efficiency and speed to prevent crises or lessen their gravity, intensity, and duration.

It is evident, however, that this help can be given only when it is a question of crises of a transitory nature, which do not destroy to the very foundations the economic and financial edifice of a country, since no real aid can be obtained when the crisis extends to all the vital organs of a country, and especially when the banks of issue, which represent the great motive power of economic life, are themselves injured and deranged, just as was the case in Italy in 1893.

Indeed, the situation of these banks, as revealed in that year at the time of the failure of the Banca

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Romana, showed clearly that they were in a state of insolvency.

And I should like to say here that in accepting the very flattering invitation sent me by the Honorable Senator Aldrich to write for the United States Monetary Commission a report on the principal facts in the history of banks and credit in Italy, I have determined to treat them with all candor and to express with great frankness my critical opinion concerning them; and this not only because of due regard for historical accuracy and impartiality, but also because of a sentiment of patriotic pride. Truly, charitable omissions and clever concealments would not only not be in the least justified here by the desire to avoid injuring the credit of the country, now set on a solid basis, but they would take away from the picture of Italian banking crises the valuable effects of light and shade; they would strike out from the economic history of Italy pages full of instructive interest and at the same time valuable in showing the work accomplished in Italy by the Government, Parliament, and the banks of issue themselves in making possible the really amazing reform of the circulation of the country.

And, on the other hand, is it not perhaps creditable to be able to gain salutary instruction from past errors? Is it not useful to show that the wisdom born of experience furnishes a safeguard against the danger of committing in future still graver errors?

For it seems almost inevitable that all countries must in these matters pay tribute to inexperience; that, especially at the beginning of their political career, they must go through difficult ordeals in the midst of which they are

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battered and scarred. All countries have, in fact, passed through financial, economic, and monetary hurricanes; all have passed through—many are still passing through—the anxiety of financial deficits, for which they must provide either by seeking in forms apparently less unpopular new sacrifices for the taxpayers or else by increasing recklessly the amount of the public debt; all have been smitten by the scourge of forced currency.

Italy should not, therefore, be reproached too harshly for not being able to profit by the experience of others and making the same mistakes that other countries had already made. This is especially true because at the time of its political unification Italy was destitute of everything, and had to attack and solve vast and difficult problems which involved enormous expenditures. It had to organize the state executive, unifying the different systems in force in the various preexisting states; it had to provide for organizing an army and navy; for building railroads and completing public works made peculiarly costly by the special characteristics of the country, traversed from end to end as it is by the Apennine and Alpine ranges. Everything, then, had to be evolved from the existing confusion in all that related to credit, circulation, and financial-economic institutions in general.

Even though in taking the first steps of its national existence Italy was not able to advance rapidly and surely in the high-road, and if in accomplishing the immense work that presented itself the nation did not succeed in avoiding grave errors, it certainly deserves all due allowance, because the great good it has accomplished since then overcame the evil in such a manner as to make it disappear completely.

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And in what particularly concerns the vicissitudes of banking, circulation, and credit in Italy it may indeed be affirmed that they would have been less stormy if from the time the country gained a political constitution it had been able to count upon the valuable aid of a single powerful bank of issue, a regulator of the circulation and a strong defense for the State and the people in moments of difficulty and crises.

Adolphus Wagner, passing in review the virtues and defects of plurality and unity in the issue of paper money, has acknowledged that one of the advantages of unity consists in rendering greater service in times of crises, which constitutes "without doubt the greatest and most decisive advantage that a great central bank presents in comparison with a number of small banks, especially in what concerns the right of issue." And he has also acknowledged that a great central bank can give strong support to the State and its finances in times of political crises, a thing which the smaller banks can not do, or at least can not do adequately, as it is proved by the comparison between what happened in France in 1870-1871 and in the United States in 1861-1864; and we may now add, in 1907 also.

To these and other most valid and truly conclusive arguments in favor of the unity of issue, the partisans of plurality are able to oppose and echo nothing but phrases as full of rhetoric as they are empty of content. They protest fiercely in the name of liberty against the establishing of odious monopolies, as if the unity of issue signified a monopoly in the exercise of credit, and as if it were not for the common interest to have a great institution as a

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moderator of the currency, a watchful guardian against foreign and domestic enemies, and a ready aid in case of economic, financial, and monetary disturbances.

Nevertheless, in spite of the fact that experience has shown, in a decisive way, the superiority of the unity of issue, there is perhaps nothing more difficult to bring about than this unity, as may be seen from the long struggle to prevent it in every country; in some of them it would not have come about even then without the impetus given by serious disasters of a political or economic character.

The difficulties arise not only from the prevalence of liberal standards which are entirely out of place in this matter, but still more from the obstinate resistance of the network of interests which have established themselves and grown up under the régime of plurality.

Even Italy, which at the beginning of its political career certainly needed to create a sound organ of credit to satisfy more fully the economic needs of the country, could not bring itself to the point of settling the question in the way public interest demanded.

Italy, although keeping three institutions, has also been able since then, through unity of laws and the working together of the men concerned, to realize in substance the benefits of the unity of issue. Yet it should in all justice be stated that Italy would not have reached this point without the aid of an exceedingly serious and melancholy event, namely, the disastrous failure of the Banca Romana.

It is easy to understand, therefore, how arduous the struggle must be in the United States to arrive at the

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organization of a great central bank of issue, the necessity of which has been made evident by former and recent disasters.

However, the active investigation which is being pursued by men of courage with lofty patriotic purpose gives assurance that the fight will end in the triumph of the good cause—an outcome which Europe joins in earnestly wishing for America. The sincerity of this wish the Americans can not question, since it is not entirely disinterested, as the difficulties of the American money market have a reflex action on European markets, causing them periodical disturbances.

ROME, *January, 1910.*

TITO CANOVAI.

THE BANKS OF ISSUE IN ITALY.

CHAPTER I.

THE ORIGIN OF THE ITALIAN BANKS OF ISSUE.

No country, perhaps, presents such a diversity and variety as Italy of banks originally organized or afterwards authorized to issue bank notes. This is due particularly to the historical subdivision of the country into various States; these had their own institutions, which were successively united to others, and each of these had different characters, prerogatives, and privileges.

To outline briefly, therefore, the origins of the Italian banks of issue is not simply to satisfy historical curiosity; it is, in many cases, to give at the same time the reasons for the vicissitudes through which these banks passed and to add a valuable contribution to the study of the regulation of the institutions to which is intrusted the most delicate function of issuing paper money.

Just as the Bank of Italy, created in virtue of the law of August 10, 1893, was made up of the fusion of three preexisting banks—that is to say, the Banca Nazionale nel Regno, the Banca Toscana, and the Banca Toscana di Credito per le Industrie e il Commercio—so, with the exception of the last, the two other banks, as well as the banks of Naples and Sicily, still in existence, resulted from the fusion of smaller institutions.

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The Banca Nazionale nel Regno, the biggest of all, grew from the union, in the year 1849, of the Banca di Sconti, Depositi e Conti Correnti, located at Genoa, with the Bank of Turin, each created for a period of twenty years, with letters patent from the governor of the Sardinian States, the first on March 16, 1844, the second October 16, 1847. Each bank had a capital of 4,000,000 lire, divided into 4,000 shares at 1,000 lire each. The two banks were authorized to carry on banking operations, and also to issue notes payable at sight and to bearer up to three times the amount of the metallic money in the coffers.

By a legislative decree dated September 7, 1848, the Government of the Sardinian States asked the two banks for a loan of 20,000,000 lire, freeing them from the obligation of redeeming notes in coin.

By the agreements stipulated September 26 and October 3, 1849, approved with the reservation of being converted into a law by royal decree of December 14, 1849, the fusion was arranged of the banks of Genoa and Turin, and a bank was created which took the name of the Banca Nazionale.

The capital was then 8,000,000 lire, divided into 8,000 shares of 1,000 lire each. The bank was to have the grant for a period of thirty years and the privilege of issuing notes up to the amount of three times the metallic reserve.

The agreements and the royal decree were ratified by the law of July 9, 1850, which provided by the issue of state obligations to pay back whatever still remained of the loan of 20,000,000 lire obtained from the two banks

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of Genoa and Turin, and arranged that the Banca Nazionale should within three months reduce its circulation to 22,000,000 lire, with the privilege of raising it afterwards to a maximum of 32,000,000 lire, while it gradually withdrew, with the reimbursement of the loan, the corresponding amount from circulation.

The capital of the bank was raised from 8,000,000 lire to 32,000,000 lire by virtue of the law of June 11, 1852, which stipulated that the bank should pay out to the State 15,000,000 lire in return for treasury bonds and certificates of government rentes.

From 32,000,000 lire the capital was raised to 40,000,000 lire by the new charter of the bank, approved by legislative decree of October 1, 1859. In the charter it was stipulated that the bank should hold the meetings of stockholders at Genoa, Turin, and Milan alternately, in which cities had been established branches, besides the subbranches opened in other cities. To the stockholders' meetings were admitted only those who had owned fifteen or more shares for at least six months.

In the year 1860 was authorized the fusion with the Banca Nazionale of the Banca di Parma, which had a capital of 500,000 lire, of which 300,000 lire were paid in, and of the Banca di Bologna (or *Banca delle Quattro Legazioni*), which had a capital of 200,000 Roman scudi, or about 1,075,000 lire.

By the royal decree of June 2, 1865, was approved a decision of the stockholders' meeting of the bank raising the capital from 40,000,000 to 100,000,000 lire. The royal decree of October 23, 1865, ratified an agreement made between the Government and the Banca Nazionale

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for the assumption on the part of the bank of the treasury service of the State; but the lively opposition raised in Parliament caused the royal decree to remain without effect.

Meanwhile, pressed by the urgent necessities imposed by the political situation, the Government, by royal decree of May 1, 1866, asked the Banca Nazionale for a loan of 250,000,000 lire, freeing it from the obligation of redeeming notes in specie by proclaiming the forced currency of the bank notes. Then came the annexation to the Italian State of the Venetian provinces and the Banca Nazionale founded a branch at Venice, substituting this branch for the Stabilimento Mercantile Veneto which the bank took over, together with its capital of 2,100,000 Austrian florins. There was a question at that time of the fusion of the Banca Nazionale with the Banca Nazionale Toscana, but the negotiations were not concluded. And as the needs of the State were becoming urgent, the Government applied to the bank again, under the law of August 11, 1870, for another 100,000,000 lire guaranteed by bonds on ecclesiastical property, and subsequently 122,000,000 lire more, of which 50,000,000 were to be in gold. For the sum of 450,000,000 lire, which was the amount then remaining of the State debt to the bank, the latter was freed from the obligation of keeping the prescribed metallic reserve, and was authorized to increase its circulation from 750,000,000 to 800,000,000 lire. The bank had as guaranty for its credit 333,000,000 lire in bonds on ecclesiastical property and received 6 per cent interest on the sums loaned to the State.

But the needs of the latter were not yet satisfied, and by the law of August 28 of the same year the Government

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asked the bank for 40,000,000 lire more, in return for treasury bonds, at the same rate of interest and under the same condition of freeing the bank from the necessity of metallic guaranty.

This operation was destined to be only a brief forerunner of other much larger ones that were to follow. And in fact, by the law of June 16, 1871, the bank was asked to make another loan of 150,000,000 lire, guaranteed by government 5 per cent rentes ceded at the price of 70 per cent, with the privilege of a corresponding increase of circulation without metallic guaranty; and by the law of April 19, 1872, an agreement between the Government and the bank was ratified, according to which the latter engaged to lend the State 300,000,000 lire more, with a corresponding increase of its own circulation, and was authorized to raise its capital from 100,000,000 to 200,000,000 lire. In that same year new negotiations were entered into for the fusion of the Banca Nazionale Toscana, but they did not result in a specific agreement. By degrees, as the destiny of Italy took shape, and the scattered branches became grafted to the sturdy trunk of the ancient provinces under the rule of the dynasty of Savoy, the Banca Nazionale, following the favorable fortunes of the Italian army, extended its field of action over the whole country by means of branches (*sedì*) and subbranches (*succursali*). Aiding the State in its every need, with an impetuosity and eagerness that seemed reckless, so that if the fate of Italy had proved adverse it would have involved the bank in complete ruin, it fully justified its title of "Banca Nazionale," for such it was then, and such it always remained in its every act.

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Nevertheless, there was no lack of criticism, as sharp as it was unjustified, of the action of the Banca Nazionale; but when the partisan wrath let loose by a morbid sentiment of grotesque bank hatred, and fed and excited by rival interests was once dispelled, a just and calm judgment prevailed. An impartial history has placed Senator Bombrini, who was the founder of the Banca Nazionale, in the number of those who cooperated vigorously and efficiently in the field of finance in the great work of the resurrection of Italy.

*

Like the Banca Nazionale nel Règno, the Banca Nazionale Toscana was made up of the fusion of various small banks existing in Tuscany; such as the Banca di Sconto di Firenze, with a capital of 1,000,000 lire, which had succeeded the Cassa di Sconto created by the grand ducal government with its own capital; the Banca di Sconto di Livorno, with a capital of 2,000,000 lire; the banks of Siena, Arezzo, Pisa, and Lucca. This fusion, which was begun in 1857 with the two banks of Florence and Leghorn (*Livorno*) only, was completed in 1860.

In 1870 the Banca Nazionale Toscana had a nominal capital of 30,000,000 lire, of which 21,000,000 lire were paid up. It was chartered as an institution of issue, a privilege possessed also by the smaller banks that were united to create it.

To complete the group of Italian banks of issue which made up the Bank of Italy, there is still to be mentioned the little Banca Toscana di Credito per il Commercio e le industrie d'Italia, which was created in 1860, by decree of the provisional government of Tuscany. The bank was

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constituted with a capital of 40,000,000 lire, of which 5,000,000 lire were paid up. It did not come into existence as an institution of issue, properly speaking, since it was authorized to issue cash certificates (*buoni di cassa*) only.

There now remain to be described the origins of the Banca Romana and its situation until the year 1873, at which time ends the first period, which may be called the chaotic period, of the banks of issue in Italy. The origin of the Banca Romana goes back to the year 1850, when by papal decree was founded the Banca dello Stato Pontificio in place of a Roman bank which had not been successful. The charter, after the example of other banks of issue founded in other Italian States, was given for thirty years. The bank had the absolute monopoly of banking operations and of the issue of bank notes in the Papal State, but this bank likewise did not prosper; so that the papal government, in 1856, after fixing the daily redemption of bank notes in metallic money at 6,000 scudi, was obliged later to intervene to guarantee the notes that it had in circulation.

From the start the Banca dello Stato Pontificio distinguished itself for the recklessness with which it committed abuses of all kinds. Instead of amortizing the bills of exchange not paid on maturity, on which there could either be no hope of recovering, or else the probability of recovering on only a very limited part, the bank renewed of its own accord in its entirety the discount ledger as if it contained paper sure of recovery. Meanwhile, without paying the least attention to its condition, the bank continued to distribute dividends for not less than 5 per cent

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of the paid-up capital, without increasing the reserve by the deduction of profits prescribed by law, and it bought on the market its own stock. At the end of 1870 the bank owned shares amounting to about 2,000,000 lire, whereby the capital might be considered reduced to about 3,000,000 lire, which, however, did not exist, because the losses ascertained amounted to about 9,000,000 lire.

When in 1870 the Papal State was annexed to Italy, the bank, in view of its known condition, ought to have been liquidated or absorbed by the Banca Nazionale. There were, in fact, negotiations with a view to this, but they had no practical result.

The Italian Government, for reasons of a political nature, did not wish to order the liquidation of the only banking institution existing in the former Papal State, but wished instead to reorganize it, with especially favorable provisions, that under skillful, cautious, and correct management would have infused new life and vigor into the institution, which took the name of the Banca Romana.

By royal edict of December 2, 1870, it was decreed that the bank, giving up the complete privilege of issue in the former Papal State, should have, by way of indemnity, 2,000,000 lire from other institutions wishing to open branches and agencies in Rome and the Roman province, or those which should be created and founded there.

The capital of the Banca Romana was fixed at the amount of 10,000,000 lire, represented by 10,000 shares at 1,000 lire each. The bank was authorized to perform all banking operations and to issue bank notes, and undertook to furnish the Government the sum of 4,000,000 lire

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at 3 per cent interest, secured by treasury bonds and certificates of government rentes.

*

Having finished the outline of the origins and conditions of the Italian banks of issue organized under the form of joint-stock companies, let us now examine the origins of the two banks of Naples and Sicily, which still keep the privilege of issue and present a character entirely peculiar to Italy,* since there is no example in other countries of similar institutions.

Although the nature and character of these two banks were and still are of a very special kind, yet their process of formation was not unlike that of the other principal banks of issue, since they too grew and developed by means of fusions and by absorbing other institutions originally unimportant.

The Bank of Naples is the oldest bank of issue in Italy, although it should be stated that the privilege of issuing bank notes, properly so-called, was conferred on it by the law of April 30, 1874. Having been created in 1796 by the fusion of seven pawn banks (*Banchi Pii, o Monti di Pegno*) founded by private individuals toward the end of the sixteenth century to fight usury, which was rampant at Naples, the bank had and continued to have for a long time the predominating character of an institution of charity and beneficence. In the articles of foundation of the seven pawn banks it was settled that the greater part of the profits should be used in works of charity in Naples—in making loans to the very needy, without interest, in giving dowries to poor girls, in freeing people imprisoned for debt, in ransoming Christians who

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had been captured by infidels, and, in general, in aiding the city of Naples in its needs.

By royal edict of Ferdinand IV dated September 29, 1794, the union was decreed of the seven pawn banks. The bank, united and enlarged, suddenly came into favor with the State and Court which drew upon it, in order to provide for their own needs, and also for those of their favorites, with the money which had been deposited with it because of the great confidence it enjoyed. And already, by 1794, the bank had been authorized to put in circulation inconvertible certificates of credit for 35,000,000 ducats in place of like sums taken by the State and Court.

The political disturbances that agitated the Kingdom of Naples toward the end of the eighteenth century did the rest. The bank, in spite of the withdrawals it had suffered, enjoyed nevertheless an apparently prosperous existence, and kept in every way its character until 1816, when by decree of December 2 the revocation was pronounced of all preceding acts concerning the bank, and it was arranged that after January 1, 1817, it should assume the name of Bank of the Two Sicilies, and should be divided into two distinct sections—one, called *Cassa di Corte*, for the treasury service of the State, public works, and municipalities; the other, called *Cassa dei Privati*, for the banking service of private individuals. From that time forth, of course, except for sums of small importance, the profits of the bank ceased to be used for works of charity and beneficence.

To give an idea of the situation to which the Bank of Naples was gradually reduced, it will suffice to say that

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in the year 1863 Minister Manna presented to King Victor Emmanuel II a resolution reforming and reorganizing the bank, which, as he declared in his report, could no longer continue under the condition to which it had been reduced by the preceding Government. From being founded in the beginning for the benefit of private individuals and for certain works of charity, it had become, little by little, an organization closely connected with and dependent upon the state finances, which the treasury drew upon largely.

The Bank of Naples created and developed certain instruments of circulation somewhat different from checks and bank notes, properly so called; that is to say, certificates of credit, cash orders, and orders for small amounts, which were, substantially, certificates of sums deposited in its coffers, and were all of them used as a means of payment, and also for the transmission of money from one place to another.

Forced currency having been decreed in 1866, the privilege was granted of giving and receiving the certificates of credit and cash orders of the bank as current money, at their nominal value, in all the southern continental and island provinces. By the law of September 3, 1868, the bank was authorized to issue notes of 1 lira, and subsequently it was also authorized to issue cash orders for 0.50, 1, 2, 5, 10, 20, 50, 100, 250, 500, and 1,000 lire.

The Bank of Sicily came from the union of the two Casse di Corte (Court Banks) founded by royal Bourbon decree of April 17, 1843, one situated at Palermo, the other at Messina, and controlled by the Bank of Naples. The two Court Banks were united in a single institution

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which was independent of the Bank of Naples and took the name of "Banco Regio dei reali domini al di là del Faro" (Royal Bank of the King's Domain in Sicily). Like the Bank of Naples, the Banco Regio di Sicilia received on deposit sums from the treasury and from the public administration and also from institutions of charity and beneficence, which were obliged to deposit with it. The Banco Regio issued cash orders (*polizze*) transmissible by transfers, also used by private individuals. It issued likewise certificates of credit (*jedi di credito*) representing sums deposited with it, and these were declared not subject to seizure and sequestration. It retained the character of deposit bank until 1867.

Just as the Bourbon Government had gained access to the cash boxes of the Bank of Naples, so it reached those of the Bank of Sicily, from which it borrowed sums of money, being imitated in this practice by the Dictatorial Government also. A royal decree of May 1, 1870, provided for paying the bank the sum of 2,876,301.78 lire for which it was creditor.

This bank was authorized by ministerial decree of January 4, 1872, to issue certificates of credit up to three times the amount of its metallic reserve.

*

The conditions of the institutions of issue and the paper currency in Italy were therefore almost always abnormal and unorganized, since there was a mixture of institutions, different in nature and privilege, and a hybrid circulation, partly private and partly belonging to the State, which could not truly serve the economic and monetary conditions of the country. In addition to

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about 800,000,000 lire in notes issued for the State, there were, in 1873, more than 700,000,000 lire in circulation issued by the banks of issue on their own account. These two figures fully justified the high rate of exchange, which was hovering in the neighborhood of 110, with a tendency to rise. The occasion for the rise of *agio* came with the crisis which broke out in Austria that same year, and was reechoed in the other countries of Europe, including Italy, and in the United States. Italy had to suffer from it particularly because of the conditions of the domestic currency, which were such as to arouse serious anxiety.

CHAPTER II.

THE ASSOCIATION OF THE BANKS OF ISSUE.

In the absence of precise legislation there had grown up in Italy meanwhile all sorts of abuses which had taken the form of a veritable glut of bank notes issued by credit institutions, people's banks, and even by merchants and private individuals, so that the country was flooded with paper money of all kinds and qualities, down to denominations of 30 and even 20 centesimi. The crisis in Italy was serious, therefore, both for internal reasons and conditions, and for the reflex action of foreign events. In the presence of a situation that threatened daily to become more grave, the Government thought it necessary to intervene by a law which reorganized the paper currency and regulated the issue of bank notes, regulating at the same time the circulation of notes which had been issued on account of the State.

The parliamentary discussion of the question of the currency was very violent. The partisans of both sides of the question were drawn up in battle array—on the one side those who maintained that the State must be freed from its subjection to the Banca Nazionale by creating its own currency; on the other side those who argued the danger of investing the State with the power to create bank notes, a power which it would easily be led to abuse, while they acknowledged that the credit of the Banca Nazionale would cover the notes issued by it on account of the State. Confronted by the conflict of these opposing tendencies, the Government decided to resort to a

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middle expedient, which could be approved both by the partisans of state circulation and those who preferred a bank circulation.

The middle term was found in the organizing of an association (*consorzio*) of Banks of Issue, which included the Banca Nazionale nel Regno with the five other institutions—the Banca Nazionale Toscana, the Banca Toscana di Credito, the Banca Romana, and the two banks of Naples and Sicily. The association was to furnish the Government 1,000,000,000 lire in notes for denominations of 0.50, 1, 2, 5, 10, 20, 100, 250, and 1,000 lire. Of this, 890,000,000 lire were to be provided within a year of the publication of the law and the remainder subsequently in accordance with resolutions to be settled by the law of the budget or by special law. The law of April 30, 1874, which established the association, stipulated that whereas the notes to be provided the Government by the said association should have forced currency, those that the banks of issue had the privilege of issuing on their own account should have legal currency, and be redeemed on demand in the notes issued by the association for the account of the Government, or in metallic money; and after two years, the forced currency having ceased, they were to have fiduciary currency.

Before proceeding to examine this fundamental law of Italian circulation it will be well to pause to consider the error sanctioned by it, an error which consists in maintaining that in one single country there can be a circulation with forced currency and one with legal currency, with the obligation of redeeming bills in metallic money. This is equal to imagining that in one single country there

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can exist at the same time two kinds of currency, one sound and the other unsound. Now, in the conditions of Italy at that time, conditions clearly shown by the quantity of notes that represented a loan to the Government for sums greater than all the aggregate of notes that represented banking affairs instead, and still better shown by the inevitable depreciation of paper money, which affected all of it, the presumption could not fail to seem absurd, and even unlawful, that the banks of issue should redeem at sight their own notes in metallic money. And, on the other hand, the right of changing the notes of the banks which had legal currency for others having forced currency, from which the law had taken away the obligation of a metallic reserve at the ratio of one-third, could not evidently be of the least importance from a monetary point of view, since anyone who needed gold to pay foreign debts could not get it either for the notes of the banks themselves or for the notes of the association circulating to the debit of the State and with forced currency.

Now, it may possibly happen, and it has happened and is still happening in fact in various countries, including Italy, that a quantity of State notes is in circulation alongside of and in competition with notes of the banks, without their disturbing each other, and without the total circulation being subjected to any depreciation; but that can be the case only when the circulation of the banks is sound and rests on solid metallic reserves, fostering real commercial affairs surely payable at maturity; and when the circulation of the State is kept within limits that do not exceed the so-called "*fondo-morto*" of circulation, that is to say, that mass of bank notes, for the most part of small

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denominations, which remains stagnant because it corresponds to the necessities of small transactions. For this very reason the State circulation is composed principally of small notes which cause less disturbance in the matters of redemption. But when, as was certainly the case in Italy in the period under examination, not only the banking circulation was not regulated but that of the State amounted to an extravagant sum, it was quite impossible to talk of circulation with forced currency and circulation with legal currency. The distinction was inscribed in the banking law because the lawgiver, by authoritative act, wished to assert the right of the State not to change the notes, and the obligation of the banks to change them; but it did not correspond to the facts, which were that there existed in Italy one single mass of notes, amounting to a billion and a half, composed of two kinds of notes, one to the debit of the banks, the other to the debit of the State, but all without exception depreciated and really at forced currency.

And indeed, with exchange at the above-mentioned rate of 110 per cent, and later in the same year of 1873 at 115.50 per cent, if the banks had redeemed the notes in specie, their metallic reserves would have been completely exhausted in a few days and would have crossed the frontiers.

But the sophism sanctioned by the law of 1874 was neither then nor afterwards an Italian novelty, since there are other examples, old and new, in various countries, which show that legislators have believed and still believe that economic principles lose all active efficacy in the presence of the power of an article of the law, especially when it is a question of enactments which are supposed to con-

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duce to the interests of the State. It is therefore a common belief that State bank notes, or those issued by the banks for the State, not only do no harm to the monetary conditions, and consequently the economic conditions of a country, but that they afford a proper and economical method of satisfying the needs of the exchequer, sometimes preferable to loans, which are more costly.

The error is so deep rooted that it was not even remarked upon in Spain when the State paid the bank 3 per cent interest on notes furnished by it. There is no doubt that if the money which the Spanish Government spent for a number of years in paying interest to the bank on sums furnished by it up to a total of about a billion, had been used in paying interest on certificates of amortizable government stock, the question of Spanish circulation would have progressed more rapidly and more surely toward a solution corresponding to the real needs of the country, greatly to the advantage of both State and people.

But in spite of the many defects which it contained—first and gravest of all, that of creating an organic system of plurality of banks of issue, which, as we shall see, was to prove harmful to Italy—we must nevertheless acknowledge that the law of April 30, 1874 was at that time of undeniable service, in view of the very serious condition of the country, to which it brought some relief. It laid the foundations of the Italian banking system which, being modified successively according to the needs growing out of changing conditions, may be considered in substance the one which still survives to-day, in so far as it defined the rules for the limitation

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of the circulation, fixing it at three times the paid-up capital of the banks having the form of joint stock companies or of the free capital possessed by the two banks of Naples and Sicily, on condition that a similar ratio should be maintained between the notes in circulation and the metallic reserve; it forbade all issue of notes by other institutions, and stipulated that all those which had notes in circulation should withdraw them by December 31, 1874; it established the tax on the circulation of bank notes at the rate of 1 per cent, deducting that covered by metallic reserve; it removed the state guaranty for the circulation of the notes of the Banca Romana, which had been given by the Papal Government, and obliged the bank to redeem its own notes; it arranged for the extraordinary increase of circulation in moments of urgent need, settling that this should not be resorted to until after the discount rate had been increased, and could not exceed 40 per cent of the paid-up capital and free capital of the banks of issue, and was not to continue for a period of more than three months, while the profits of the greater circulation were to accrue entirely to the State.

A provision of the law that was exceedingly severe, and in practice never observed, stipulated that any banks of issue keeping in circulation bills or other equivalent certificates payable to bearer, beyond the sum authorized by the law, or assuming other obligations payable at sight or on simple demand, without maintaining the prescribed ratio to the metallic reserve, should be obliged to pay the State a fine for a sum equal to the excess of circulation or liabilities or the deficiency of the metallic reserve.

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Another exceedingly severe provision of the law, hence never enforced, took away legal currency from the notes of the banks which had not satisfied the requirement to redeem their notes in the notes of the association or in metallic money.

An article of the same law provided further for the mutual redemption of notes among the banks of issue in conformity with rules to be established by royal decree. It will be seen in due course how this requirement of redemption gave rise to bitter and violent discussions, and how the Government ended by abolishing it.

The same law established the amount of the capital and free capital of the banks of issue which should serve as a basis, together with the respective metallic reserve, for the issue of bank notes; it provided for establishing in detail the government inspection of banks by a regulation to be ratified by royal decree; and so great was the faith that the adjustment made by this law would completely cure the ills of the country's currency, that it ordered the Government to present within six months of its promulgation a report on the paper circulation, with the proper provisions for bringing about the abolition of forced currency.

Such confidence could not fail to seem excessive if we consider that, as we have already seen, the State alone had a circulation of 860,000,000 lire, which it was proposing to raise to 1,000,000,000 lire. This circulation, of which the part already issued and still to be issued by the Banca Nazionale nel Regno amounted to 890,000,000 lire, was, according to the law of 1874, to be replaced by

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bank notes issued by the six banks organized into a association.

The notes that the association was to furnish the State, up to a maximum total of 1,000,000,000 lire, of which 890,000,000 lire were to be furnished within the first year, were to be issued at the charge of the banks themselves in proportion to their respective paid up capital or free capital; but in order to give immediate effect to the law it was stipulated that the notes of the Banca Nazionale of the denominations of 1, 2, 5, 10, 20, 250, and 1,000 lire should be declared provisionally association notes, —*biglietti consorziali provvisori*—while those of denominations of 25, 40, 50, 100, and 500 were to remain in circulation on account of the bank itself. With the notes of the association the State reimbursed the Banca Nazionale for its credit, which had amounted to 860,000,000, lire, to which was added an additional 30,000,000 lire provided for by the laws of December 21 and 24, 1873.

Thus ended this period of relationship between the State and the Banca Nazionale, which, as we have seen above, had excited so many polemics, and the principle of the plurality of the banks of issue was reenforced, and extended also to the banks of Naples and Sicily in a more explicit and organic way. Until then these had been considered institutions of a special kind, authorized to issue fiduciary certificates different from bank notes, but once granting the continuance of the plurality of banks, they could no longer be excluded from the privilege of issue.

The effects of the new law on the currency could not, however, be realized in this same year of 1874, because

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in Italy and abroad the crisis which had broken out the year before still lasted and its final liquidation went on until 1876.

In the year 1875, however, the first good effects of the banking law began to be felt, effects due, moreover, to external causes also which must be taken into account and deserve some slight mention, inasmuch as they show, in no doubtful way, that the conditions of the circulation and credit and in general of the public economy can not always be regarded as independent and separate from those of the finances of the State. Examples may be given of their absolute independence of each other, in that there are cases of countries financially rich and economically poor, since, while the people work, produce, earn, and save, governments with an anti-economical and spendthrift policy scatter the public money and ruin the State finances; such examples can not be shown, however, except from special causes of a transitory nature. Consequently, there is no example of a country permanently in a state of economic inferiority and financial prosperity, because the latter can not become solid if it is not based on economic prosperity; likewise there is no example of a country with State finances permanently disorganized and in normal economic and monetary conditions, because the State, in order to provide for the financial embarrassments, will have recourse to issues of obligations or its own notes, or bank notes with forced currency, and will oppress the public economy with excessive taxes which will dry up the sources of national activity.

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In general, a very close connection may be seen between the conditions of the State finance and those of the public economy, a connection which makes each feel, from time to time, the effects of events either fortunate or unfortunate, to which both may be subject.

Let us add that sometimes the economic conditions of a country may be harmed by external causes also, especially if it is a question of a debtor country, which, in order to provide for the financial needs of the State or those of its own economy, has asked and obtained the help of foreign capital; since it is enough in such a case for the foreign market to be disturbed, to cause the State securities or banking and industrial securities to be sent back with a violent movement to the debtor country, which must pay for them in ready money. Instinctively, creditor countries, in moments of financial crisis or monetary stringency, dispose of the foreign securities that they can normally sell at prices higher than those at which they have bought them, and which they will then be able to get back at prices lower than the ones at which they sell them, because their privileged position puts them in the way of choosing the right time to buy and the right time to sell. On the broad green cloth of the international market creditor countries are the players who play most frequently with marked cards.

It comes about for this reason that while creditor countries escape with the rapid sale of foreign securities functioning as ballast, which permits the market to remain up, debtor countries, which are necessarily destitute even in normal times of the available cash needed

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for the regular progressive development of their own activity, find themselves, instead, exposed to suffer more rudely the effects of the disturbances of the financial markets, even when the countries themselves have nothing to do with the causes which have provoked them. In such cases it is of no avail for a country to have a circulation that is sound because it represents true and valid commercial transactions, surely payable at maturity, and adjusted to the internal needs of the country—since the abrupt return from abroad of a considerable quantity of national securities, suddenly altering the ratio of debit and credit of the country, disturbs its monetary tranquillity and makes exchange rise rapidly.

But even without the mediation of violent causes, such as the breaking out of a crisis, the monetary economy of a country may likewise be disturbed by the bad conditions of the State finance, since the decline and return of the securities of a country may be due also to discovering a big deficit for which it is not easy to provide.

Italy, which was for many years a debtor country for enormous sums, to the extent of having abroad as much as some 6,000,000,000 lire in State and private securities, was obliged many times to experience the effects of this condition of inferiority of debtor countries, which find themselves without weapons in the monetary contests fought in the international market. And while they remain almost isolated and excluded from the normal movement of the international money currents, because foreign capital can not be attracted to them without the inducement of higher remuneration, owing to the frequent fluctuations of exchange, which make capitalists insecure

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and timid, debtor countries are in addition exposed to suffer more harshly the consequences and reflex action of disturbances which come into the international market for any reason, whether political, economical, monetary, or speculative. It may be said, therefore, that debtor countries with impaired finances and circulation are, in their relations with creditor countries, isolated in good and associated in evil.

These things are mentioned here not as a theoretic summing up of the reciprocal relations that inevitably intervene between the conditions of the State finance and those of the economy of a country, but as an explanation of the monetary disasters of Italy, which were not all exclusively dependent upon the conditions of the paper currency and the situation of the banks of issue.

So, for example, the increase of exchange mentioned above, from 110, the highest point reached in 1872, to 115.55, the highest point reached in 1873, was not due to any increase in the evils of the Italian currency, but, as we have already said, to the crisis which broke out in Austria, and reacted on other countries on both sides of the Atlantic; and it was also due to the conditions of the financial balance sheet of the State, in which the deficit, which had fallen from 214,000,000 lire in 1870 to 47,000,000 lire in 1871, had risen again to 83,000,000 lire in 1872 and to 89,000,000 lire in 1873. In direct ratio with the advance in exchange stood the decline of Italian rentes on the Paris market, which went down, in 1873, from a maximum quotation of 68.40 to a minimum of 58.10, and in 1874 from a maximum of 68 to a minimum of 58.90.

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But the beneficial effect of the new law on the paper currency which was visible, as we have said, in 1875, was due to the better condition of the international market which was still engaged in the liquidation of the crisis, already for the most part completed, and also to the improved conditions of Italian finance. Italian rentes fluctuated in 1875 between the minimum quotation of 66.10 and the maximum of 74; exchange varied between the minimum rate of 105 and the maximum of 109.30, while for the first time there appeared a surplus in the budget for the sum of 14,000,000 lire.

Conditions remained stationary, until, in 1877, a new decline in Italian rentes in Paris (which fell from 73.20 to 62.15) provoked a new rise in exchange to 113.

The following period from the point of view of the functioning of the system of the paper currency, does not present details worthy of special mention. Although signs were already discernible of a rivalry between the various banks of issue which was later to have disastrous effects, yet they were acting in relative, or at least apparent, harmony, and their action did not exceed the normal needs of the country, which was gradually developing its economic activities. But an important political event, the fall from power of the party of the Right which had remained in for a long time, and the advent to the Government of the party of the Left, was to have, even in the matter of the currency, noteworthy results.

The party of the Left had come into power with youthful impetuosity, bringing with it a large baggage of financial and economic reforms; it had come filled with the impatience of the fighting spirit, as if it believed it had a

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great mission to accomplish. The principal ideas of the economic-financial reform programme were the abolition of the grist tax and the abolition of forced currency. In order to win an enthusiastic reception for these two important parts of the programme of the Left, sensational phrases were found calculated to excite and captivate the minds of the crowd; phrases such as political parties never lack. And it was said the "grist tax is a starvation tax," and "forced currency is a dishonor."

As for the first, the seal put upon it might have seemed suitable to define it exactly if, almost immediately upon the abolition of the grist tax which brought into the State coffers about 45,000,000 lire a year, there had not been imposed a duty on the importation of grain, as high as 7.50 lire a hundred kilograms, which put from 150,000,000 to 160,000,000 lire and even more a year in the pockets of the producers of grain, without, of course, benefiting in the least the people in general. On the contrary, it may be said that the abolition of the grist tax was the signal for an increase in the price of bread.

But it is not easy to make out why forced currency should be considered a dishonor. Forced currency is the condition of monetary inferiority of a country, which may be, as was precisely the case with Italy, the result of the immense expenses incurred in the long-drawn-out struggle for the political unification of the Kingdom, and for the urgent and serious needs growing out of its unification. Forced currency may also be the result of financial and economic errors; in any case it indicates a state of affairs that is prejudicial, but not dishonorable for a country, unless it has grown from immoral and

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criminal causes; and since it is a prejudicial state, it is fitting to consider the ways and means best suited to bring it to an end.

However that may be, inasmuch as the Left had come into power, it was its desire and duty to solve these two questions; and while Signor Seismith Doda, minister of finance, was engaged upon the question of the grist tax, and got the bill passed by the Chamber in the midst of the raging of the most violent polemics and the determined opposition of the Senate, on the other hand Signor Agostino Magliani, minister of finance, was later to take up the question of forced currency.

CHAPTER III.

THE ABOLITION OF FORCED CURRENCY AND ITS EFFECTS.

It seemed to the Left on coming into power that in abolishing the forced currency of bank notes it would win a fight which would raise it to a great height in comparison with the party of the Right, which, although it had expressed at various times the intention of providing for the abolition of forced currency—an intention that Marco Minghetti had promised by an article of the law of April 30, 1874, to carry out by presenting a bill to that effect within six months from the promulgation of the law itself—had, none the less, failed to succeed in doing it.

In spite of all the bitter and not entirely unjustified criticisms heaped upon the long financial work of Agostino Magliani, an impartial historian can not fail to recognize that he was a man of profound learning, of marvelous ingenuity, of subtle mastery of technique, with a broad knowledge of the problems that bear upon State finance and public economy; being rich in resources and expedients, he was able at times to extricate himself with great ease and simplicity from involved and difficult situations; and he was, above all, of exemplary uprightness; the last quality the other ministers of Italian finance possessed in common with him.

Agostino Magliani, who was minister of finance for ten years and took part in very important financial operations, died poor.

It is not probable that Agostino Magliani failed to consider, in the intimacy of his conscience, certain of the

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objections and reservations which had been made, in lively forms too, by his adversaries. But he was now in the service of the party which desired the great victory of the abolition of forced currency; and since he was not as energetic and resolute as he was talented, he was unable to resist and allowed himself to be drawn along by the current; which signifies that in this matter of forced currency, as in other things for which he was reproached, even by his friends, in virtue of that right to ingratitude of which those persons especially avail themselves who wish to make others solely responsible for errors that have been planned and committed together, Agostino Magliani must be considered in great part as the executor of a collective will that was imposed upon him. If he had obeyed the dictates of his knowledge and conscience and given up office, as he had often expressed the intention of doing, in order not to lend himself to carrying out that financial policy which distinguished the first period of the advent to power of the Left, a financial policy which was called optimistic and thoughtless, he would, by abandoning his post have saved his reputation but would not have helped finance, whose optimism and thoughtlessness would not have ceased on that account, but would, instead, have increased. For Agostino Magliani raised more than once a voice of severe admonition and refused to carry out the other parts of the financial programme which the party, to use the time-honored phrase, had inscribed on the folds of its banner.

However, the prevailing idea that forced currency must be abolished by a summary proceeding, by a law which declared its downfall, showed clearly how superficially this

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grave problem had been examined. Nevertheless, the plan that Magliani evolved bears witness to his great talent and puts in evidence the prevailing benevolence of his mind, naturally inclined to see and foresee the good; for Agostino Magliani was above all a great optimist.

Considering that the forced currency of bank notes had been decreed and imposed for State reasons, in order to keep coactively in circulation, and make accepted the notes of the State, Magliani proposed to redeem these notes with the proceeds of a loan to be made in gold for a sum of only 644,000,000 lire, 44,000,000 of which were to serve to reimburse the loan in gold made by the Banca Nazionale to the Government to buy over the tobacco monopoly.

Since 940,000,000 lire of notes were then circulating under forced currency and to the debit of the State, there would remain, not redeemed in gold, 340,000,000 lire, which Magliani judged could be left in circulation without disturbing the mass of notes, especially because they would be divided into notes of small denominations of 5 and 10 lire, and would be declared convertible into metallic money on demand, then cancelled annually by means of the surplus of the budget, on which he thought he could surely count; while, in the meantime, a corresponding sum in certificates of government rentes deposited in the Cassa dei Depositi e Prestiti was set aside to guarantee the State notes.

These promises and guaranties caused the proposal for the creation of true and proper State notes, to be favorably received, though not without difficulty and opposition, the provision being considered of a transitory character,

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which was to make less arduous the greatly desired abolition of the forced currency of notes.

Naturally, the loan involved a greater annual expense of about 36,500,000, because, in order to obtain the sum of 644,000,000 lire, it was necessary to sell, at the price of 88, 5%, Italian rentes for a nominal value of 729,745,000 lire, bearing 36,487,250 lire interest. Minister Magliani had to show, therefore, that the greater expense would be partially offset by the fact that the abolition of forced currency would diminish the burdens of the Italian treasury in the payments it had to make abroad. He was obliged, moreover, to propose other resolutions, the most important of which consisted in a modification of the system of pensions to the employees of the State, by means of creating a department independent of the treasury; a change by which Magliani counted on saving about 19,000,000 lire a year. This design, however, was not carried into effect.

But without going into particulars of minor importance, it may be stated that the foundation on which rested the whole structure of the bill for the abolition of forced currency was represented by the optimism of Magliani, by the strong and sure faith that he had in the progressive increase of the returns, and in the firm establishment and further increase of the surplus of the budget. The opinion was clearly fixed in his mind that the very abolition of forced currency, by stimulating still further the activity of the country, would help the national economy, and through direct and indirect ways compensate the budget for the burden which it was apparently about to assume by the issue of the new loan. And as it always happens

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when profitable and agreeable things are announced, he succeeded in communicating his conviction and his optimism to the great majority of the members of Parliament, who passed the bill with enthusiasm.

To justify the roseate forecasts of Magliani it may be well to say that the budget had closed for the fiscal year 1879 with a surplus of 42,000,000 lire in the ordinary part, a surplus which had gone down in 1880 to 27,000,000, and that all the signs of the economic and industrial movement of the country pointed to a betterment which justified the faith in further progress. The situation of the banks of issue at the end of 1879 was as follows:

[Amounts expressed in millions of lire.]

December 31, 1879.	Capital.	Notes in circulation.	Demand liabilities.	Deposits.	Discounts.	Loans.
Banca Nazionale nel Regno.....	200.0	441.1	21.0	68.4	204.1	55.6
Banca Nazionale Toscana.....	30.0	59.2	.2	2.0	33.4	1.1
Banca Toscana di Credito.....	10.0	14.0	.1	.3	6.6	4.9
Banca Romana.....	15.0	43.5	2.2	9.7	37.1	4.7
Banco di Napoli.....	43.1	144.8	73.9	16.8	76.8	56.0
Banco di Sicilia.....	10.0	29.7	23.4	.....	23.3	7.8
Total.....	308.1	732.4	120.7	97.2	381.3	130.2

	Metallic reserve.					
	For bank notes.		For demand liabilities.		Grand total.	
	Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent of bank notes.
Banca Nazionale nel Regno.....	154.8	35	7.0	33	161.8	36
Banca Nazionale Toscana.....	19.7	33	.06	33	19.8	33
Banca Toscana di Credito.....	6.4	45	.03	33	6.4	46
Banca Romana.....	16.3	12	.7	33	17.0	39
Banco di Napoli.....	75.2	52	24.6	33	99.8	68
Banco di Sicilia.....	10.4	35	7.8	33	18.2	61
Total.....	282.8	38	40.2	33	323.0	44

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The loan of 644,000,000 lire was taken up by an Anglo-French-Italian Syndicate, under the direction of the Banca Nazionale nel Regno, which, in agreement with Signor Magliani, was to overcome rapidly grave difficulties subsequent upon the Tunis question, which made the French market less inclined to share openly in a great Italian financial operation. The loan was fully successful, principally because of the enthusiasm of the English market, to which it was presented under the auspices of the two great banking houses, Hambro & Co. and Baring Brothers.

Of the proceeds of the loan, 44,000,000 lire in gold were used to pay back the loan made by the Banca Nazionale for the government tobacco monopoly; 116,000,000 lire in foreign payments on account of the treasury. The remaining 484,000,000 lire, of which 398,000,000 lire was in gold and 86,000,000 in silver were deposited in the coffers of the treasury, which substituted for the sum of 116,000,000 lire paid abroad on its account an equal amount of gold received in payment of customs duties. On May 10, 1883, the Italian treasury possessed 728,000,000 lire in gold.

The law of April 7, 1881, for the abolition of forced currency, dissolved from June 30 of the same year the association of the banks of issue, and declared that from that date the notes issued by it on account of the State should be constituted a direct debit to the latter; and it arranged for the calling in of State rentes which, having been given first as guaranty for the loans made by the Banca Nazionale, had been transferred later to guarantee the notes of the association, substituted for those of the bank itself.

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The association notes, which had passed over entirely to the debit of the State, were declared legal tender in the whole Kingdom, but reimbursable on demand in coin. The notes of the Banca Nazionale, declared temporarily association notes, were to be changed, within five years, into definitive association notes at legal currency; after this time they should be lapsed in favor of the State. Thus also the notes of 5 and 10 lire, issued by the association, should be changed into State notes of the same denominations. The State was to deposit at the Cassa dei Depositi e Prestiti certificates of rentes for the sum, at nominal value, of 340,000,000 lire, as a guaranty for a like sum of State notes. As we have already seen, the law stipulated that the total of the State notes should be diminished by the surplus of the budget available for the sinking fund of treasury debts, against the withdrawal and canceling of a corresponding amount of the rentes deposited as guaranty.

The law disposed that from the date on which was begun the redemption of the association notes in metallic money the customs duties on imports should be paid in the said notes or in metallic money, excluding fractional money beyond 100 lire for every payment. The legal currency of the notes of the banks of issue was continued for the whole of 1883, and, at the same time, it was arranged that the Government should have the option to receive these notes in the public coffers even after they had ceased to have legal currency. The metallic reserve for the guaranty of the notes of the banks of issue was to be composed exclusively of metallic coin having legal currency in the Kingdom, and the Govern-

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ment undertook the task of keeping watch to prevent the gold reserves of the banks from being disposed of or converted into silver.

The Government reserved the right to establish the rules for the mutual redemption of the notes between the banks of issue and between these and the treasury during the legal currency and to provide for the establishment of clearing houses in the principal cities.

The same law organized a commission charged with the supervision of the abolition of forced currency, presided over by the minister of the treasury, and composed of four senators, four deputies, and four State officials, designated by the ministerial council. The commission was to inquire into the precautions necessary to the putting into effect of the law for the abolition of forced currency and had the duty of watching the progress of the resulting operations, which they were to describe annually in a report to be presented to Parliament.

The presentation of the bill for the abolition of forced currency, made in November, 1880, produced an extraordinary effect. Exchange, which had remained at the beginning of the year in the neighborhood of 112, and was still in the month of October not much below 110, fell in November to a minimum course of 101.62.

This rapid fall of exchange showed what had already been proved in Italy, and, for that matter, in all countries with a depreciated paper circulation; that is to say, exchange is not only the natural, exact measure of the loss of paper money as compared to metallic money, but it is besides an article of speculation, as may be seen

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clearly by the frequent and sometimes convulsive fluctuations it undergoes, which constitute a very great injury for a country with an abnormal circulation; since the frequent variation of the rate of exchange does more harm than if exchange remained permanently at a still higher level, because it furnishes an element of continual uncertainty which injures international commercial relations seriously and drives away from the country such foreign capital as it may need.

Speculators in Italy had organized their game on a basis which assured its full success. They knew the moments when the Italian Treasury needed to make foreign payments in metallic money, especially the payment of the interest on the public debt, and knew approximately its amount, just as they knew, very nearly, the sums needed in gold for payments of other kinds and for interest on other Italian securities owned abroad. Therefore, as the time approached when the treasury and the institutions and companies or business firms were to proceed to buy up exchange, speculators artificially advanced its price, in order to sell exchange more dearly to those who wanted it. Moreover, speculators bought up wholesale at home coupons of government rentes which they sent abroad in order to receive payment in gold for them. Against this second injurious expedient the Italian Treasury succeeded at last in partially defending itself, when in 1893 it established the *affidavit*—that is to say, the obligation of presenting the coupons of government rentes with the sworn declaration that they were in actual fact owned abroad—a legitimate and honest provision

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which, though bitterly criticised on its presentation, succeeded admirably none the less and was later imitated by other countries.

And the treasury succeeded also, though no less tardily, in defending itself against gambling on exchange, made specially to its detriment, by stipulating that the payment of customs duties should be made in gold.

The phenomenon manifested at the moment of the presentation of the bill for the abolition of forced currency was of an essentially psychological character. No really perceptible modification of a kind to justify the decline of exchange from 110 to 101.62 had actually taken place in the monetary situation of Italy. The quantity of paper circulating in the country had not diminished, and the metallic reserve was not increased. But the presentation of the bill, though announced for a long time beforehand, had none the less been considered doubtful. When it was at last presented, it had the persuasive force of an accomplished fact, and gave a stunning blow to the speculation which was still operating on the course of exchange. It not only obliged those who were speculating for the rise in exchange to liquidate their obligations, but it led immediately to speculation for the fall in exchange, now supposed to be on the way to par. And in fact, the favorable forecasts were far transcended, since exchange continued to fall, touching the minimum rate of 98.78 in June, 1881, shortly after the ratification of the law for the abolition of forced currency.

This fortunate situation was destined, however, to be rudely disturbed in the following year by an event outside

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of Italy which helped to make more evident the monetary precariousness of debtor countries. In fact, the very grave speculative crisis which acutely affected the Paris market in 1882, caused to reappear with greater violence the phenomenon already observed in respect to Italy. Italian rentes, which had gone up brilliantly in Paris to a maximum price of 93.50, as a result of the passing of the law abolishing forced currency and of the fall of exchange, fell to a minimum of 84, while exchange rose rapidly to 104.22.

It is well known that the Parisian crisis was reechoed, though with less intensity, in the other markets, and that its liquidation was long and tedious. The Italian market also was greatly disturbed in every quarter, at a moment when, through the effect produced by the abolition of forced currency, it was preparing with a certain eagerness to give a more lively impulse to its economic activity. The shares of the Banca Nazionale went down from a maximum price of 2,400 lire to a minimum of 2,073, and along with them all Italian securities suffered considerable losses.

This harsh lesson should have led people to consider that the economic situation of the country was still weak, and should have made prevail in every department a policy of moderation and concentration. But no sooner had the crisis been liquidated than new plans of enterprises and work were brought forward which the students of the economic conditions of the country judged exaggerated and dangerous, especially as a superficial observation of the movement which was taking shape in the

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country showed that it was due in too great a degree to the work of speculation.

And while the State, after the victory of the abolition of forced currency, was entering upon a course of prodigal extravagance, increasing expenditures beyond all measure, the agricultural crisis broke out, principally in the south of Italy. This was brought about for the most part by the considerable and sudden fall in the price of cereals resulting from the competition of other countries, especially North America.

The difficult conditions in which southern Italy found itself led the Bank of Naples in the beginning to increase considerably its discount operations, and consequently to extend its own action even in other parts of Italy. The average total of discount operations of the Bank of Naples, which had been 25,000,000 lire in 1883, rose to 28,000,000 lire in 1884 and to 50,000,000 lire in 1885; that is to say, it increased 100 per cent. The discount operations of the Banca Nazionale went up from an average of 136,000,000 lire in 1883 and 135,000,000 lire in 1884 to 186,000,000 lire in 1885, an increase of 37 per cent. The total discount operations of the six banks of issue increased from 210,000,000 lire in 1883 to 212,000,000 lire in 1884 and to 303,000,000 lire in 1885. The increase amounted to 44 per cent.

It was at this period that a lively competition arose between the Italian banks of issue, which carried them beyond the bounds to which they should have limited their activity, and had serious consequences for all, showing one of the most dangerous sides of the plurality of banks of issue.

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Whereas the Bank of Naples, not having shareholders to whom dividends must be distributed, could give credit at rates even less than normal, the Banca Nazionale was influenced by other reasons of a special kind to obtain a larger supply of profits to furnish dividends to its shareholders. It has already been stated that the Banca Nazionale, by casting its lot with that of the resurrection of Italy, had exposed itself to the risk of going under in case the politics and army of Italy experienced reverses; but since fate smiled on Italy instead, the Banca Nazionale was able to reap a large profit from the faith it had placed in the fortune of the country, and from the bold financial support it had eagerly given to establish it.

And in fact, whether with profits derived from the operations carried on with the Government or with those received from gradually selling off, at higher prices, the rentes received from it, the bank had been able until 1881 to pay dividends of 100 lire, and even more, on shares paid up at 750 lire. But the profits of extraordinary operations either having ceased or diminished, and the bank having no more rentes to sell or to value in its balance sheet at a higher price, dividends went down to 89 lire in 1883 and to 78 in 1884.

Between the desire to rival the Bank of Naples, especially in the south of Italy, and that of not seeming to diminish dividends, the business of the Banca Nazionale became more active and apparently more profitable.

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The rivalry increased among all the banks, whose operations began to expand with a feverish movement, as may be seen by the following table:

Banks.	Year.	Average notes in circulation.	Average metallic reserve.	Per cent.	Discounts in millions.	Loans.
Banca Nazionale	1883	454	154	34	1,635	67
	1884	491	232	47	1,699	78
	1885	526 + 72	213 + 59	40	2,359 + 724	83 + 16
Banco di Napoli	1883	142	112	80	303	80
	1884	179	134	75	342	68
	1885	207 + 65	137 + 25	66	597 + 294	96 + 16
Banca Nazionale Toscana	1883	52	19	36	143	2
	1884	62	26	42	164	2
	1885	71 + 19	32 + 13	45	265 + 122	2
Banca Romana	1883	44	19	43	117	1
	1884	47	22	47	114	1
	1885	43 - 1	16 - 3	37	151 + 34	4 + 3
Banco di Sicilia	1883	36	26	72	112	12
	1884	38	31	80	98	11
	1885	42 + 6	27 + 1	64	194 + 82	11 - 1
Banca Toscana di Credito	1883	14	5	35	59	^a 43
	1884	14	5	35	44	^a 64
	1885	14 -	5	35	30 - 29	^a 75 + 32
		+ 161	+ 95	.....	+ 1,227	+ 66

^a Carrying operations.

These figures give a general idea of the very hasty work accomplished by the banks in the three years 1883-1885, especially the noteworthy increase in discount operations, which rose from 373,000,000 lire at the end of 1883 to 617,000,000 lire at the end of 1885, at the rate, that is, of about 66 per cent, an increase which became in the following year 80 per cent in comparison with 1883, having increased in 1886 to 673,000,000 lire. But it may be well to pause at 1885, because the progress of the banks of issue, which was destined, as we shall see later, to follow a

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dizzy course, was already beginning to give some anxiety and to make evident the propriety of surrounding the action of these banks with greater precautions and checking their impetuosity with moderating provisions. And the propriety of this was all the more evident because article 23 of the act for the abolition of forced currency, although fixing for December 31, 1889, the termination of the privilege of issue granted to the six banks, prescribed that in 1882 there should be presented a bill aiming at establishing the rules by which the issue of bank notes could be granted and regulated.

The lawmaker, having provided by the law of 1881 for the abolition of forced currency, saw that the regulation of the circulation of the notes proper of the banks was defective, and felt the necessity of provisions suitable to improve it. Ministers Magliani and Berti had already presented in 1883 a bill in accordance with the intention mentioned above, accompanied by a learned and complete report; but the bill did not have the honor of being discussed, nor yet the many other bills that followed it, commencing with the one presented in 1886, and suggested by the desire not to hinder further the reorganization of the banks, foreseen and promised by the law of 1881, as well as by the anxiety awakened in thoughtful people by the somewhat reckless course pursued by the banks of issue at that time.

However, it should be mentioned in explanation, if not in partial justification of the failure of the bills for banking reorganization that, for various reasons, the majority of the Italian public never encouraged the lawmaker in

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the path of wise banking reforms. In the first place, the public, especially in moments of greater business expansion, whether real or fictitious, commercial or speculative, never expressed any other desire than that of having liberally at its disposal the greatest possible quantity of bank notes. It may be said that there has been in Italy no occasion either of internal crises, or crises reflected from without, of a nature prevailingly speculative, that it has not been seized upon as a pretext to ask the Government for an increase of circulation—and it was not asked for in an exceptional and transitory way, in the sense accepted and practised with success in all the countries suffering from crises, but in a much larger sense, without time limit.

The increase of paper money was demanded on the pretext that the country was in need of a circulating medium, confounding paper money with capital or believing that it could create capital, without giving any thought to the absolute necessity of keeping the issue of paper money within the limits counseled by prudence, with due regard to the existence of the metallic reserve, which is the safest, the most solid, and the principal guaranty of the paper currency.

But it was more than a question of a lack of encouragement; there existed actual hostility in Italy to any attempt whatsoever at a wise banking reform. Here the plurality of institutions revealed all its power for harm, because every time the Government showed itself anxious to touch upon the banks of issue it found itself hedged about by all sorts of obstacles and difficulties, created

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by all those who had interests in keeping up the existing situation, or who were demanding favors for one or another of the banks. There is no need of pausing to point out how this happened, since it is well known that in parliamentary régimes all the special interests of any given moment easily succeed in prevailing, and this without the intervention of illegal and dishonest means, as may generally be said to have been the case in Italy.

For the unfortunate events that have happened in Italy in this connection may be considered as an exception to the general rule of correctness of the banks of issue; an exception from which, perhaps, few countries have been free. And in Italy the introduction of the political element in favor of this or that bank was or might appear justified by the distinctly regional character which, as we have seen, the six Italian banks possessed. What happened in Italy in this regard, that is to say, the defense of the regional institutions, is not, moreover, very different from what has happened elsewhere and is now happening in Austria-Hungary, where for like reasons they are asking for the separation of the Bank of Austria-Hungary into two banks—one for Austria, the other for Hungary. The only difference is that Italy, in preserving the existing regional institutions, did not succeed in the attempt to do the best thing, whereas Austria-Hungary is trying to do a worse thing in demolishing the best thing it already possesses.

If this explains, and up to a certain point justifies the failure of all the attempts made to give, in good season, a more normal adjustment to the banks of issue in a

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country which had, with a great effort, that was afterwards converted into a great sacrifice, abolished forced currency, these attempts attest simply that enlightened minds understood the needs of the situation and that several of the men who came into power tried to provide for these needs.

And without doubt, if Italy had succeeded between 1885 and 1886 in imposing precise rules and severe regulations in a matter of so much importance, the economic status of the country would have been spared serious losses.

The situation of the banks of issue in 1885 in comparison with that in 1883 deserves meanwhile a more careful examination. The circulation of the six institutions shows an increase of 154,000,000 lire against a decrease of 25,000,000 lire in the metallic reserve, which had gone down from 405,000,000 lire to 382,000,000 lire, while that for sight liabilities shows an increase of 5,000,000 lire.

At the same time, however, the metallic reserve possessed by the treasury had diminished; from the sum of 727,000,000 lire on May 10, 1883, of which 600,000,000 lire had been received from the loan, it had diminished on June 30, 1885 to 274,000,000 lire, with a decrease of 453,000,000 lire in connection with the decrease arising from the redemption in metallic money of the consortium bank notes; these had gone down from a total of 940,000,000 lire on December 31, 1882, to 196,000,000 lire on December 31, 1885.

The banks of issue began to feel meanwhile that their discounts were becoming burdensome. A large part of

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the operations, especially those made in southern Italy, were not paid on maturity, so that renewals had to be granted sometimes with a slight reduction of the credit. And when the debtors showed that they could no longer meet the obligations they had assumed, because as a result of the agricultural crisis the property was giving increasingly small returns, the banks took steps to protect themselves by obtaining mortgages as guaranties for their credit.

CHAPTER IV.

THE CRÉDIT FONCIER OR REALTY CREDITS OF THE BANCA NAZIONALE NEL REGNO D'ITALIA.

It was in that same year of 1885 that the Banca Nazionale nel Regno established the crédit foncier. Because of the importance it assumed in relation with the bank, and because of the changes to which it was subjected, the founding of the crédit foncier of the Banca Nazionale formed a noteworthy episode in the history of Italian banking. A brief review of this event seems, therefore, opportune.

As soon as the general director of the Banca Nazionale, Signor Giacomo Grillo, announced the intention of founding a realty credit service, there arose violent discussions and criticisms. It was said that a bank of issue, which ought to consider the shortness of duration and the sure recovery of its loans, could not properly take part in mortgage operations, by their nature necessarily for terms of many years, and in support of this argument the example was brought forward of the banks of issue of the principal countries. The question was discussed at length whether the proposed crédit foncier, even though organized as the general director of the bank proposed, with a separate administration and technically autonomous, under the close supervision of the administration of the bank, would not end by involving the responsibility of the latter.

The general director defended his plan before the superior council of the bank and the general meeting of

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shareholders. He argued that it was not true that examples were completely lacking of banks of issue which had established realty credit departments and quoted those of the banks of Austria-Hungary, Greece, Scandinavia, besides the two banks of Naples and Sicily, and expressed the conviction that by assigning to this special department a capital to be taken from the statutory reserve of the bank, available for the tenfold issue of realty bonds, according to the laws in force, no responsibility could fall on the Banca Nazionale.

He then justified the founding of the *crédit foncier* by the convenience of affording aid to urban and landed property which was suffering from a grave crisis, especially in southern Italy.

In the opinion of the general director of the Banca Nazionale, the plan was fully justified by the disproportion between the needs of the urban and landed property in Italy and the inadequacy of the means to satisfy them. The law of June 14, 1866, had authorized the transaction of mortgage operations by the Bank of Naples, the Cassa di Risparmio delle Provincie Lombarde, a solid and well-administered institution, which was later to rise to great power, the Istituto Opere Pie di S. Paolo in Torino, the Monte dei Paschi di Siena, and the Cassa di Risparmio di Bologna, all solid and exemplary institutions. The Bank of Sicily was later, by royal decree of May 1, 1870, authorized to carry on realty operations. Judging by the nature of these and of other institutions authorized to make mortgage loans, there is reason to believe that this kind of credit was regarded in Italy almost as a form of charity.

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But what especially led the general director of the Banca Nazionale to propose the founding of the realty credit department was the desire to relieve the discounts of the bank of the operations which, although they were in appearance convertible credit, had nevertheless become, for the reasons indicated, substantially real and proper mortgage operations, impossible to be liquidated in a short time, and guaranteed by mortgages on rural and urban landed property. The general director of the bank was moved, therefore, by lofty economic and monetary considerations, and judged that the transformation, in proper form, of the discount operations now unrealizable was desirable not only in the interests of the bank, but also in the interests of circulation, which would be restricted by the amount corresponding to the unrealizable operations by buying in the realty bonds that the *crédit foncier* administration issued contemporaneously with the loans. Thus it may be said that this consideration of general interest prevailed over the bank's own interests, which if it had kept for the operations their character of bills of exchange would have had, over against the corresponding interest paid by debtors, only the burden of the tax on circulation at the rate of 1 per cent, whereas replacing the notes by issues of realty bonds the bank was to pay an interest of 4 and $4\frac{1}{2}$ per cent, except for the compensation to be derived from the profit on new banking operations, which could be carried on with the sums collected by the liquidation of old operations through the investment of the capital assigned by the bank to its *crédit foncier* and through the sale of realty bonds.

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But, although banking operations received a great impetus in consequence, nevertheless when the Banca Nazionale decided upon organizing the *crédit foncier* it ought probably to have decided rather to restrict its action, because its own conditions and those of the market made advisable following a policy of concentration.

In the ideas displayed on this, as on other occasions, and in the perseverance with which he struggled to make them triumph, the general director of the Banca Nazionale showed that he possessed rare qualities which would have succeeded in giving a sound direction to the bank, if the seriousness of the crisis which seized Italy, through a number of causes of an economic and political nature, had not attacked every part of the financial, industrial, commercial, and banking activity of the country and had not carried away, like a raging torrent, even the strongest bodies that it encountered in its devastating course.

The exercise of realty credit by the Banca Nazionale approved by the general meeting of shareholders held February 26, 1885, was authorized by royal decree on April 5 of the same year, in conformity with the permission that the act of February 22, 1885, on realty credit, had given the Government to grant its exercise to such institutions as should have fulfilled the requirements of the said law.

To the realty credit administration was assigned at first a capital of 25,000,000 lire, taken from the statutory reserve of the bank; to this were added in 1889, by a new decision of the meeting of shareholders, another 5,000,000 lire, also taken from the reserve. From September 7, 1885, the date of the beginning of the operations, to June 30, 1893, the date when they ceased, because of the

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banking law then under discussion which forbade all further mortgage operations on the part of the banks of issue and ordered the liquidation of those already under way, the *crédit foncier* of the Bank, with the 30,000,000 capital, had concluded mortgage loans for 322,825,500 lire—that is to say, through the employment of the capital assigned, and in conformity with the law,

	Lire.
In 160 mortgage accounts current in cash.....	12, 073, 500
In 834 loans in cash.....	17, 991, 000
Total of cash operations.....	30, 064, 500
In 2,470 loans in 4 per cent bonds.....	135, 349, 500
In 2,675 loans in 4½ per cent bonds.....	157, 411, 500
Total.....	322, 825, 500

By way of proof of what has been said concerning the considerations that led the general director of the bank to found the realty credit department, it may be well to state that in the first few years it was feverishly active. In the first fiscal year requests for loans were presented amounting to 260,000,000 lire. In the report to the stockholders for the fiscal year 1886, the general director declared: “The *crédit foncier* of the bank has developed to a degree beyond all our expectations. This development proves very clearly that its creation answered a need felt by the country.” By December 31, 1886, the *crédit foncier* of the bank had definitely contracted for operations amounting to about 62,000,000 lire, and had under examination requests for operations amounting to about 147,000,000 lire. The greater part of the operations were concluded in the Province of Rome, because of the needs already shown by urban property in connection with the building movement which was in process of development

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there, and in the provinces of southern Italy on account of the agrarian crisis which needed considerable help.

In the year 1887 the operations encountered something of a check through the difficulty in placing the realty bonds, caused by a money stringency owing to stock exchange crises and to difficulties of the State finance which aroused anxiety because of a new deficit in the budget. However, in 1887 mortgage loans were concluded for the amount of 74,000,000 lire, and at the end of the year there still remained under consideration requests for loans for 123,000,000 lire.

In the year 1888 there was a lull in these operations, which amounted to 45,000,000 lire only, making the total for three years 181,000,000 lire. The general director of the bank announced that "the operations of the *crédit foncier* have now entered upon their normal course. To the rush for mortgage loans of the first few years there has succeeded an orderly and constant demand."

Now, it is interesting to note that out of the sum of 181,000,000 lire in operations concluded by the *crédit foncier* in the first three years, about 85,000,000 lire were used to liquidate unrealizable operations in bills of exchange in the discounts of the bank, and that out of a sum of 278,000,000 in loans made for the whole of 1890, 135,000,000—that is to say, nearly half—were employed for the same purpose.

Naturally, in view of the vicissitudes, anything but prosperous, through which the country passed, dark days were not long in coming upon the *crédit foncier* of the bank as well. Borrowers were beginning to find themselves in straits, whether as a result of

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bad management of their property and ensuing wastefulness of their patrimony or because the crisis from which landed property was suffering was growing acute, they commenced by being behindhand in payments of dues of amortizement, and ended by suspending payments altogether. The *crédit foncier* had to put up at auction the mortgaged property, which, not finding purchasers, was adjudged to the *crédit foncier* itself. Meanwhile, whether to fill up gaps which were appearing in its balance, or whether to withdraw from the market realty bonds for sums corresponding to loans on property that had come into its possession by auction, the *crédit foncier* was obliged to apply to the Banca Nazionale, which opened for it a cash credit.

The further aggravation of the agricultural crisis, especially in the south of Italy, to which was then added the building crisis of Rome and other important centers of the peninsula, aggravated the situation of the *crédit foncier* of the bank, and with it that of other kindred institutions.

To remedy the situation, which was threatening to become serious for the realty credit institutions and their borrowers, opportune legislation came to the rescue, containing provisions which reduced the fiscal taxes of various kinds, prolonging terms of payment, and giving other facilities of mutual advantage.

The vicissitudes of realty credit in Italy have made plain the dangers which can be incurred by giving too great facilities to credit, even in operations solidly guaranteed, which, through being represented on the market by various certificates, different from bank

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notes, and through granting to the borrowers a long period of time to satisfy the obligations assumed, would seem to be protected from every surprise. For even when the borrowers, by bad administration of the property or through loss of their free capital, find themselves in the situation of not being able to meet the obligations assumed, the property offered in guaranty should be sufficient to reimburse promptly the credit institution.

But what may and does happen in normal times no longer happens in moments of crisis in general, and of crises of landed property in particular. For when the value of real estate as well as of securities declines, capitalists are not willing to decide to profit by the decline and buy; they always hope and wait for prices to go down still lower, and finish at last, most frequently, by making up their minds when, after the crisis has passed, prices are going up again.

Meanwhile the law of 1893, of which we shall speak presently, having stipulated that the realty credit departments of the banks of issue should be liquidated, the bank was obliged to provide for regulating its relations with its own realty credit department, with the result on December 31, 1893, of a debt of about 50,000,000 lire, over against which the *Crédit Foncier* ceded to the bank about 17,000,000 lire in real estate (which had come into its possession through auction), and other property belonging to it, while the bank contributed to close the account by deducting 30,000,000 lire from its paid-up capital and by using 2,802,918 lire available residue of a payment of 30,000,000 lire made in 1894 by the share-

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holders to amortize bills which had become overdue and were included in operations of difficult and tardy liquidation.

On December 31, 1908, the loans still current of the *crédit foncier* of the bank in liquidation amounted in all to 112,392,980.70 lire, and were represented to the amount of about 4,200,000 lire by loans in cash, and for the rest by obligations in circulation for a total of 111,181,500 lire, over against which was the assigned fund of 30,000,000 lire instead of 11,000,000 required by the terms of the law. The *crédit foncier* had besides ordinary and extraordinary reserves for about 6,500,000 lire.

The surplus assets of the *crédit foncier* and the very favorable conditions under which the liquidation was now going on showed that it could, in the end, indemnify the bank for the sacrifices it had been obliged to make in the past.

The bank, profiting by the favorable conditions of the market, converted in October, 1903, the 4½ per cent into 4 per cent bonds, and in October, 1905, converted the 4 per cent bonds into 3.75 per cent.

The realty credit administration of the bank participated in the founding, in 1886, of the *Istituto Italiano di Credito Fondiario*, created especially to come more freely to the aid of real property, which was demanding ever increasing assistance. The participation consisted in the payment of 5,000,004.10 lire in cash and in the surrender of mortgage operations in cash for 9,999,995.90—that is, a total of 15,000,000 lire.

CHAPTER V.

EXCESS OF BUILDING AT ROME—DIFFICULTIES OF FINANCE— EMBARRASMENTS OF THE BANCA ROMANA.

Returning to the general conditions of Italy in 1885 and to those in which the Italian banks of issue were involved, it is seen that the unloading of a part of the banking operations made by the Banca Nazionale in its *crédit foncier* administration did not diminish its discounts; these, contrary to the expectations and intentions of the bank, continued instead to increase considerably, just as those of the other banks of issue increased.

Discount operations, which up to December 31, 1885 had advanced to 617,000,000 lire, went up to 673,000,000 lire in 1886 and to 713,000,000 lire in 1887, going down to 674,000,000 lire in 1888 and rising to 743,000,000 lire in 1889, a total which was not exceeded except on the occasion of the crisis of 1907. The increase in discount operations of the Italian banks of issue was due largely to the aid given by them to the building associations, which, with the haste that always accompanies work of a prevailingly speculative character, had undertaken to build houses in Rome and other Italian cities where a certain lack of buildings had been noticed, a lack which was especially evident in Rome because of the growth of population, due for the most part to the establishing and extending of the public administration in the capital of the kingdom.

The plan of procedure of those interested in the building enterprise in Rome and other cities was not unlike that observed before and later in other countries. They began in Italy with the purchase of land, for the purpose of sell-

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ing it again at higher prices; they continued by having recourse to credit, mortgaging the land to obtain the means necessary to build the first story, and so, from story to story, until the completion of the building. This, with interest and incidental expenses incurred in obtaining the capital, represented normally a cost to which the returns could not adequately correspond, in the economic conditions of the population, especially in Rome, composed largely of employees.

Very soon, therefore, these building associations found themselves surrounded by grave difficulties. They had been organized partly to build dwelling houses directly, partly to furnish capital to private builders who had come in swarms on every hand, but especially from people least provided with capital; small contractors, and even simple stonemasons, had become unexpectedly and provisionally proprietors of great palaces, which the crisis, breaking out before long like a blast of wind, was to carry away from them as if they were built of the same first material—paper—with which the capital had been got together, also of paper.

The period that elapsed between 1885 and 1890 was one of the saddest Italy has ever experienced. It was sad because of economic and financial conditions, and was not destined to be surpassed, even in moral seriousness, except by that between 1893 and 1894. The lack of a single powerful bank of issue made itself sharply felt at that time, but instead of the Government's being inspired to an act of salutary and heroic energy, it was persuaded to persist in its error. There was a considerable increase of circulation, which had risen from 900,000,000 lire in 1884

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to 948,000,000 lire in 1885, to 1,032,000,000 lire in 1886, to 1,075,000,000 lire in 1887 and 1888, and to 1,116,000,000 lire in 1889. This increase in circulation was confronted by a decrease in the percentage of the metallic reserve, which went down from a maximum of 51 per cent in 1883 to a minimum of 34 per cent in 1889; whereas, meanwhile, by the redemption of the association bank notes the State had considerably reduced its metallic gold reserve, which amounted at the end of 1889 to only 160,000,000 lire.

The budget had closed with a surplus of 35,000,000 lire in 1884, of 15,000,000 lire in 1885, and of 12,000,000 lire in 1886, but the surplus was soon converted into a deficit of 57,000,000 lire in 1887 and of 230,000,000 lire in 1888.

The rupture of commercial relations with France helped to aggravate the situation, because the Paris market, having become hostile to things Italian, began to sell the rentes with such fury as to make them decline from a maximum price of 102.55, reached in 1886, to a minimum of 90.80 in 1889. Consequently, through the return of a considerable part of them into Italy, exchange on Paris, which had gone down again, as we have said, in 1883, after the liquidation of the crisis of the French market, to a minimum rate of 98.75, rose in 1888-89 to more than 102.

Just as comfort and easy circumstances, along with tranquillity, lead to thoughtlessness, so difficulties and adversity lead to melancholy meditation; people reconsider their past course, and pass in review the causes of present evils. Italy found in this review the reason of the state of economic and financial depression into which it had fallen—it found it in the disorder in which the banking

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régime had been left; in the frantic career of financial extravagance which had swelled beyond all the limits of prudence the national debt, besides exhausting the contributing power of the citizens, on whom had been imposed unbearable fiscal burdens.

Naturally, in the presence of the grave embarrassments of a situation in which every one in the Government, in Parliament, and in the country had his share of responsibility, the criticism became still more bitter of the work of Minister Magliani, whom they wished to hold solely responsible for the mistakes made by all and for the consequences which had resulted from them. Above all, the abolition of forced currency, in presence of the reappearance of agio, was harshly criticised, and not a single one of the 266 deputies who had voted for it with great enthusiasm, against only 27, rose to defend the minister, for whom, in remembrance of the great event, a gold medal had been coined.

However, whatever the calm technical judgment might be as to the law for the abolition of forced currency, it should have been recognized that many causes foreign to it helped contribute to its failure. The abolition of forced currency would not have miscarried if the State had not recklessly plunged into all sorts of expenses for railroads, for public works, for the African war, and other things; and especially if, as had been foreseen and promised by Magliani himself, energetic measures had been taken to complete the monetary programme by a careful regulation of the banking system.

On the contrary, Italy was not wise enough to derive any salutary lesson from the experience it had gone

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through, particularly in the question of regulating the banks and circulation. It may be said, rather, that the discovery of the abuses then revealed in that quarter led it to persevere and commit new and more serious errors. Under the pressure of the clamors of public opinion, partly perverted by those who had interests in perverting it, not only did the Government not provide promptly for checking and confining to its proper course the stream of paper money that was overflowing its banks in all quarters, but it listened rather to the voice of the expansionists who were accusing it of stopping the promised revival of the activity of the country by denying the necessary means for the movement of business.

Meanwhile, at all the meetings of the councils of the banks of issue, the government commissioners gave warning that they were obliged to state that the circulation, as appeared from the statements presented to the councils themselves, exceeded the legal limit. And the Government, on the reports of the commissioners, requested the banks to return to the normal limits. On their part, the banks replied that the conditions of the market had rendered necessary an enlargement of circulation, and they promised to return to the legal limits. This correspondence between the Government and the banks continued for some time, and was one of the humorous sides of the Italian banking question, which had other humorous sides, although in the midst of exceedingly sad ones.

On the other hand, at the point things had reached, it was not possible to proceed with very severe methods, because such action would have precipitated the situation and rendered the catastrophe still more serious, just

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as, again, granting the insistent demands of the expansionists, although putting off the catastrophe, would have made it more serious. Nor, for the reasons stated, was it possible to apply to the banks all the provisions of the law of 1874, which, as it had not been repealed by the law of 1881, still remained in force. According to this, the increase in circulation recognized as necessary for extraordinary and urgent needs of commerce could be granted by the Government after trying two successive increases of the discount rate, on condition, however, that the excess of notes should not exceed 40 per cent of the capital of the banks; that the increase was not to last for a period of more than three months, and that the profits cleared on the operations should accrue entirely to the treasury. And it was even less possible to apply the statute under which the bank should be obliged to pay the State, by way of penalty, a sum equal to the total of the excess of circulation beyond the legal limit or the deficiency of the metallic reserve. This statute, under the terms of the established regulation, was to be applied, after reporting the transgression to the Court, by the application of the penalty; it was seen in practice how ludicrously this extreme severity was eluded.

This was the case not only because it was a question of provisions of exaggerated severity, but because of the manner in which the transgressions of the law had come about. On account of the situation which these transgressions had created in the country, and more especially because of the share the Government had had in them it could not condemn the banks without condemning itself. For it was just at this time that the intervention of the

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Government in the conduct of the banks of issue was most actively and openly manifest, as will be seen later.

However, the Government expressed the intention of undertaking to give better regulations to the banks, and presented a bill to Parliament, the third or fourth since the abolition of forced currency, which did not fare differently from those which had gone before it, and aroused violent discussions, polemics, and criticisms. At the same time the Government ordered an inspection of the banks of issue to ascertain their conditions, which, especially in what concerned the Banca Romana, seemed very serious. A first audit of the cash of the Banca Romana seemed to show a deficit of 8,000,000 lire. The audit was suspended to make further examination of accounts, and when it was continued a few days later the cash was found to be correct. However, other irregularities were found in the methods of issuing and destroying bank notes, and in general it was discovered that the financial conditions of the bank were not sound and normal.

Once more the Government let slip the opportunity to liquidate the Banca Romana or merge it in the Banca Nazionale, and, with the others, to create a great institution of issue, as was already insistently demanded in various quarters. The bill for the reorganization of the banks of issue failed for the very reason that whereas it favored the inclinations of the ignorant crowd, under the influence of those who were interested in keeping up the existing disorder, it was in too open contrast with public interest and the opinion of the most competent men of the country. It seems that the author of the bill, Minister Miceli, a very commonplace man, absolutely

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without the most elementary economic education, had taken upon himself the burden of coming to the aid of the weak.

This bill resembled the statutes of a society for the guardianship of minors and the feeble-minded; the anxiety not for the public interest, but for the defense of small banks, was evident in every part of it, so full was it of provisions intended to defend the minor banks from an imaginary danger of oppression on the part of the larger institutions, and especially on the part of the Banca Nazionale.

It was very evident that the Banca Romana, not through the hostility of others, but because of its own difficulties, was not in a position to accomplish the redemption of its notes which had entered the coffers of the other banks, a redemption which had to be made regularly every ten days in conformity with the law and regulations. Notwithstanding this fact, the minister, instead of rendering the provisions on this point more efficacious, so as to make the Banca Romana feel more clearly the necessity of limiting its activity and restricting its circulation, proposed that the obligation of redemption of bank notes should be confined to the tenth part of the circulation of each bank. This was equivalent to abolishing the obligation of redemption between banks which, under the system of circulation really at forced currency, represented the sole and only control, the one single check on their currency.

It may be well to say that of the six Italian banks only the Banca Romana demanded insistently and loudly the provisions relieving it from the burden of the periodical redemption of bank notes; and this began in 1887—that

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is, from the time when its situation became particularly unfavorable—when it had difficulty in redeeming the notes that were presented to it in continually increasing number, because of the greater quantity circulating in the country, which tended to return to the coffers quickly. It was then shown that the greater the quantity of bank notes in circulation, at legal or forced currency, the more quickly they are returned to the coffers of the bank.

With a limited field of action, for a long time confined to the Province of Rome alone; with a great part of its assets unrealizable or overdue, the Banca Romana did not receive sufficient payments to enable it to redeem its notes which entered in all the greater quantities in the coffers of other banks, because the public, not completely ignorant of the difficulties of the Banca Romana, showed that it did not approve of the notes, and made haste to get rid of them. As a result the bank found itself obliged to resort to costly expedients, such as the sale in the markets of northern Italy of Italian rentes in return for notes of the Banca Nazionale to be presented to the latter in redemption of its own notes; these rentes it bought back at Rome with its own notes, thus disturbing also the home market of rentes.

At the distance of twenty years, when the facts of the situation have either been forgotten or grown confused, what happened then in Italy may well seem incredible. But it must be stated and repeated that the Government believed the very gravity of the situation justified its procedure.

Doubtless it seems inexplicable to-day that the Government should allow an institution of issue to violate the

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articles of the law; that, also, with manifest injury to the other banks of issue, it should prepare to lay before Parliament new laws all to the advantage of the Banca Romana, which was, among them all, least worthy of consideration; but what seems inexplicable to-day had at that time a reason, if not a justification, in the special conditions of the capital of the Kingdom, and in general in the ideas which prevailed in Parliament and the country concerning banking regulations, ideas decidedly and unconditionally in favor of the plurality of banks, the grave defects of which people either did not or would not see.

The feverish expansion which the building industry entered upon had flooded Rome with a new population, composed largely of farmers who abandoned the country, attracted by the seductions of the city and the easier living offered by the work of building. The Banca Romana, hard pressed by its difficulties, and not being able to redeem the notes that were presented to it from other banks, turned to advantage the conditions created in the capital by the great mass of workmen who had swarmed there for the work of building, and declared that if it were forced to redeem its notes, it would be absolutely obliged to suspend operations; it did not fail to depict to the Government all the consequences that would follow the suspension of the work in Rome, and of the idleness of thousands of workmen. And since there were newspapers on hand that obligingly echoed this anxiety of the Banca Romana for the well-being of the working classes, and for the tranquillity of the capital of the Kingdom, the workmen began to grow restless and threatened to make

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trouble, which naturally exercised a certain influence on the men who were in the Government, at a time when labor disorders, agitations and strikes had not yet become national institutions, as it is now the case.

Nor was the conciliatory and benevolent attitude of the Government toward the Banca Romana due to this alone, for the bank managed cleverly to touch and make vibrate other strings of its instrument. It had succeeded the ancient Bank of the Papal States; it was given the monopoly of issue of these same States; it was in possession of special privileges, so that, as we have seen, the papal government itself had undertaken to guarantee its notes. In view of all these things, the Banca Romana did not let slip the opportunity to bewail the happy time in which it was absolute mistress without rivals and without enemies. And it turned to account the parochial sentiment of the population, making it seem that its adversaries were attempting to oppose in it the only local financial institution in hatred for the city. Having placed the question on this basis, it was easy for the Banca Romana to find adherents and helpers, and to win over the sympathy of part of the population, all the easier to obtain since the Banca Romana seemed to be the victim of the new elements which had come to Rome from other provinces and were fighting in it a Roman institution.

Henceforth there were few who were not persuaded that the Banca Romana was a victim and that the Banca Nazionale, which had long cherished the plan of becoming sole bank of issue, was trying to throttle it. And though even after the discovery of the disastrous

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situation of the Banca Romana the belief in this legend still persisted, just as many people in Italy and elsewhere still believe it even to-day, nevertheless, as it will be easy to prove, it is nothing but a fiction cleverly foisted on the public; and since the relations existing between the Banca Nazionale and the Banca Romana and the results that came from them are of an interest which transcends historical curiosity and makes clearer one of the vices of the plurality of banks, it does not seem superfluous to reestablish the truth of these things.

That Signor Giacomo Grillo had become a decided partisan of the superiority of the unity of issue after the painful experiences caused by plurality is a fact beyond all doubt; but being a man of exemplary uprightness and loyalty, he wished the desired end to be attained, in the interests of the country, by the common consent of the various banks of issue and the Government, and the approval of Parliament. Consequently, he attempted several times to negotiate a fusion, both with the Banca Nazionale Toscana and the Banca Romana.

But the situation of the latter bank, as was shown later in 1893, was an obstacle to any sort of agreement, since consenting to a fusion would have meant revealing the ruinous condition it was in. For the rest, the personal relations of the general director of the Banca Nazionale with the governor of the Banca Romana were marked by the most sincere cordiality, and when the Banca Romana began to find itself in difficulties and unable to redeem its notes, the general director of the Banca Nazionale was liberal in making concessions to it. He consented to keep back in the coffers of the Banca

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Nazionale as much as 4,000,000 lire in bank notes of the Banca Romana without demanding redemption; and since, later, this sum subtracted from the obligation of redemption proved insufficient, the general director willingly consented to the recommendations made by the Government to show the greatest consideration for the Banca Romana, and declared that his attitude was conciliatory; and on September 24, 1890, he laid the situation before the superior council and proposed to increase from 4,000,000 lire to 6,000,000 lire the fund of notes of the Banca Romana to be held back from redemption, especially as the Government had consented to free from taxation a corresponding sum of notes of the Banca Nazionale.

The council, although expressing its anxiety for the responsibility which the Banca Nazionale was assuming, approved the proposal of the general director. October 22 of the same year, after fresh recommendations from the Government, the general director advised increasing to 9,000,000 lire the cash credit opened for the Banca Romana; by this, with the fund held back and the cash credit, the Banca Nazionale had consented to withhold from the obligation of redemption 15,000,000 lire in bank notes of the Banca Romana, which then had a circulation of 74,000,000 lire.

But this is not all: as a result in 1894 of the Government investigation of banks, it was found that in 1888, at the time of the inspection made of the Banca Romana, the general director of the Banca Nazionale, on a simple request from the Governor of the Banca Romana, had consented to pay over to it the sum of 8,000,000 lire, which

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amount was supposed to have been used to fill up the deficit discovered in the first audit of the cash.

The discovery of the loan made by the Banca Nazionale to the Banca Romana suggested to Deputy Cavallotti the idea of making an inquiry of the Government as to the relations between the general directors of the two banks.

So Signor Grillo, reputed to be a most bitter enemy of the Banca Romana, appeared now as an accomplice in the misdeeds of this bank, for which it was believed he had furnished the means to make up a cash deficit! Deputy Cavallotti, warned of the grave error into which he had fallen in suspecting an understanding between the heads of the two banks, refused to lay his question before the Chamber of Deputies, even though the theme, however absurd, must have seemed attractive, since to attack and fight the Banca Nazionale and its administration had always been and was still a popular and meritorious undertaking.

In fact, if the Government, in the difficult moments the country went through, which had made perfectly evident the deficiencies of the banking system, still hesitated to make the timely provisions, it was certainly not because of unjust compromise or for unworthy reasons; but it was on the one hand from the anxiety not to create more serious embarrassments in the country by disturbing the state of things which had grown up, and on the other hand, from the persuasion that any bold and radical plan of banking reform would fail in the face of the coalition of those interested in maintaining the banking system then in force. There is no doubt that a very great majority of the Chamber was in favor of the plurality of banks

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because of considerations of a regional nature. And, indeed, whether from fear of being suspected interested partisans of the Banca Nazionale, or for other reasons, the fact is that never did a single deputy rise in the Chamber to call to mind its meritorious service or to defend its interests, ever one and the same with those of the country, whereas the guardianship of the interests of the minor banks always found strong and zealous champions.

In examining in 1893 the banking bill presented by the Government an influential deputy felt obliged to write that the plurality of banks was one of the most precious conquests and unchanging principles of the former party of the Left of the Italian Parliament.

Francesco Crispi, in the presence of the severe criticisms aroused against the bill presented by Minister Miceli, was persuaded of the necessity of a change of direction. Although he did not have the clearness of ideas that results from complete knowledge of the subject, he had, however, the broad insight that Italy needed to lay aside a hybrid banking system which had been shown in every respect to be pernicious, and he felt the noble ambition to provide the country with a powerful institution, which, after the example of France and England and other countries, should be an effectual regulator of the currency and a strong protector for State and people in difficult moments.

Having set aside the Miceli project, he called to Rome Francesco Ferrara, the glory of economic science, and gave him the task of studying the very serious question and proposing for it the solution which best answered the situation of Italy at that moment. This illustrious man, who was the most weighty champion of economic liberty, and who,

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as deputy and minister, had fought every idea of monopoly and had flung himself violently against the close relations which had existed in the past between the State and the Banca Nazionale, was not deaf to the clear call of the situation and ended by recognizing that even Italy would, like other countries, derive marked benefit from the action of a great central bank of issue.

But the ministry presided over by Francesco Crispi fell before he had been able to give concrete form to his plan; it fell, it was said, perhaps not without truth, for the very reason that it had expressed the bold intention of creating a sole bank of issue—and the banking confusion continued.

The Italian Government, for the reasons stated above, not only did not know how, did not wish to, and could not intervene energetically to reform the currency, but was itself the cause of its growing worse. And yet, however much political animosities, impelled by that instinct of cannibalism which is the principal characteristic of the politician, attempted to shatter the reputations of those who were in the Government at the time of the banking disorders, we must repeat that, save for minor exceptions, the men who came into power gave a lofty example of honesty and rectitude. The intervention of political power in banking affairs may, from certain points of view and with due allowance for the grave difficulties through which Italy passed, be considered untimely and harmful; but at the same time it must be acknowledged upright in the intentions that counseled it, which were always prompted by the desire to spare the country serious disasters.

CHAPTER VI.

THE BUILDING CRISIS AND BANKING SUBSIDIES.

We have already seen the procedure of the building industry at Rome and how it was based essentially on credit. We should add that when the slender funds were exhausted that the building associations and other banking firms could place at the disposal of the building industry, it was necessary for the builders and manufacturers who were connected with the building movement of Rome and the other cities to discount and rediscount their paper with foreign banks and institutions, especially in France and Switzerland.

Now, it was precisely in the years 1887 and 1889 that the close relation that exists between the economic conditions of a country and those of public finance was once more made evident; it was manifest how easy it is, sometimes unavoidable, for the disorders of the latter to exercise an immediate direct effect on the former; just as impaired finance damages the public economy, so the bad conditions of the public economy are reflected unfavorably on finance. The unfriendliness of the Paris market at this time, due to misunderstandings that were fortunately cleared up later, had, as we have already said, inflicted considerable losses on Italian rentes and likewise on other Italian securities owned in that and other foreign markets, with the inevitable effect of the excessive rise in exchange. The principal cause of the decline in Italian securities and the rise in exchange was the unexpected appearance in the budget of a deficit of 230,000,000

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lire, of which 126,000,000 lire were due to an increase in military expenditures, besides a deficit of 235,000,000 lire in extraordinary expenditures for building railroads.

The situation seemed disquieting also because speculators interfered to aggravate it to their own advantage by manipulating prices downward. It was then that the foreign banks and bankers who had given extensive credit to building associations and builders made it plain that they were not only not disposed to give further discounts to either of them, but also that they would refuse to renew the current operations, of which they were demanding immediate payment on maturity. From an approximate estimate, inferior to the reality, it appeared that the paper coming from the building industry and discounted abroad amounted to about 350,000,000 lire. The threat, already acted upon here and there, of demanding immediate payment of this paper made the situation appear very serious, since it would cause as an inevitable consequence the failure of the building associations and perhaps, too, that of the principal credit institutions whose interests were now closely allied with them. And as the disturbance of the public finances had had a large share in provoking the impending crisis of the market of Italian securities, this crisis would, in its turn, aggravate the financial and monetary crisis. In order to ward off such a great misfortune the Government intervened energetically with the banks of issue, and particularly with the Banca Nazionale, asking it to come promptly to the help of the building associations, in order to put them in a position to meet the obligations assumed toward foreign banks and bankers. The discussions were long and

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violent. The Banca Nazionale hesitated, and did not fail to measure the possible danger it was about to incur; but it finally acted on the high moral consideration of avoiding a crisis which would make Italy appear a country in disgraceful bankruptcy. This consideration and the very serious anxiety as to the consequences that would result for the country led the Banca Nazionale to give extensive aid to the building industry threatened with disaster.

This happened, too, because in the last analysis the conviction prevailed that everything would be straightened out without loss. The faith in a prosperous future for the capital of the Kingdom seemed to assure a favorable outcome for these banking and building subsidies at first considered as dangerous. And we must not forget that what helped to overcome the resistance of the bank, and led it to intervene, was the belief that it could save the amounts which had already been involved in the first aid given to the building industry. The most difficult thing in business is always knowing how to lose a small amount at the proper time in order to avoid losing a larger sum later. And that is exactly why those who are in need of help always ask for a part of what they need to save their situation, calculating that the rest will come later, because a person who has given the first part will not wish to lose it, and to save and secure it will give the rest as well.

Another thing, too, that argued in favor of the subsidies was the desire to avoid the losses that would come upon the bank, directly and indirectly, from the ruin of the building and credit companies, all, as we have said, more or less largely involved in the building enterprises of Rome and other cities.

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It may be said, however, that there prevailed at this moment an optimistic opinion concerning the outcome of the operations in favor of the building associations; but such an optimistic opinion was too much like the arguments with which one tries to justify a step which it is not possible to retrace, or the necessity of meeting an obligation that is not approved of, but can not be put aside and declined.

The very serious and not unjustified anxiety of this moment took away from the Government and the banks the freedom of choice; it hindered the calm examination of the situation and the exact estimate of the losses which, in comparison with the benefits expected, would result from their intervention.

In the report to the shareholders on the operations of the year 1889, the general director of the Banca Nazionale declared:

“Meanwhile we have been obliged to witness a greater aggravation of the building crisis, in consequence of the continued withdrawal of foreign capital which had liberally subsidized the speculation in building in more than one of our cities and had stimulated its excesses; from this, therefore, arose the banking crisis of Turin, the bad effects of which reacted on other regions.

“And as if all this were not enough, we had the increasing distrust on the part of capital, encouraged by the corrupt passion for destruction that seizes everything and everybody and grows strong and rejoices in the ruin and disgrace which it creates around itself; distrust also encouraged by the frenzy of speculators who do not know the bounds of rectitude and honesty, and who recognize

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no check, not even the consideration of the serious harm they are inflicting on the economy of the country.

“These in broad outlines are the conditions under which business was done during the financial year of which we must speak to you; the difficulties our institution had to encounter during the year are connected with them. This action, you will acknowledge, gentlemen, could not be calm and normal.

“It was not possible to limit it to the ordinary subsidies that a bank of issue distributes to merchants and manufacturers to aid in their development and expansion. We have not neglected the discharge of this function, but we have likewise been obliged to listen to the call of other duties and to fulfill them. An institution like ours could not be indifferent to such unusual events and misfortunes as those of this past year. When credit is so violently beset, as was the case especially in the second half year, private interests placed in jeopardy take such forms, threaten to multiply in so many and such ways, that they assume the character of high public interest, which claims protection by the energetic intervention of the Government and the institutions to whom is intrusted, by the reason of their own character and also for their own protection, the defense of the public credit both at home and abroad. And so, gentlemen, when the danger of failure first threatened a well-known credit establishment, which until recently had enjoyed the greatest confidence, the Government, foreseeing the very disastrous consequences, widespread beyond all measure, that would result from this failure, urged the larger establishments to come to the aid of the situation. The Banca Nazionale consented and, deciding that in the

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market of Turin were concentrated the interests of other regions, helped it liberally. Then the bank judged advisable to stipulate an agreement with the Government enabling it to count on an increase of circulation of 50,000,000, so that the help given in that special direction should not render its available funds insufficient for ordinary operations.

“The sum of 50,000,000 was only a part of that already distributed and still remaining to be distributed in order to avoid the catastrophes threatened in every direction, but we did not ask for more, bearing in mind always that an excessive increase of circulation brings evils outweighing the monetary advantages derived from it. On the other hand, we calculated that the contraction of business in general, which was already visible and promised to increase in the near future, would justify us in devoting to that purpose also a part of the ordinary disposable funds. In the agreement which we have just outlined the Government reserved for itself part of the profits on operations made with the 50,000,000 excess of circulation authorized at the rate of 1 per cent on the excess profits that should result within the limits of 50,000,000.

“After this agreement we were able to arrange terms with the Banca Tiberina, key of the situation, for the well-known subsidy of 40,000,000, including in this sum the amount for which we were already involved. The operation was of necessity made and carried through by discounting paper having the forms required by our statutes. Further subsidies were afterwards granted in the same manner to the Compagnia Fondiaria Italiana and others.

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“This large assistance given for the purpose of saving the country from widespread and inevitable ruin, the extent and consequences of which it was not and is not possible to measure, received comments of various kinds; but we do not deem it necessary to go into them deeply with you. We will only say that, before and after, we were more sensible to those who blamed us than to those who praised. If we had decided not to yield there is good reason to believe that the censures would have been much more severe on the day when the Banca Nazionale, on which everybody’s eyes were fastened, allowed ruin to pile upon ruin, showing for the first time an impassivity in contrast with its not inglorious past, and with the aims which must always be present to the administration.

“We have used every means to protect your interests from being compromised by the special operations which were concluded, and we venture to believe that, within a period the duration of which we can not up to the present moment foresee, these operations will fulfill our expectations and give a proper compensation to our efforts and your rightful interests.”

In the very grave anxieties set forth with so much efficiency the general director of the Banca Nazionale was unwilling to take into account that the building crisis, henceforth inevitable and on the point of breaking out with great violence, was due to the excess of production of a commodity which could not be sent to another market to be disposed of, but would be obliged to wait on the very place of production for the purchaser who would come only tardily through the natural but slow increase

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of population; that consequently capital would remain a long time without interest and would diminish automatically. Even less did anyone think of studying the number of vacant apartments and the annual increase of the population, in order to get at least an approximate idea of the time that would elapse before the houses would be inhabited and the capital involved receive a return. Neither did they consider that, in any case, investments such as those solicited, even if they had been solidly and abundantly secured, were neither suitable nor advisable for banks authorized to issue notes, for these banks would thus tie up a large part of their available cash, with the certain reaction upon conditions of circulation and credit in general.

The seriousness of the situation, the terror because of the imminent peril, and the urgent need of relief made imperative, seemingly, the intervention which the Government not only urged on, but also cooperated in; for, although it was anxious about the already abnormal conditions of the circulation of the Banca Nazionale, it consented to arrange with it the agreement mentioned in the report of the general director, and, besides, put at the disposal of the bank a sum of 15,000,000 lire in silver to cover a like sum of bank notes, on condition of having 40 per cent of the profits of the operations the bank carried on with it. The plan for the State's sharing in the profits of these extraordinary operations is the proof of the prevailing optimism, spontaneous or reflected. People talked and made arrangements about profits, not foreseeing, even distantly, losses; since the worst that was feared could happen to the banks

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was to be obliged to wait too long for realizing on their credit. What is more, the smaller banks all expressed their resentment at being excluded from such a magnificent banquet, served up by that contract to the single, privileged Banca Nazionale, and a chorus of many voices united in upholding the complaints of these institutions.

This incident is recorded here because, in the presence of the tardy, bitter censures against the Government and the Banca Nazionale which arose after people had been able to ascertain the futility of subsidizing the building industry and the institutions that were interested in it, and the gravity of the losses which the bank and the currency of the country suffered from it, it is well, for the sake of historic accuracy, to state that the Government was prompted, and even incited, by public opinion that demanded the avoidance of the impending ruin.

It is enough to reread what was written in the newspapers of the time to get an exact idea of the status of Italian public sentiment on this question. A few isolated voices were raised then to give warning that bank notes were not made for the use to which they had been put, and that it was a grievous mistake to throw the good money of the banks after the bad money of a wild speculation already condemned to fall beneath the weight of the errors it had committed; but these voices were drowned in the clamors of the crowd, and they were attributed to Cassandras, predicting the ruin of the country, or to bear operators who selfishly desired that ruin and were waiting to speculate on it.

Whatever judgment may be passed now on the help given at that time by the Italian banks, by direct inter-

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vention, and that too with the participation of the Government, help which constituted, again, through the consequences that grew out of it, one of the most noteworthy episodes in the history of Italian banking, it must in all truth be acknowledged that the Government itself was moved by the praiseworthy intention of avoiding a crisis that would have jarred to the foundations the whole financial and economic edifice of the country, and that the banks which seconded it were inspired by the same patriotic desire for the public good.

CHAPTER VII.

CONDITIONS OF CURRENCY IN 1890—MUTUAL REDEMPTION OF NOTES AMONG THE BANKS OF ISSUE—SCHEMES FOR BANKING REFORM.

There is no doubt meanwhile that as a result of the extraordinary operations concluded by the banks in favor of the building industry, the conditions of the currency were growing worse. On December 31, 1890 the notes amounted to 1,126,000,000 lire, while the metallic reserve was 358,000,000 lire, with a diminution of 26,000,000 lire in comparison with the end of 1889. The proportion between the reserve and the notes in circulation had gone down from year to year from 34 per cent to 32 per cent, a minimum never reached until then.

On the other hand, an amelioration was noted that year in the State finances and even in economic conditions in general. The budget had gone from a deficit of 230,000,000 lire in 1888 to a surplus of 23,000,000 lire in 1889 and of 46,000,000 lire in 1890. The commercial movement, which had reached the maximum in 1887 of 2,610,000,000 lire in the aggregate, including imports and exports, had fallen in 1888 to 2,066,000,000 lire rising again to 2,341,000,000 lire in 1889 and falling to 2,214,000,000 lire in 1890. It may be well to add that these differences were due for the greater part to the vicissitudes of the building industry, which swelled the total of imports in 1885 to 1,460,000,000 lire, to 1,458,000,000 lire in 1886, and to 1,605,000,000 lire in 1887, as a result of buying abroad materials needed for building. In 1888 the imports fell from 1,605,000,000 lire to 1,174,000,000 lire.

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But the keenest scrutinizers of the labyrinth of the budget did not indulge in any vain illusions; they knew very well that the surplus had been obtained in part by disposing of treasury money and by various expedients of the treasury, while the increase of certain returns was derived from new tortures imposed on the citizens whose tax-paying power would soon be exhausted.

Indeed, the least hopeful forecasts were confirmed by the facts in the following year in which reappeared a deficit of 48,000,000 lire, and the commercial movement showed in comparison with 1889 a loss of 212,000,000 lire; rentes at Paris went down from 95.50 to 87 and exchange rose from 100.65 to 103.80. The currency remained unchanged in spite of the decrease of 100,000,000 lire in the discounts of the banks, because the treasury, to provide for its needs, had received from them 123,000,000 lire of statutory loans.

To meet the deficit ascertained in the State budget, the minister of the treasury, Grimaldi, a clever and very fluent talker, but without sound economic and financial education, had proposed a series of provisions suitable to assure an equalization, among which was another bill on the banks of issue which would have given the treasury an added income of 4,000,000 lire.

At that point came the already mentioned downfall of the ministry presided over by Francesco Crispi, which was succeeded by the Rudinì Ministry, whose minister of the treasury was Signor Luzzatti. Being a profound analyst and acute observer of the mysterious Isis of the budget, possessed of a broad knowledge of economics, Signor Luzzatti, who enjoyed deservedly a great and undisputed authority in Parliament, seemed to be the man best fitted

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to dominate the difficult situation. Therefore the belief that he would be able to think out the plans for giving a stable reorganization to finance and currency was fully justified.

But at the end of June of this same year of 1891 there came to an end not only the legal currency of bank notes, which, prolonged by the law of April 7, 1881 through 1883, had necessarily, by the needs of the situation, been continued from year to year; but another thing came to an end also—and this was the privilege granted to the banks of issuing notes. But while on the one hand a favorable occasion presented itself for taking up once for all the weighty problem of banking reorganization, which the failure of all the schemes presented through the determined opposition they had encountered had now caused to be regarded in the light of one of those electrical machines that are “dangerous to touch,” on the other hand, the distress of the times and the many duties with which the new minister of the treasury was obliged to occupy himself, made it impossible to apply anything but temporary remedies. In fact, on May 28, 1891, Signor Luzzatti presented to Parliament a bill to prolong the privilege of issue of bank notes and their legal currency to the end of December 31, 1892. The well-known disorders of the circulation, which exceeded by more than 170,000,000 lire the limit fixed by the law, demanded, likewise, some precaution calculated at least to prevent it from being still further inflated. The new law stipulated that the circulation of each bank should not exceed the average reached in the year 1890, except when it remained less than four times the paid-up capital, in

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which case it could reach this limit. The tax on circulation was fixed at 1.20 per cent besides the two-tenths—that is, 1.44 per cent. For the excess beyond the legal limit, or for the deficit of metallic reserve, which was to cover in the proportion of one-third both the bank notes and sight liabilities, the bank should pay a tax equal to double the discount rate.

The law stipulated that, within six months of its promulgation, each bank should present to the minister of agriculture, industry, and commerce a detailed statement of the situation of discount operations of difficult and unready realization or overdue and unpaid, and of real estate undertakings and credit of all kinds secured by mortgage guaranty. The limit of six months was extended by the committee of the Chamber to one year; but the ministry did not consent to the modification, so that the shorter limit of six months remained which the ministry had fixed, evidently with the determination of knowing without delay the situation of the banks of issue, in order to have standards to refer to in framing an organic law.

Each bank was to accept in payment the bank notes of the others. The Government reserved the right to establish within two months, after conferring with directors of banks, the rules to regulate the mutual redemption of the respective bank notes.

On the lump sum of 171,683,152.24 lire, which was the maximum amount of the loans the banks were to make to the treasury, including a loan extraordinary of 68,183,152.24 lire, the banks were to receive $2\frac{1}{2}$ per cent interest and pay the circulation tax of 1 per cent.

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The regulations above mentioned, and especially the one which obliged the banks to present within six months a statement of the operations not paid on maturity or of unready realization and such as were secured by mortgages, were intended to check the activity of the banks and to reveal their condition. This law, framed under pressing necessity, was, however, the prelude to a more organic law that the Government promised to present in the interval between July 1, 1891 and December 31, 1892, the term of the prolongation of the privilege granted to the banks to issue bank notes and of the legal currency of these notes, as indeed the same ministers had declared in their report on the bill.

In conformity with the promise made, the ministry presented on April 1, 1892 an organic bill of which it will be well to give an outline, because it showed how, in spite of the well-known inferiority of the plurality of banks, in spite of the proof of the grave losses it had caused to Italy, it was not possible to reach the unity of issue notwithstanding that, as it appeared through the tendencies of the bill, the Government seemed to be in principle favorable to it.

But before proceeding to the examination of the banking bill, it will be well to consider an episode which gave rise later to bitter censure against the minister of the treasury and the minister of agriculture, industry, and commerce. As we have seen, an article of the act of June 30, 1891, authorized these ministers to establish within two months, by royal decree, the rules relating to the mutual redemption of notes among the banks of issue, after conferring with the various general directors.

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Now, it happened that at the expiration of the established term the ministry announced the intention of publishing the royal decree by which it was stipulated that the obligation of redemption of bank notes should be limited to the total of the notes issued by the creditor bank possessed by the debtor bank. The creditor bank, therefore, was to take over any excess and employ it in its own operations; all this in accordance with the established agreements.

The director general of the Banca Nazionale objected that according to the agreements it had been stipulated that the experiment was to be made for a sufficient time to make it possible to see if, as he maintained, the proposed method would give rise to inconveniences. But, since the Banca Romana, supported by other banks insisted, declaring again that the obligation of redemption of its notes would reduce it to the condition of suspending operations, the decree was published.

After the failure of the Banca Romana in 1893, with the revelation of its very grave irregularities, bitter discussions aroused as to its relations with the Government. Politicians and the press, in trying to place the responsibility, called to mind the decree of 1891 on the mutual redemption of notes and reproved the ministers who had complied with the urgent request of the Banca Romana, whose bad situation they must have known. Those who expressed this opinion had evidently forgotten that, more than the ministers who made the proposal, the committee of the Chamber, the faithful interpreter as it considered and called itself of the opinion of the Chamber, had been favorable to the lightening of the obligation of the mutual

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redemption of notes. The spokesman of the committee of the Chamber had complained that in the report on the bill for the abolition of forced currency, similar relief had been planned and promised in the matter of the mutual redemption of notes, and said: "This promise still remains unfulfilled, and the committee is distressed because the Government has not seized the opportunity, in presenting this bill, to propose frankly the solution of the problem. Lacking this the committee itself would not have hesitated to frame a definite resolution if the idea had not prevailed, shared also by the proposing ministers who had come into its midst, that it would still be better to try a solution based on an agreement among the banks."

"In every way the committee approves the standards set forth in the legislative provisions to that effect proposed by the Government; and therefore it accepts article 4 of the ministerial act, proposing furthermore that the royal decree shall be issued within two months from the publication of the law, and this in order to assure attainment of the desired end, and to prevent further delays which the past has given reason to fear."

Since the Banca Romana was relieved, first through the Government's interposition and the considerateness of the Banca Nazionale, then by laws and royal decree, of the obligation of redeeming its notes, and since this relief was the cause of its being able to violate the law anew more freely and more recklessly, until it reduced itself to a disastrous condition, the inquiry into the responsibility on this most important point appears fully justified. Now, from the words of the spokesman of the committee quoted here, it is seen very clearly that the ministry had

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not, in its somewhat hesitating procedure, entirely satisfied the desire of the committee and the Chamber; the committee was distressed because the ministry had not dared to solve the problem more quickly; to be more specific, it wished to insert a modification, approved by the Chamber, by which the Government was obliged to present the royal decree within two months of the publication of the law. All this confirms, in an eloquent way, all that we have said about the surrounding conditions of the Italian Parliament with regard to the banking problem in general and the relations among the various banks of issue in particular. The solicitude of the Government for the minor banks, which has been pointed out in connection with the bill presented in 1888, was nothing but acquiescence in the sentiment prevailing, for reasons and considerations of a regional nature, in the Italian Parliament.

And, in particular, as for the accusation made against Signor Luzzatti of not having opposed the publication of the decree which effectively abolished the mutual redemption of notes, when he certainly must have known the ruinous conditions of the Banca Romana, it must be stated that he was absolutely ignorant of those conditions. Nevertheless, Signor Luzzatti, not being perfectly tranquil about it, had intended to arrange for an unexpected examination of the Banca Romana before presenting the bill of 1891 and consenting to the publication of the decree on the mutual redemption of bank notes; and he had mentioned this plan of his to the general director of the Banca Nazionale and the general director

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of the treasury, Signor Carlo Cantoni; these men, of one accord and insistently, advised the minister against making the inspection. Signor Grillo, supposed to be such a bitter enemy of the Banca Romana and its governor, declared to Signor Luzzatti that it was his firm conviction that the Banca Romana was in perfect order; and judging its governor too shrewd to have fallen again into past errors, concluded by advising the minister against making a fruitless inspection which would "raise an uproar in the camp" and disturb the market, which was already getting out of control. Besides, it is well to call to mind that, as it was ascertained in the year 1893 by the parliamentary committee of inquiry on the banks of issue, the minister of agriculture, industry, and commerce had also maintained that an unexpected examination of the Banca Romana would be neither useful nor opportune.

In the meantime the Government had published the decree that in execution of the law recorded June 30, 1891, fixed in the following figures the maximum amount of notes the banks could keep in circulation at the ratio of four times the paid-up capital for banks that have shareholders, and of four times the free capital possessed by the two banks at Naples and Sicily:

	Lire.
Banca Nazionale nel Regno.....	600, 000, 000
Banco di Napoli.....	242, 160, 600
Banca Nazionale Toscana.....	84, 299, 900
Banca Romana.....	70, 019, 500
Banco di Sicilia.....	48, 000, 000
Banca Toscana di Credito.....	20, 000, 000
	<hr/> 1, 064, 480, 000

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an excess of 308,750,000 lire beyond the amount granted by the law of April 30, 1874, an excess which thus became legalized.

This situation, however, being considered abnormal, the Government, as we have seen, had decided upon presenting an organic bill on the institutions of issue. Meanwhile the articles of the law of June 30, 1891, by the penalties to be applied in case of an excess of circulation, and by the necessity of the metallic reserve of one-third as a cover for the circulation, had helped slightly to improve the situation.

From June 30, 1891 to February 29, 1892, the circulation was diminished from 1,139,000,000 lire to 1,030,000,000 lire; the reserve was increased from 425,000,000 lire to 435,000,000 lire.

The bill for the regulation of the currency, presented by the Government April 1, 1892, deserves to be examined specially, as we have said, in the part which reveals its intimate belief in the superiority of the unity of issue. This end the Government did not, however, expect to attain, because, as it declared in the learned report which preceded it, it intended to "insure more fully the observance of the articles of the law, to reenforce notably the banking regulations, and to make up for the lack of unity of direction of the institutions, not wishing to organize a big institution on the ruins of these minor ones as has been done elsewhere, in order not to offend public interests, customs, and venerable traditions."

The bill proposed the forming of an association between the banks of issue which should serve to establish and maintain constant relations among them, and in certain

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matters, especially in fixing the discount rate, to give a unity of direction to their action. To the association was also intrusted, under the surveillance of the Government, whatever concerned the manufacture of bank notes and their distribution among the banks, and likewise the treasury service of the State.

The bill contained various other wise provisions which it is not necessary to mention, because, with the unlucky fate that had always pursued the numerous bills for Italian banking reform, this one also fell through with the downfall of the Rudinì Ministry, whose minister of the treasury, as we have said, was Signor Luzzatti.

But, for the reason stated, it seemed useful to mention the proposal relating to instituting the association, because it represents almost a middle term between the unity of issue, the value of which was henceforth recognized, and plurality, which "venerable customs and traditions made it impossible to abolish."

CHAPTER VIII.

THE FAILURE OF THE BANCA ROMANA AND THE CRISIS OF 1893.

To the Rudinì Ministry succeeded the ministry presided over by Signor Giovanni Giolitti, whose minister of agriculture, industry, and commerce was Signor Pietro Lacava, and of the treasury was Signor Bernardino Grimaldi, who had already held the same office in preceding ministries. These were the two ministers to whom, in conformity with the law then in force, was entrusted the vigilance over the banks of issue and whose concern it was to propose the modifications of the banking law.

But before the ministry could reduce its studies to concrete terms and present its proposals to Parliament, public opinion began to show itself anxious and uneasy about the situation of the banks of issue in general, and that of the Banca Romana in particular. Having been freed from all further check or restraint by the royal decree of August 1, 1891, which absolved it from the obligation of redeeming its notes, the Banca Romana, which was already in a disastrous state, went headlong on the road to ruin. Its circulation, which amounted to 72,000,000 lire in 1891, rose to 112,000,000 lire in 1892 and to 137,000,000 lire in January, 1893, going down to 129,000,000 lire on July 31 of that year. The bank, in order to maintain in circulation the notes which the public rejected, had tried to open an office at Milan and branches in other cities of upper Italy, but without any success. The notes of the Banca Romana, which had not succeeded in pene-

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trating to the rest of the Kingdom were flooding the Roman Province.

The situation of that bank gave rise to discussion in the Italian press, and abroad also a few cries of alarm were uttered. It was supposed that Minister Grimaldi, who was bound by ties of friendship to the governor of the Banca Romana, would propose not to modify the banking system, and to make this bank the concessions that it was asking for, by increasing its capital and privilege of issue. It was then that someone advised Minister Grimaldi to reject every proposal of this kind, and to take steps, instead, for liquidating the Banca Romana and merging it with another bank. The minister was warned in a friendly way that if he intended to continue the privilege of issue for a bank which was in a disastrous financial and moral condition, the whole report of the inspection made of the Banca Romana in 1889 would be brought to the knowledge of the public. This report Minister Miceli had not even communicated to the council of ministers, before which he had confined himself to saying that he had provided for eliminating a few unimportant irregularities, as a result of the inspection of the bank.

But Grimaldi, who had meantime determined to present a bill for continuing the existing state of things for six years, not only paid no attention to the warning, but continued, in sheer bravado, to the point of supporting the governor of the Banca Romana in the ministerial council and obtaining his nomination for senator. This was the spark that started the conflagration. Maffeo Pantaleoni, the illustrious economist who is an honor to Italy, and

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who had sent to Minister Grimaldi, by a common friend, the warning mentioned above, could no longer restrain himself in the face of what he considered a challenge. Being in possession of a copy of the report on the inspection of the Banca Romana, he selected two deputies of opposing parties in the Chamber, Signor Colajanni from the Left and Signor Gavazzi from the Right, and, advising them of the very damaging facts charged against the Banca Romana, persuaded them to carry the question to the Chamber; this duty, in the interests of public credit and morality, they accepted willingly. The impression produced in the Chamber by the revelations of the two deputies was enormous; it was a distressing impression because of its moral seriousness and alarming because of the revelation of a most disastrous state of things, which would cause serious injury to Italian credit.

Signor Giolitti, president of the ministerial council, who in the most stormy moments of his long political career has fortunately been assisted and supported by a calm and well-balanced mind, did not wish in the midst of the furious outburst of political passions excited by the revelation of the sad state of the Banca Romana, to grant the proposal of nominating a parliamentary committee of inquiry, and advised instead proceeding first of all and immediately to the nomination of an administrative committee for the purpose of requiring an inspection of all the banks of issue, in order to find out their condition. This did not succeed, however, in quieting the excitement; because even if the announcement of the nomination of that committee was at once sufficient to satisfy the legitimate

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desire for enlightenment of all the men who were working quietly for the public good, it was not enough for the politicians, who had suddenly scented, in the sad rottenness of the Banca Romana, a most excellent excuse for giving free play to the cannibal instinct that distinguishes them from the rest of the human race. However that may be, it was quite impossible to prevent the opposition from choosing the propitious occasion of the very grievous disorder that reigned in Parliament to try to bring about the downfall of the ministry.

Without entering now into the political side of the situation, it should be stated that the ministry, abandoning the scheme for prolonging the existing state of things for six years, suddenly set to work energetically, as the gravity and urgency of the situation demanded, to provide for bestowing better regulations upon the banking system; for this there was no need to await the final result of the inspection of the institutions of issue. What was already known was sufficient to give a clear, if not complete, idea of the situation of the banks and the currency; in the gravity of this were seen reflected all the effects of the errors committed, and principally of that greatest error of having allowed to subsist for so many years a hybrid system of banking plurality in a country which, by its peculiar conditions, needed more than any other the valuable support and the valid, efficacious working of a single strong and respected institution of issue.

The plurality of banks had excited rivalry between the institutions, and, in the midst of the struggle, they had lost the sense of prudence and measure; instead of being the supreme regulators of the circulation and credit, they

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had become facile distributors of bank notes, encouraging all sorts of irregular and immoderate undertakings. The abuse of credit resulting from the conduct of the Italian banks of issue had in fact promoted many undertakings of a speculative nature, without foundations, and sometimes without honesty; it had piled up an edifice, which, superficially considered, might give the illusion of solidity and prosperity, but which was doomed instead to fall at the first touch, at the first breath of wind. The bank note considered as capital had been devoted to all kinds of uses, even those least adapted to its nature and involving the greatest risk.

And yet, if we consider that no undertaking succeeds, especially in our own time, unless it is moved and animated by the violent puffing of speculation; if we consider that even in countries more solidly and longer organized, and more seasoned to economic struggles, the same thing has happened that happened in Italy, it would appear that, although deploring the moral disorders and the great waste of economic energy, some sort of explanation ought to be found, which, if it does not justify the work of all those who, from top to bottom, were the cause of grave and lengthy banking crises, may at least lessen their responsibility (leaving aside, of course, those who were dishonest); for while the course pursued by these men resulted in harm on the one hand, on the other hand something good remains. There remains the building renovation of the capital of the Kingdom; there remain the magnificent works of the sanitation of Naples; there remains the network of railroads, and the whole mass of public works completed in a quarter of a century.

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And there remains above all a notable inheritance of experience which offers sufficient guaranty that Italy will proceed from now on in the right path in all that concerns the government regulation of banks of issue and paper currency.

The situation of the banks had also made plain the disadvantages resulting from the intervention of the Government and politics in general in banking affairs, even if this intervention might seem justified by praiseworthy intentions and the desire for the public good.

In this regard bitter were the criticisms directed against the men in the Government who had interfered in banking matters and against the administrations of banks which had not resisted their pressure and had consented to give subsidies, useless for the building industry and injurious to the banks. The same thing happened now that had happened at the time of the abolition of forced currency. All those who in Parliament and the press had not only approved the subsidies, but insistently demanded them, now became the most violent accusers of the Government and the banks.

Nor was this change of opinion confined to those who had neither discernment, ability, nor learning to express an intelligent opinion on the question, since it was evident also in men who because of their education and social and political position were rightly considered capable of expressing thoughtful and weighty opinions. An influential member of Parliament at the time of the subsidizing of the building industry wrote: "The intervention of the Banca Nazionale was not only legitimate and praiseworthy, but right. This is the true

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function of the great institutions of issue—to collect and concentrate their own resources in order to be able to support credit in difficult moments.” He then attacked bitterly the basis of the banking project of the Government, because he saw in it the “continuation of the baneful system of banking subsidies, which, beginning with the Esquiline undertaking and followed by the Banca Tiberina, was the cause of Italy’s greatest calamities.”

Very rightly the general director of the Banca Nazionale in the report to the shareholders for the year 1893, the last year of the existence of the bank, could assert in summing up the vicissitudes of the institution: “It has often been said that the bank should have looked on with indifference at the disasters that were piling up around it, but I have the right to record that these tardy reproofs came to us principally from the very people who had most loudly requested or demanded the aid and help of the bank.”

Another severe lesson coming from the discovery of the conditions of the Italian banks was the admonition to consider that the first and strongest guaranty of bank notes in circulation is metallic money.

CHAPTER IX.

EXAMINATION OF THE BANKING ACT OF AUGUST 10, 1893.

Given the three points stated above—that is, the disadvantages of the plurality of banks of issue, the intervention of the Government and politics in banking affairs, and the necessity of large metallic reserves as a guaranty for paper currency—it would seem that the course to be followed was clearly indicated by the examination of the situation and the causes that had created it. The logical solution of the banking problem, unsolved for some twenty years, which was indicated and almost demanded by experience and the situation, seemed to consist necessarily in the organization of a single great bank of issue, protected by precise legal enactment from all political influence and provided with a large metallic reserve for the greater guaranty of the notes in circulation.

With regard to the first point, the solution was forwarded by an agreement promptly arranged between the Banca Nazionale nel Regno and the two Tuscan banks. By this, leaving out the Banca Romana, the banks of issue, organized under the form of a joint stock company, were reduced from four to one. There remained the arranging for a fusion of the Bank of Naples and that of Sicily, or for their transformation into local institutions of agricultural or land credit, of which southern Italy was in great need; but no attempt of this kind was possible. This is certainly a point in the history of Italian banking that will doubtless seem inexplicable to one who examines it

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at a distance in time, in and by itself, independently of the surroundings and the conditions of the moment.

As we have seen from the brief historic note on the origins of the two banks of Naples and Sicily, they were considered institutions of southern Italy, for which the population of the south cherished the kind of affection that is inspired by national glory. To make an attack upon the integrity of these two banks was to offend the local sentiment of that population and likewise arouse against the ministry the violent opposition of the Neapolitan and Sicilian deputies, united and firm in demanding that the two banks be preserved with absolute autonomy and complete independence. Among the few who were an exception to the rule we should record, by way of praise, Deputy Saporito, a Sicilian, who in a speech to the electors had the courage to proclaim the necessity of creating in Italy a single great bank of issue.

If we consider what were then the surrounding parliamentary conditions, agitated by the raging of violent passions, and what must have been in consequence the position of the ministry, it will be easy to understand how the ministry could not even distantly hope to be able to win the great battle in favor of a single bank, since it would have been inexorably overthrown if it had even expressed such an intention.

The Government, therefore, was obliged to limit itself to proposing the ratification of the fusion of the three banks, the Banca Nazionale nel Regno, the Banca Nazionale Toscana, and the Banca Toscana di Credito, and the creation of the Bank of Italy; to continue the privi-

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lege of issue for the banks of Naples and Sicily and erect on this foundation the new legislative structure on the currency.

Before proceeding to the examination of the articles of the new law, we should state that very violent opposition was raised against the plan of the Government, in so far as it tended to keep in operation the existing institutions, some merged, others autonomous. Deputy Sidney Sonnino, one of the most cultivated and influential members of the Italian Parliament, now president of the ministerial council, published a note in which, after making a careful examination of the conditions of the three banks which were to constitute the Bank of Italy, he showed that this institution could not be organized on a successful basis, and in concluding his study expressed the opinion that the better plan would be to liquidate the six banks of issue and create out of them a single entirely new bank. Although the opinion of Signor Sonnino on the situation, and especially on the conditions in which the projected Bank of Italy would be placed, was considered exceedingly gloomy, the facts were destined to show that he had been, instead, too optimistic. Indeed, whereas he had calculated that the Bank of Italy, provided it did not suffer other losses, would not be able to give the shareholders a dividend of more than 4.50 per cent on the paid-up capital, the dividend was 15 lire for the first year of 1894, 17 lire in 1895, and in various succeeding years, until 1905, 18 lire, equal to about 2½ per cent. This is sufficient proof that the true situation of the Italian banks of issue had not yet been grasped in all its gravity, even by the keenest inquirers. How-

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ever, the calculation made by Signor Sonnino made a great impression because it signified that the shares of the Banca Nazionale, at 1,000 lire nominally, with 750 lire paid up, which had been quoted at about 1,285 lire, would have to decline to about 1,000 lire. Even this calculation was extravagantly optimistic, since the shares of the new Bank of Italy from a nominal value of 1,000 lire with 700 lire paid up, declined in December, 1894, to a minimum quotation of 750 lire.

Two very distinct programmes meanwhile were under discussion. First, the plan supported by Signor Sonnino, in which few others acquiesced, consisting as we have seen, in the liquidation of all the existing banks and the building from the foundations of a new banking régime with a unified system; second, the plan to which adhered both the partisans of a unified system and the partisans of a system of plurality, which took definite shape in the preservation of the three banks, subjected to a rigid discipline which would make possible the gradual liquidation of the operations not in liquid form or otherwise not suitable for banks authorized to issue notes.

If the proscribed programme of Signor Sonnino did not, with few exceptions, have the support of the partisans of unity, it was because it seemed extremely dangerous to decree the liquidation of the six banks of issue during the very serious crisis from which Italy was suffering. It seemed to the majority that the better plan would be to proceed cautiously and by degrees, beginning by restoring a little order to the great banking chaos, and by providing, through rigid and severe rules, to prepare the way for the gradual reform of the situation, and prevent

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the repetition of past errors. Besides, the programme of Signor Sonnino could not in any case have been approved, because of the very decided opposition of the southern deputies who, for the reasons stated, wished the two banks to be continued.

It was for this reason that in spite of the lively opposition manifested in the long and not always calm discussion, the president of the ministerial council, Signor Giolitti, gave proof of extraordinary energy and great competency, and succeeded in getting the new banking law passed. This law at the very difficult moment in which it was discussed and ratified, because of the violent dissension that raged in the Chamber, and because of the abnormal conditions of the banks, could neither be made perfect nor final.

It was necessarily a transitional law, of a kind to make possible the understanding of the programme for bringing about the gradual reform of the currency and the banks of issue, a plan which had been judged more practically attainable.

The new law, promulgated under the date of August 10, 1893, authorized the fusion of the Banca Nazionale nel Regno with the Banca Nazionale Toscana and the Banca Toscana di Credito, and the creation of a new bank which assumed the title of the "Bank of Italy." The capital was placed at the sum of 300,000,000 lire, divided into 300,000 registered shares of 1,000 lire each, with payment of 700 lire. The paid-up capital was thus raised from 176,000,000 to 210,000,000, and the shares were distributed among the shareholders of the three banks as follows: To the shareholders of the Banca Nazionale 214,289 shares in exchange

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for the old ones; to the same shareholders, at option, 48,718 shares; to the shareholders of the Banca Nazionale Toscana 30,000 shares; to the shareholders of the Banca Toscana di Credito 8,000 shares.

The maximum amount of notes that the Bank of Italy and the two banks of Naples and Sicily could keep in circulation was fixed, for four years, at the sum of 1,097,000,000 lire, divided as follows:

	Lire.
Bank of Italy	800, 000, 000
Bank of Naples	242, 000, 000
Bank of Sicily	55, 000, 000

After four years the circulation was to be gradually diminished by a graded yearly quota, so that when fourteen years had elapsed after the promulgation of the law it should be reduced to the following proportions:

	Lire.
Bank of Italy	630, 000, 000
Bank of Naples	190, 000, 000
Bank of Sicily	44, 000, 000

The total circulation thus amounted to 864,000,000 lire, corresponding, for the Bank of Italy exactly, and for the two banks of Naples and Sicily approximately, to three times the paid-up capital of the one and the free capital possessed by the others.

The reduction of the maximum of circulation was justified by the gradual liquidation of operations non-liquid in form or not allowed under the new law, a liquidation which would automatically reduce the mass of bank notes in circulation. The banks which, at the end of fourteen years, should not possess a capital corresponding to a third part of the circulation allowed them would be obliged within three months to reduce this circulation

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by the amount in excess of three times their paid up or free capital. The circulation taken away from one bank was to be granted to such others as should possess or pay up the capital corresponding to and available for the triple issue. The auditing of the paid up or free capital was intrusted to a commission composed of seven members, two to be chosen from the Senate, two from the Chamber, and three to be nominated by royal decree.

The above limits did not include bank notes that the banks could issue, without restriction as to amount, provided they were entirely secured by legal metallic money or by gold bars deposited in the coffers, and the notes issued for ordinary or extraordinary loans to the State treasury.

The holders of notes had the right to demand their redemption in metallic money in the cities of Rome, Bari, Bologna, Cagliari, Catania, Florence, Genoa, Leghorn, Messina, Naples, Palermo, Turin, Verona, and Venice. This article, which was already included in the preceding laws, could not, however, be enforced, since enforcing it would have led to the exhaustion and exportation of the metallic reserves of the banks of issue, because of the dearness of exchange.

The new law confirmed for five years the legal currency of the notes of the three banks in the provinces in which they had their own establishments and representatives. It is to be stated that the legal currency was destined to be successively confirmed from year to year and is still in force. During the legal currency the discount rate was to be the same for the three banks and could not be changed without the permission of the Government.

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They could, however, discount at a rate 1 per cent below the official rate paper presented by people's banks and institutions of discount and agricultural credit, organized to serve as intermediaries between the small trade and the banks of issue, and for the discount of warrants of general warehousing and consignments free of taxation (*franchi depositi*). The discount at special rates was to be limited—

	Lire.
For the Bank of Italy.....	70, 000, 000
For the Bank of Naples.....	21, 000, 000
For the Bank of Sicily.....	4, 500, 000

Each bank was obliged to accept through the operations of any kind the notes of the other banks in the cities in which they had legal currency.

The rules for the mutual redemption of notes among the banks were to be established by royal decree and presented to Parliament within the year 1893, to be converted into a law.

The metallic reserve was to be increased within a year from 33 per cent to 40 per cent of the notes in circulation, 33 per cent of which was to be composed of Italian specie, of foreign coin admitted to legal currency in the Kingdom, and in bullion in the ratio of at least three-quarters in gold and one-quarter partly in silver coin; and as for the remaining 7 per cent, it could also be composed of foreign bills of exchange on firms of the first order, recognized as such by the Minister of the treasury. A like reserve of 40 per cent was established as a guaranty of the debt of the banks represented by promissory notes, checks, bank transfers, and other paper payable at sight, and without exception all paper payable to bearer.

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The article that authorized the banks to include in the metallic reserve foreign bills of exchange was successively amplified as for the quantity and character of the obligations so as to permit adding thereto treasury bonds of foreign states with a normal metallic circulation, and also certificates of deposits of money with foreign banks and bankers who were correspondents of the Italian treasury. The above provision was framed for two different reasons: The one, of utility to the banks of issue, a part of whose reserve it rendered fruitful, with the advantage of the reconstruction of their free capital; the other, of monetary utility, since it allowed the banks to have a part of their funds in foreign countries, which might serve as a powerful protection in case of monetary disturbances and high rates of exchange. From this point of view, Italy introduced into its banking legislation a provision already tried to advantage in other countries, such as Germany, Austria-Hungary, Russia, Switzerland, Holland, Belgium, and Spain.

By article 9 of the law it was stipulated that the manufacture of bank notes should take place, in conformity with special regulations, under the cooperation of the State and the banks.

The tax on circulation was fixed at 1 per cent of the average total of bank notes, after deducting the metallic reserve.

The banks would pay, therefore, beside the tax of 1 per cent, an extraordinary tax corresponding to double the discount rate on the excess of circulation and the deficit of metallic reserve.

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Article 12 was particularly interesting; in this were indicated the operations that the banks could carry on, that is, discount of bills of exchange having not more than four months to run and bearing the signatures of two or more persons known to be solvent; of treasury bonds; of warrants issued by societies of general warehousing and consignments free of taxation (*franchi depositi*); of coupons of securities admitted in loan operations. Loans, for not more than six months, on government securities or those guaranteed by the State; on mortgage certificates issued by realty credit institutions; on gold bonds issued or guaranteed by foreign states; on gold and silver coin, national or foreign, at legal currency, and gold bars; on silk raw and in organzine or woven, and on silver bars estimated at not more than two-thirds of their value; on certificates of warehousing and consignments free of taxation (*franchi depositi*); on orders in merchandise or sulphur, not over two-thirds of the value; on certificates of consignments of spirits and cognac, placed in the warehouses legally established, for not more than half the value.

Cash purchases and sales on account of the banks themselves of foreign drafts and checks and foreign bills of exchange of not more than three months' currency, payable in gold, bearing two or more signatures known to be solvent. These operations could not, during the legal currency, without the permission of the minister of the treasury, exceed the limit necessary for refurnishing the metallic reserve or satisfying the needs of the treasury. The banks were to liquidate in two years securities, certificates, and goods held in payment of or as guaranty for their credit, and within three years the mortgages or real estate obtained for overdue credits.

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The banks could hold a quota of Italian government stock for a value not exceeding:

	Lire.
For the Bank of Italy	70, 000, 000
For the Bank of Naples	21, 000, 000
For the Bank of Sicily	4, 000, 000

The banks of issue could receive deposits on interest-bearing accounts current; in case, however, the total of accounts current exceeded:

	Lire.
For the Bank of Italy	130, 000, 000
For the Bank of Naples	40, 000, 000
For the Bank of Sicily	12, 000, 000

the bank was obliged to reduce the circulation by three-quarters of the excess. The interest on accounts current could not exceed half the discount rate during the first three years and one-third in the following years.

Realty credit operations were forbidden. The banks could continue winding up the operations which had been proposed until July 1, 1893. All uncovered operations in accounts current were forbidden.

The Bank of Naples was authorized to continue its pawn operations. The banks were allowed to assume the office of provincial receivers of the direct taxes.

The Bank of Italy, the Bank of Naples, and the Bank of Sicily were obliged to liquidate in ten years, at the rate of one-fifth every two years, operations other than those permitted by the new law. Obligations settled with the statutory reserve could be considered liquidated. In case of not completing in each two years the liquidation of a fifth of the operations, the Bank of Italy would have to ask the stockholders, within the limits of the nominal capital, for the payment of the sum needed to complete the obligatory liquidation. The Banks of Naples and of Sicily were to

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devote all profits to the completion of the obligatory liquidation. For banks which had not conformed to the above provisions of the law the privilege of issuing bank notes would be suspended for a sum four times the amount needed to complete the obligatory liquidation. The banks which had carried on operations forbidden by the law would be liable for a tax equal to three times the discount rate, calculated on the whole duration of the operations.

To prevent the banks from being induced by their own initiative or by pressure from the Government to carry on operations of special character having in their form only the appearance of legality, the general directors and the councils of the three banks were not allowed to conclude discount operations, and it was stipulated that no bill of exchange should be admitted to discount without the sanction of the discount commission of the establishment or branch to which it had been tendered. At the end of each fiscal year the amount of the bills overdue and unpaid was to be charged to loss; that of the bills subsequently recovered was to be added to the profits of the year in which the bills were paid.

The law granted the reduction of three-quarters of the registration fee of deeds of sale or purchase of real estate, and releases of credits made for the liquidation of operations not admitted by the said law.

The law authorized, moreover, the banks of issue to intrust, in whole or in part, the liquidation of operations not in liquid form to an institution which should be created with a capital of no less than 40,000,000 lire, to

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which the Government could make special concessions. But the banks did not need to avail themselves of this faculty.

There followed in the law the stipulations concerning the organization of the government inspection of the banks and severe penalties for fraudulent infractions of the law; next came provisions as to the liquidation of the Banca Romana, which had been assumed by the State, and by it delegated to the Bank of Italy, which was to pay on account of the liquidation 2,000,000 lire a year during ten years.

An article of the law stipulated that members of Parliament could not fill any office, with or without remuneration, in the banks of issue.

As we have seen, the new law corresponded in its general outline to the programme that had been chosen as the one that appeared best adapted to the conditions of the moment, consisting in assuring the gradual liquidation of the burdensome inheritance left by the stormy vicissitudes of the past to the Italian banks, and in providing at the same time for surrounding the further action of the said banks with timely precautions, subjecting them to salutary checks rendered efficacious by severe penalties so as to avoid new mistakes and disorders.

With the exception of a few details of small importance arising from the different character of the three banks, the law subjected them all to the same regulations, and the severe regulation of the government supervision insured that the action of the three banks in observing the said law should be uniform, as if there were in fact one single bank of issue.

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And while in this way were obviated the dangers of the plurality of banks, of which Italy had made a very dismal trial, or at least the disadvantages of the system were diminished, provision was made by increasing the metallic reserve for removing the other cause, already stated, of the inferiority of the Italian paper currency. As for the meddling of politics in the management of the banks of issue, it was supposed to be provided for by the law stipulating that senators and deputies could not hold office in the banks.

This provision, which was rightly said to savor of Jacobinical distrust, was not included in the bill presented by the Government and was added during the discussion in the Chamber. It was not, however, in any way justified, since it had not appeared, and did not appear later from the parliamentary inquiry that there had been in Parliament members of the council of banks of issue, who, abusing their function as senators and deputies, had harmed the banks or had in any way whatsoever in their double capacity as politicians and as administrators of the banks of issue committed dishonest acts such as would justify the incompatibility established. The effect of that provision of the law was, meanwhile, to deprive the banks of men of great authority and unquestioned uprightness, such as Senator Tittoni, afterwards foreign minister; Senators Balestra, Lancia di Brolo, Ridolfi, Chiaramonte Bordonaro, and Deputy Giuseppe Pavoncelli, later minister of public works. Besides, this law forbade and still forbids the King to confer the dignity of senator on men who in the administration of the banks of issue render themselves worthy of public honor.

CHAPTER X.

THE PARLIAMENTARY COMMITTEE OF INQUIRY—AGGRAVATION OF THE FINANCIAL AND ECONOMIC SITUATION—FINANCIAL AND BANKING PROVISIONS OF MINISTER SONNINO AND THEIR EFFECT.

The law of 1893, although not perfectly successful, necessarily, perhaps, because of the condition of things and the general anxiety, was none the less of a kind to quiet uneasiness and to cause a revival of confidence in a gradual amelioration of the circulation and the banks, but it did not succeed in accomplishing the desired result. Political passions, instead of calming down, grew more inflamed, while at the same time the results of the inspection of banks showed that their situation was much more serious than had been supposed in the beginning. The Government now recognized the necessity of allowing the nomination of a parliamentary committee of inquiry, charged with ascertaining any incorrect relations of politicians and the public departments with the banks of issue. Although the committee of inquiry was composed of honorable and authoritative men, it did not succeed in entirely escaping the influences of the surrounding parliamentary agitation and was not always conducted with calm impartiality. Thus, when it ascertained the loan mentioned above of 8,000,000 lire made by the Banca Nazionale to the Banca Romana, the committee bitterly reproached the Banca Nazionale, declaring it did not seem credible that it should have been ignorant of the condi-

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tions of the Banca Romana, as if insinuating that, although knowing them, it had consented to help hide them. To this insinuation, which had suggested to Deputy Cavallotti laying before the government the before-mentioned inquiry, the general director of the Banca Nazionale replied scornfully and haughtily in a letter published in the newspapers.

The presentation to Parliament of the report of the committee of inquiry unloosed a furious tempest, in the presence of which the ministry resigned. It may well be suspected that the ministry was violently attacked in some quarters also for having dared to probe to the bottom the affairs of the Banca Romana, to the point of allowing the legal authorities to proceed to the arrest of the governor and the head cashier of the bank and other supposed accomplices. Even if the attacks against the president of the council were apparently justified by an unfriendly judgment expressed in his regard by the committee of inquiry, in reality the united opposition which could not in good faith ignore his personal integrity, had found itself agreed upon the aim of ruining the ministry. And that was neither the first nor the last time in which a ministerial crisis was produced in Italy as the result of an event for which the ministry was not at all responsible.

The inordinate clamor which political passion had raised over the fall of the Banca Romana and the excessive exaggeration of accusations and charges seemed to justify the suspicion that all the political, economical, and banking life of Italy was corrupt. Naturally all this could not fail to produce harmful effects on the public credit. And in truth the period between the middle of 1893 and the middle

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of 1894 may be considered in every respect one of the darkest and most distressing through which new Italy has passed. Government rentes went down on the Paris market from a maximum quotation of 93.50 to a minimum of 72, due likewise to the distinct resumption of hostilities by the French market as a result of the painful conflict started at Aigues Mortes between Italian and French workmen, which helped to aggravate the situation in Italy. As a necessary consequence of the fall in rentes, exchange went up from the rate of 102.30, the maximum point touched in 1892, to the maximum of 115.95, a rate never reached before that time.

But whether as a coincidence or reflex of the banking crisis, not only did the conditions of credit in general and national economy appear grave, but also those of the public finances. The budget which had closed with a surplus of more than 9,000,000 lire for the financial year 1892-1893, now showed a great deficit, without taking into account the increase of debts incurred under various forms and the expedients which were resorted to in order to provide for the ever increasing needs of the treasury.

The Giolitti Ministry was succeeded by a new Crispi Ministry, in which Signor Sidney Sonnino accepted the treasury portfolio. His first effort was devoted to making an accurate, profound analysis of the actual conditions of finance in relation not only to the account of revenues and ordinary expenditures, but also to the situation of the treasury and the amounts extraordinary for building railroads and many other needs of the State. The result of his conscientious study was the discovery of

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a situation which the minister did not hesitate to declare very serious, which he summed up: In a deficit of 155,000,000 in the ordinary expenditures; in a treasury debt of 565,000,000, which needed systematizing; in the abnormal conditions of circulation; in the uneasiness that, as a result of an economic derangement felt by everyone, was spreading over the country. And, making a brief analysis of the causes that had led Italy into the sad condition ascertained, he did not hesitate to declare that these causes must be found in the waste made of money amounting to millions and billions, borrowed without due forethought and used in unproductive or unnecessary expenditures. He bitterly reproved Parliament for deluding itself and the public during fifteen years as to the real condition of the public finances, and, in conclusion, made a lively appeal for energetic and virile action to save the country from the financial and economic ruin that threatened it.

The stubborn optimists tried to reprove Signor Sonnino for depicting the situation in such very dark colors; but they did not succeed in lessening the great impression produced by the courageous exposal made by the minister of the actual conditions of the country and finance. Signor Sonnino was, therefore, as will be seen later, as energetic in the cure of the trouble and fortunate in its issue as he was merciless in its diagnosis.

But even before he had arranged in concrete form the provisions aiming at the systematizing of the treasury and restoring finance, he was obliged to intervene speedily in order to avoid the aggravation of the monetary and economic situation of the country.

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The considerable decline of the Italian rentes in Paris provoked a grave crisis on the Italian stock exchanges, a crisis that overwhelmed the two biggest credit institutions then existing, the Credito Mobiliare Italiano and the Banca Generale, one with a paid-up capital of 60,000,000 lire, the other with a paid-up capital of 30,000,000 lire. The failure of these institutions was the chief cause of the aggravation of the situation. Securities continued to decline sharply in a way never before witnessed, and the panic seized even depositors, who crowded to the doors of the banks and savings institutions in order to obtain immediate payment of deposits. The situation then appeared terrifying and threatening. The minister of the treasury, Signor Sonnino, and the minister of agriculture, industry, and commerce, Signor Boselli, to save the country from the most serious consequences, were ready to provide, through royal decree of the date of January 23, 1894, for placing the banks of issue in a condition to come to the aid of the very grave situation. The royal decree authorized the banks to issue notes beyond the normal limits up to the amount:

	Lire.
For the Bank of Italy	90, 000, 000
For the Bank of Naples.....	28, 000, 000
For the Bank of Sicily.....	7, 000, 000

on condition of the payment of a tax equal to two-thirds of the discount rate, instead of double the discount rate as stipulated in the law of August 10, 1893. The notes were to have the required metallic reserve. The same royal decree suspended the provision of the law by which the banks were obliged to reduce the circulation by three-quarters of the amount of the deposits in accounts current,

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in addition to the sums indicated. So, twenty-three days after that banking law had gone into force, it was necessary to provide for modifying it temporarily. The effect of the royal decree was salutary, because it succeeded in stopping the run of depositors on the banks and savings institutions by the influence of that phenomenon of a psychological nature which is always evident in similar cases.

Viewed as a whole, the very grave banking crisis that Italy suffered from at that time may be considered as the inevitable result of the failure to keep in mind the rules that must always guide the management of the banks of issue and the institutions of credit. The banks of issue, for reasons already stated, were impelled and forced to disregard the principles that must govern the activity of banks authorized to issue paper money; the institutions of credit, because of a mistaken estimate of the economic conditions of the country, forgot that institutions that operate in large part with the money of depositors must use the greatest care to avoid tying up the capital, which may be, as it was then, as it had been before in other countries, as it will doubtless be in the future, a cause of economic crises and of inevitable ruin for these institutions. In the face of the painful results of experience discussions then arose in Italy that were to arise in 1907 in Germany and Italy with regard to the perils that may be incurred by institutions of credit which employ too large a part of the depositors' money in direct participation in industrial undertakings and in affairs of a speculative nature.

The Banca Generale and the Credito Mobiliare went into a forced liquidation, the result of which showed that

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the first would have been strong enough to live on a basis of its own if it had not been overturned by the fury of the blast that made it impossible to examine its situation calmly and shut out the aid that could have been afforded by suitable and relatively limited means.

The Government then showed the desire to know with greater exactness the conditions of the banks of issue in order to see whether it was possible for them to conform to the stipulations of the law of 1893, and a ministerial decree of February 15 arranged for a complete new inspection of these banks in order to ascertain the solidity of their financial situation and the amount of operations not in conformity with the law, likewise the situation of the cash and circulation.

The work of the ministry in the matter of finance and circulation entered then upon a period of truly feverish activity. By royal decree of February 21, 1894, converted into a law July 22, 1894, the treasury was authorized to increase the circulation of state notes to 600,000,000 lire, comprising in that sum 200,000,000 lire which the treasury was to furnish the banks of issue in exchange for the same amount in gold that they had been forced to set aside at the disposal of the treasury, to be distributed as follows:

	Lire.
Bank of Italy	145, 000, 000
Bank of Naples	45, 000, 000
Bank of Sicily	10, 000, 000

The state notes were as a matter of fact declared at forced currency, since their exchange into metallic money was suspended and there had passed into full possession and disposal of the treasury certificates of public debt for

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the amount of 367,750,700 lire, which were deposited as a guaranty for the said notes. In such a way the state notes which had been thus created originally in 1881 for the sum of 340,000,000 lire, with a guaranty of 234,000,000 lire in rentes, and had risen by June 30, 1893, to 367,000,000; these notes which had been intended to be withdrawn and cancelled annually by the surplus of the budget were increased to 600,000,000 lire and deprived of all guaranty. The amount of 600,000,000 in state bank notes, authorized by the law of June 22, 1894, was never reached, for, including 558,000,000 lire in cash orders of 1 and 2 lire, created by royal decree August 4, 1893, and February 21, 1894, and 45,000,000 lire issued for the Bank of Naples, as will be shown presently, they reached a maximum total of 556,000,000 lire on June 30, 1898, and were reduced on June 30, 1899 to 434,500,000 lire, including 23,000,000 lire left over from the 45,000,000 lire issued on the account of the Bank of Naples, with a guaranty of gold specie to the amount of 176,700,000 lire.

The existence in circulation of state notes has often given rise to discussions in Italy, and it has been proposed several times to withdraw these notes. And, indeed, it does seem strange that the Government, which has rightly been concerned with the absolute necessity of reforming the banking currency, not only has never given a thought to reforming its own currency, but has, instead, made it worse. However, granting that the suppression of state notes would be useful to the country from the monetary point of view, it should be remembered, nevertheless, that most of the state notes issued do not burden the country, but are very willingly accepted for their great

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convenience in small transactions and are preferred to 5-lire silver pieces.

In fact, a great part of the state notes are sought for by Italian emigrants abroad, who prefer them to checks for sending small sums of money to Italy. And although in actual figures they show an increase from 1881 until to-day, yet, considered in relation to the increase of population and trade, and in relation to the total amount of the currency, they show, instead, a decrease. In 1889 having redeemed in specie nearly the whole of the association notes debited to the State, there were in circulation 1,116,000,000 lire in notes of the banks, compared to 334,000,000 lire state notes of 5, 10, and 25 lire. The proportion between the state notes and those of the banks was about 30 per cent, while at the end of 1908 the state notes amounted to 468,000,000 lire and represented 25 per cent of the total notes in circulation. Although there are in circulation silver coins for 1 and 2 lire and, in smaller proportions, 5-lire pieces, yet the fractional currency is shown to be rather deficient, especially in moments of greater need, determined by the silk market and the harvest of the principal agricultural products.

It must be understood, in any case, that the forced currency of the state notes was a provision of an absolutely extraordinary nature, made at a moment when it was important to regulate a most difficult and threatening situation, in which the conditions of the foreign market with respect to Italy and even more those of the home market, would not have permitted making an appeal to credit. It can not be said, indeed, that Signor Sonnino lacked the courage to act with energy, since, after taking

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exact account of the gravity of the situation, he considered all the means fitted to cope with it, not even stopping at the unpopular ones of increasing the existing taxes, and imposing new taxes, and the one, judged dangerous to Italian credit, of increasing from 13.20 per cent to 20 per cent the tax on personal property in government rentes.

This is not the place to examine all the provisions proposed by Signor Sonnino and approved by Parliament in order to relieve the conditions of the public finances and put new life into the depressed economic situation of the country; let it suffice to note here that the desired effect was quickly reached, since the budget of 1894-95 closed with a surplus of about half a million; Italian rentes in spite of the increase of the tax advanced on the Paris market to 91, and commercial activity, which had suffered a falling off, began to increase again.

We must return, however, to the banking provisions that Signor Sonnino, in agreement with Minister Boselli, proposed at the same time with the financial ones. A royal decree, carrying out the law of August 10, 1893, provided for regulating the method of the mutual redemption of bank notes among the banks of issue, so as to render it efficacious. The decree stipulated that the redemption should be effected without limitation and that on the sums remaining to the debit of a bank, interest should be reckoned in favor of the creditor institution.

The law of July 22, 1894 modified the provisions made under pressing necessity in January of the same year, relating to the excess of circulation of bank notes over

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the normal limits, establishing that the institutions could issue, respectively:

	Lire.
Bank of Italy	45, 000, 000
Bank of Naples	14, 000, 000
Bank of Sicily	3, 500, 000

on condition of paying a tax equal to two-thirds of the discount rate, and could further exceed the circulation by a like amount, on condition of paying a tax equal to the discount rate. The above-mentioned excess of circulation, however, was to be guaranteed by the prescribed metallic reserve in the ratio of 40 per cent.

As for the obligation to reduce the circulation by three-quarters of the excess of deposits in accounts current beyond the sums indicated, it was stipulated that this reduction should be limited to one-third.

The amount of statutory loans that the banks of issue were obliged to make the Government was fixed at 125,000,000 lire, distributed as follows:

	Lire.
Bank of Italy	90, 000, 000
Bank of Naples	28, 000, 000
Bank of Sicily	7, 000, 000

After settling that import duties were to be paid in metallic money, this law stipulated that for those not exceeding 200 lire state notes or bank notes should be accepted, with the addition of exchange. It further established that the banks of issue should provide certificates useful for the payment of import duties, by receiving a like amount in bank and state notes, without limitation as to amount, with the addition of exchange. In a special account current the banks were to be debited with the sums deposited for the issue of certificates and

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credited with sums paid abroad on account of the treasury. The differences resulting in profit or loss from this service were to be evenly divided between the treasury and the banks.

As long as the redemption of state notes in specie remained suspended, bank notes could be changed into state notes or into specie with the addition of exchange.

By royal decree of October 12, 1894, the government supervision of banks of issue, and the liquidation of the Banca Romana, undertaken first by both the minister of agriculture, industry, and commerce and the minister of the treasury, was intrusted exclusively to the latter.

Having provided by this and other provisions of minor note for regulating the various urgent questions concerning the currency and the treasury, Minister Sonnino made the banking law of August 10, 1893, the subject of careful study, in relation to the situation of the banks, which was henceforth more clearly defined because of the new inspection that had been applied to these banks. Operations that were not in a liquid form or not allowed by the new law were found on February 20, 1894, to amount to 638,366,685 lire—that is to say:

	Lire.
For the Bank of Italy	449, 420, 000
For the Bank of Naples	169, 613, 316
For the Bank of Sicily	19, 333, 369

However, more than half of the banking currency was represented by operations of difficult or tardy liquidation, or not suitable for banks of issue; operations among which noteworthy losses were concealed. Now that he was more directly informed of the actual facts, Signor Sonnino, minister of the treasury, who had returned

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to the ideas expressed at the moment of the failure of the Banca Romana, and had even rejected proposals that were made to him by foreign capitalists for the creation of a new bank of issue, could not neglect giving his attention to the conditions revealed in the Bank of Italy, and stipulated with it an agreement dated October 30, 1894, of which the principal points were as follows:

The assuming on the part of the Bank of Italy at its own entire risk and peril of the liquidation of the Banca Romana, relieving the State of whatever losses might result beyond the sums to be paid by the Bank of Italy at the rate of 2,000,000 lire a year.

The bank itself engaged to deduct from net earnings and to set aside 4,000,000 lire in the year 1894, 5,000,000 lire in 1895, and 6,000,000 lire in 1896 and the following years, until the end of 1903. These sums were to be invested in State securities or securities guaranteed by the State, to be used, together with the relative compound interest, for securing within ten years the liquidation of operations not realized on or not in conformity to the law, and to compensate for losses resulting from the liquidation of the Banca Romana over and above the annual payment of 2,000,000 lire.

The agreement, evidently anticipating provisions that Minister Sonnino already had in mind, which were as a matter of fact afterwards proposed and carried out, stipulated that if the time fixed at ten years for the liquidation of operations not in a liquid form or forbidden by the law should be prolonged, and consequently the two-year periods extended, the bank should continue for the longer time granted the setting aside of 6,000,000 lire of its

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profits. The Bank of Italy was obliged to continue the deduction of profits for the increase of the ordinary reserve and could not distribute to shareholders a dividend greater than 40 lire, being obliged to deposit in the reserve everything in excess of this amount.

The Bank of Italy agreed to ask the stockholders for a payment of 100 lire a share and to deduct a corresponding sum of 30,000,000 lire from the valuation of its own capital, which was thus reduced to 270,000,000 lire nominal capital, divided into 300,000 shares of 900 lire each, nominally, with 700 lire paid up; that is to say, with a paid-up capital of 210,000,000 lire. The 30,000,000 lire paid by the stockholders and not computed in the increase of paid-up capital was destined to cancel a like sum of overdue and unpaid operations included in the operations of difficult or tardy liquidation.

The Bank of Italy assumed the treasury service of the state in all the provinces of the Kingdom from February 1, 1895, until December 31, 1912. It was to receive payments of amounts on account of the state and the various departments connected with it, and was to exact payments in favor of creditors of both. In guaranty for this service the bank was to furnish an initial surety of 50,000,000 lire in state securities, or securities guaranteed by the state, to be increased to 90,000,000 lire within six years.

The amount of statutory loans to be made by the bank to the treasury was increased from 90,000,000 to 100,000,000 lire. The state left with the bank a permanent cash fund of 30,000,000 lire solely for the needs of the ordinary treasury service, except for the necessary provision for extraordinary payments. When the cash fund rose to more than

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40,000,000 lire, the bank was to pay the state a net interest of 1.50 per cent; when, on the other hand, it fell below 10,000,000 lire, the state was to pay the bank a like interest. The cash fund, however, was always to be brought up to a total of 30,000,000 lire in the course of every ten days, so that on the evening of the 10th, the 20th, and the last day of the month (dates on which the bank statements were to be published) the fund should amount to 30,000,000 lire.

In the agreement it was stipulated that during the legal currency, and as long as the Bank of Italy carried on the treasury service of the state, it could not ask the Bank of Naples and the Bank of Sicily for the redemption of their notes which had entered its coffers until a like amount of the outstanding notes of the bank, at the end of ten days, should be in the coffers of the two banks. This stipulation, by which was weakened anew the principle of the obligation of mutual redemption of notes among the banks, was justified by the consideration that in the course of the treasury service the Bank of Italy would collect, especially in southern Italy, a great quantity of the notes of the two banks which they would have difficulty in redeeming.

On this point it may be objected that the cash transactions of the treasury being accounted separately from those of the bank and being controlled by the officers delegated by the treasury, the anticipated inconvenience might have been avoided by excluding from redemption such notes of the two banks as had entered into the bank through treasury operations. These could have been spent by the Bank of Italy in the operations themselves or in those of the bank, leaving the principle of the mutual redemption of notes in full force for the re-

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maining notes. It must be stated, however, that no inconvenience has been felt as a result of this provision, since the relations among the three banks, even in regard to the redemption of notes, have been perfectly correct, and their circulation has not suffered from the above-mentioned stipulation.

This agreement was approved by royal decree of December 10, 1894, which was converted into a law August 9, 1895. Although the agreement laid fresh burdens upon the Bank of Italy, such as the liquidation, at its own risk, of the Banca Romana and all the expense of the treasury service, it produced, nevertheless, a good impression, because notwithstanding the difficulties, now well known, in which the bank was involved, the Government by intrusting to it the treasury service showed that it had the greatest confidence in the solidity of its framework, whereas the payment by the shareholders of 30,000,000 lire assigned to cancel losses, and the obligation of the annual setting aside of profits facilitated the gradual building up of the capital of the bank and the improvement of its circulation.

In the law that ratified the agreement between the Government and the Bank of Italy other provisions were made concerning the banks of issue, among which was the increase of the amounts they were permitted to invest in rentes: Bank of Italy, from 70,000,000 to 75,000,000 lire; Bank of Naples, from 21,000,000 to 30,000,000 lire; Bank of Sicily, from 4,000,000 to 8,000,000 lire.

The amount of deposits in accounts current beyond which the circulation was to be reduced, in the ratio of

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one-third, was increased: For the Bank of Naples, from 40,000,000 to 50,000,000 lire; for the Bank of Sicily, from 12,000,000 to 15,000,000 lire.

The Government was authorized to establish by royal decree the conditions under which the banks could discount bills at a rate inferior to normal. This provision expressed in a general way was defined by royal decree of October 25, 1895, which stipulated that the banks of issue, independently of the faculty of discounting at a rate of 1 per cent below normal the paper of the people's banks and other intermediary institutions, should be allowed also to discount at a rate below normal, bills of not more than three months' currency, presented and guaranteed by banking and commercial firms of the first order. This faculty was subject to the condition of keeping the circulation within the normal limit. The minimum rate of discount was to be fixed every three months by the decree of the minister of the treasury and could not go below $3\frac{1}{2}$ per cent.

This provision which added another distinction in the rate of discount of Italian banks has seemed an Italian novelty and has been discussed and criticized in various ways as a proof of a lack of unified standards and action in the delicate instrument of the rate of discount. It will be timely, therefore, to make clear, first of all, that it is not in the least a question of an Italian novelty, since other foreign banks of issue, including the Imperial Bank of Germany and the Bank of England, are in the habit of discounting or buying (a difference in form which does not change the substance) bills of exchange at a rate different from the normal or official one. In what particularly

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concerns Italy it must be remembered that the variation in the value of money from region to region is more noticeable than in other countries; hence the official rate of 5 per cent, which represents an average price of money in the greater part of southern Italy, a region less fully provided with available capital, proves in normal times high in central Italy and even higher in northern Italy. Besides, in Italy as in other countries, there may be in one single province, and even in one single city, a difference in the value of the bills of exchange tendered and worthy of being admitted to discount, a difference which justifies a diversity in treatment.

But the provisions mentioned above with regard to the rate of discount were in a special way justified at the time when they were decided on by the conditions of the discount operations of the banks of issue, since it would not have been reasonable to treat in the same way clients who presented real commercial paper, payable on maturity, and those to whom it was necessary to grant delays and renewals for the payment of their debts.

Another important modification of the law of August 10, 1893, was made by the law of August 8, 1895, with regard to the time assigned the banks for the liquidation of operations not in liquid form or contrary to the law, which was increased from ten to fifteen years. In consequence it remained established that in each three years the banks would have to liquidate a fifth of the operations; and it was correspondingly stipulated that the extraordinary inspection of these banks should be made every three years.

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This important and substantial modification of the law of August 10, 1893, was made advisable by the necessity of not placing the banks of issue in a condition of manifest inferiority in comparison with the market, which might be able to dictate its own conditions to the banks, profiting by the peremptory necessity they were under of liquidating an enormous mass of intricate operations not in conformity to the law. With regard particularly to the liquidation of operations where it was necessary to sell the real property that stood as guaranty, the period of ten years seemed too short, especially as the real estate market still remained inactive and did not attract capitalists desirous of getting a suitable return for their money, which could not be had from houses, as they were still more plentiful than necessary.

And it was also considered that in offering the market a great quantity of real estate the conditions of real property, already depressed, would be still more aggravated, causing by reflex a disorder of the public economy, especially in the capital of the Kingdom and in other cities in which the building crisis had assumed a somewhat serious character.

It was necessary, therefore, to give a longer time to allow the banks to free themselves gradually from real estate, without yielding to the exaggerated, usurious demands of the capitalists, who wanted to buy for half price, or even less. And it was greatly to the credit of Signor Sonnino, a long-time partisan of the energetic and violent cure of the banking evil from which the country was suffering, that he recognized, in the face of the true situation

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and its inseparable exigencies, the advisability of a gradual remedy, which ended, as we shall see, by giving unhoped-for results.

By the same law of August 8, 1895, were granted various diminutions of fees for registration of deeds in buying and selling real estate, conveyances of mortgage loans, and other operations of liquidation, for the purpose of facilitating realization on the intricate operations of the banks; and it was stipulated besides, to facilitate the liquidation of the realty credit branches of the banks and to straighten out the relations between the two.

In consequence of the substantial changes made in the law of August 10, 1893, the statutes of the banks of Italy, Naples, and Sicily were also modified.

CHAPTER XI.

THE MILITARY DISASTER IN AFRICA AND ITS CONSEQUENCES— THE RUDINÌ MINISTRY—NEW BANKING ACT PROPOSED BY MINISTER LUZZATTI.

The military disaster of Adowa, in which the Italian forces were wiped out after being surrounded and vanquished by the whole Abyssinian army, was the occasion on March 1, 1896, of the downfall of the Crispi Ministry, which was succeeded by a new Rudinì Ministry, whose minister of the treasury was Signor Colombo. The latter recognized at the very outset the urgent necessity of a loan to meet the expenses of the African war, a loan which was issued for 132,000,000 lire. Meanwhile the African disaster arrested the improvement that the work of Minister Sonnino had brought about in the financial and economic situation of Italy. Italian rentes declined at Paris from a maximum quotation of 97.33 to a minimum of 86.25 and exchange went up from 104.50 to 112.62.

This turn for the worse made clear once more that the exchange rate, especially in debtor countries with abnormal finances, does not depend simply upon the conditions of the paper currency. In fact, the currency, by the gradual liquidation of heavy operations, was continually decreasing in quantity and growing better in quality; the currency was also growing better by the increase of the metallic reserve which amounted in 1896 to 47 per cent of the notes against 32 per cent in 1893 and exerted a favorable influence on exchange which had gone down from 116 to 104. In spite of this, a military incident

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entirely foreign to the conditions of the banks and the circulation was sufficient to make exchange go up again to 112.62, through the decline of Italian rentes abroad and their return to Italy.

Meanwhile a grave dissension which had broken out in the Rudinì Ministry with regard to military expenditures occasioned the resignation of the minister of the treasury, Colombo, and others. Signor Luzzatti returned then to the direction of the treasury and took up afresh the examination of the problem of the currency and the banks, in whose situation various points were gradually being cleared up that had not been carefully observed in the official inspection of these institutions.

In regard especially to the Bank of Naples, the situation had proved so grave and threatening, Minister Luzzatti was obliged to declare, as to require urgent extraordinary provisions.

Signor Luzzatti was also led to resume the examination of the banking problem by the consideration of the grave responsibility assumed by the State in the matter of the paper currency on which he had conferred legal currency, thus obliging the citizens to accept the notes of the banks. The case of the Banca Romana was too recent and too serious for this problem not to demand profound consideration and the suggestion of provisions directed toward guarding both the public interest and that of the State.

But besides saving the Bank of Naples from imminent ruin and assuring the guaranty of the bank notes, the minister of the treasury aimed at making possible a more

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speedy liquidation of old operations not realized on or contrary to the law.

Guided by these standards and keeping in view the purposes mentioned above, the minister of the treasury presented resolutions which because of urgency were issued by royal decree, and afterwards approved in a provisional way by the law of January 17, 1897, and definitely sanctioned by the law of March 3, 1898, by which were modified and adapted several of the articles contained in the royal decrees and in the law of provisional application. Passing over the articles in detail, several of which it was not considered necessary to put into effect, it will be helpful to examine the more important ones which caused a noticeable modification of the régime established by the preceding laws.

To make sure of the full guaranty of notes the law provided that the banks of issue should put aside, subject to the inspection and control of the ministry of the treasury, a metallic reserve, comprising in this the part employed in discounts of foreign bills of exchange and foreign treasury bonds, and in foreign credits for the minimum amount, irreducible, of 300,000,000 lire for the Bank of Italy, 90,500,000 lire for the Bank of Naples, and 21,000,000 lire for the Bank of Sicily.

The metallic reserve could not be diminished even in case it should happen, as a result of the reduction of the circulation, that it represented more than 40 per cent of the circulation, and was to rest as guaranty for a corresponding amount of notes. For the part of circulation not covered by the aforesaid reserves, the holders of notes had

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a claim on the other gold and silver specie belonging to the banks, having deducted their part to be left as a guaranty for sight liabilities to the amount of 40 per cent; on Italian treasury bonds or other Italian state securities or securities guaranteed by the state, including for the Bank of Italy, the sums set aside for the liquidation of the Banca Romana; on foreign bills of exchange not included in the discounts available for the metallic reserve; on loans on collateral; on domestic liquid discounts. For the Bank of Naples were included also the state securities comprised in the metallic reserve, of which we shall speak later, and temporarily the amount of the credit of the bank to its own *crédit foncier* administration. For the further protection of holders of bank notes the banks were forbidden to engage in granting sureties.

As a result of this provision, there were tied up 411,500,000 lire of metallic reserve, or its equivalent, representing 48 per cent of the minimum total of 864,000,000 lire, the amount to which the banking currency was required gradually to decrease, according to the law. At the same time the law was abrogated with regard to the tying up of 200,000,000 lire of metallic reserve, in exchange for which the State could issue an equal amount of its own notes. The maximum total of these notes was limited to 600,000,000 lire, and the total remained fixed at 125,000,000 lire of loans that the Bank of Italy and the Bank of Sicily were to make the treasury, 115,000,000 and 10,000,000 lire, respectively, the Bank of Naples being excluded from the necessity of making loans to the treasury.

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With regard to the provisions intended to hasten the liquidation of operations not in liquid form or not in conformity to the law, it was further stipulated that the gradual diminution of the normal circulation guaranteed by the reserve of 40 per cent should be anticipated, so that the Bank of Italy, which was to reduce it by 34,000,000 lire in 1897, should reach the minimum limit of 630,000,000 lire in 1905 instead of 1908; the Bank of Naples would reach that of 190,000,000 lire in 1906 and the Bank of Sicily that of 44,000,000 lire in the same year.

To facilitate and hasten the liquidation of old operations, Signor Luzzatti, although leaving unchanged the provisions of the preceding law in as far as they set forth the obligation of the banks concerning the length of time in which the said liquidation was to be accomplished, evolved a plan based on the idea of the intervention of the State in favor of such banks as should give more active and successful attention to attaining the desired end. And since among the operations to be liquidated there were several guaranteed also by public securities not admitted by law, he proposed that these operations should be considered liquidated whenever the bank had sold the securities and invested the proceeds in state securities or securities guaranteed by the State.

For the other operations to be liquidated, provision was made to compensate such banks as had succeeded at given times in liquidating certain sums beyond the required amount, by giving them the privilege of investing in treasury notes up to a stated limit, or employing abroad a part of the metallic reserve in addition to the amount permitted by the preexisting law, the pro-

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portion being increased from 7 per cent to 11 per cent; or in case the minister of the treasury should not think best, for considerations of a monetary nature, to allow further employment of the metallic reserve, the banks were rewarded by a discount up to a fixed amount of the tax on circulation; and finally, by being allowed a gradual reduction of the said tax on circulation from 1 lira to 50, 25, and 10 centesimi per cent.

Beginning with the year in which the tax was reduced to this last rate, the State was to share the profits of the banks of issue, at the ratio of one-third of the profits between 5 and 6 per cent on the paid-up capital, for the Bank of Italy, and the free capital and ordinary statutory reserve for the Bank of Naples and the Bank of Sicily, and one-half of the profits in excess of 6 per cent for the three banks.

Other provisions granted for a longer period the reduction of taxes and supertaxes on conveyances of property, purchases and sales real estate, transfers of credits and conveyances at the banks of issue of the real estate adjudged to their respective *crédit foncier* departments.

These provisions, intended to facilitate and hasten the liquidation of the burdensome inheritance of the past, were, like the others contained in the preceding laws, inspired by a lofty sentiment of justice, inasmuch as the Government wished to acknowledge by them that the State had had its share of responsibility in the banking ruin. The fact is that this very banking ruin saved the country, at a most difficult moment, even greater disasters.

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But in order to make easier the attainment of the ends at which the Government was aiming, it was needful to provide again to regulate the relations of the banks of issue with their respective realty credit branches in liquidation, clearly separating the two administrations. It has already been seen that the credit of the realty branch of the Bank of Italy amounted to more than 49,000,000 lire; and we have briefly outlined the provisions taken for the systematization of this account current and the satisfactory results obtained. We should add here that the Bank of Naples and the Bank of Sicily had, respectively, accounts of 46,000,000 lire and of 2,500,000 lire against their realty credit branches. There were in all about 98,000,000 lire of *crédit foncier* deficits in liquidation which were burdening the institutions of issue and the circulation, and for which it was necessary to provide to prevent the situation from getting worse in this particular respect.

As for the Bank of Italy, it was agreed that it should deduct 30,000,000 lire from the valuation of its own capital, reducing it to 240,000,000 lire nominal with 180,000,000 lire paid up; and that, having closed the account current by the transfer to the bank of property and securities belonging to its realty credit branch, the bank could make loans to it on State securities or on securities guaranteed by the State at an interest not lower than 3.50 per cent. The faculty was given to the *crédit foncier* to maintain a constant circulation of realty bonds to the maximum amount of 220,000,000 lire, with the creation of new issues of bonds exclusively on the real estate holdings

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of the bank; the bank in turn could obtain loans on its property also from other *crédit foncier* institutions.

The surplus of the *crédit foncier* was to be maintained in the constant ratio of one-tenth of the effective circulation of the realty bonds. The bank could liquidate on account of the *crédit foncier* the excess of the surplus beyond the tenth of the total realty bonds outstanding. But the bank never availed itself of this power and left the fund invariably at the sum of 30,000,000 lire, which at the end of 1908 exceeded by about 19,000,000 lire the amount required by the ratio of 10 per cent of the realty bonds in circulation, which amounted to 111,081,500 lire.

Besides the ordinary surplus prescribed by the law, the *crédit foncier* of the bank was obliged to deduct from the annual profits 300,000 lire to constitute, together with the interest accrued, an extraordinary surplus to be invested in State securities or securities guaranteed by the State. By the law of July 7, 1905, concerning provisions in favor of borrowers of the *crédit foncier* of the former Banca Nazionale and the Bank of Sicily, the requirement of keeping the above surplus, which was recognized as unnecessary, was removed.

And since the Bank of Italy, along with the obligations imposed by the law, also had the rights that came to it from the agreement established in the treaty with the Government on October 30, 1894, which had put upon it the burden of the liquidation of the Banca Romana, a new agreement between the Government and the bank was needed to modify the provisions then in force, also because among the new provisions there was, as we have

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seen, the reduction of the capital, for which was needed the approval of the meeting of the shareholders. The provisions as a whole were, however, granted in an agreement made November 28 of the year 1896, which was approved by the law of March 3, 1898, and ratified, as to the matter of the reduction of capital, by the shareholders' meeting held March 28, 1899, in which the statutes of the bank were accordingly modified.

For the Bank of Sicily provisions were made almost analogous to those for the Bank of Italy, aiming at closing the account current with its realty credit branch. To this effect it was stipulated that 2,000,000 lire should be deducted from the ordinary reserve of the bank and charged to loss by unrealizable real estate operations.

The situation that presented itself in the matter of the Bank of Naples was more difficult, considering the gravity of the condition of its realty credit branch, which was a serious menace to the bank, itself already in a sufficiently precarious condition. The Government, anxious as to the consequences that would follow the failure of this ancient institution, especially in southern Italy, decided to take exceptional provisions, and to cause the State to intervene directly under the form of suretyship and fiscal reliefs.

With regard to the *crédit foncier* it was in fact stipulated that its certificates, which bore interest at the rate of 5 per cent gross, should be withdrawn and replaced by others bearing 3.50 per cent net of any taxation. The State guaranteed the payment of interest on the certificates and their amortizement. The debt represented by the realty bonds outstanding would be

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amortized in fifty years, through a constant annual payment, including the interest at the rate of 3.50 per cent.

The realty bonds were to be cancelled according to the conditions established beforehand, except for the facilities granted by the prolongation of the terms, in conformity to the law. The bonds of the *crédit foncier* should be accepted in payment of loans at a value to be determined every six months, on the basis of the average price for the preceding six months in the principal stock exchanges of the country, increased by 50 lire. This was to avoid artificial speculation in prices on the part of borrowers. If the average value ascertained should be over 450 lire, the bonds would be accepted at par. The excess resulting between the payments made by borrowers in reduction of the capital debt of the loan, and the quota of amortization included in the constant annuity to be used for cancelling the bonds in fifty years, was to be invested, up to the time of total cancelling of the bonds, in State securities or securities guaranteed by the State, and set aside in a special fund destined for the payment of the interest and reimbursing such bonds as still remained in circulation after the cancellation of the corresponding operations.

In the law ^{we} we are now examining, additional provisions were made regarding the closing of the account current of the bank of Naples with its *crédit foncier* and the reimbursing of the credit of the bank through the conveyance of 5,000,000 lire worth of real estate or mortgages, and by payment to the bank on the part of the *crédit foncier* of the total of the personal property tax on the interest of the realty bonds and the tax on the circulation of these

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bonds which were made good by the State in favor of the bank. The sums paid over to the bank were to be invested in state securities or securities guaranteed by the State to form, with the accrued interest, a fund to serve as guaranty of the credit of the bank to its own *crédit foncier*. For the remainder stipulations were made similar to the ones established for the Bank of Italy and the Bank of Sicily to facilitate the loans to be made to the *crédit foncier* departments.

But the bank of Naples itself needed special, urgent provisions directed to reconstruct, within not too long a time, its free capital. To this end it was stipulated that the Bank of Naples should invest a sum of 45,000,000 lire of its metallic reserve in state securities or securities guaranteed by the State; but to avoid the alienation of the metal it was arranged that the said sum should be deposited in the coffers of the state treasury, which should become owner of it, and pay, in exchange a like sum to the bank in state notes, that the bank should invest in state securities or securities guaranteed by the State. However, in order not to lessen the guaranty of the holders of bank notes the state securities were converted into registered certificates with a lien in their favor. The interest on the state securities was to be used, from half year to half year, in restocking the metallic reserve with gold specie, through a gradual restitution of notes to the treasury, in order to redeem and withdraw a corresponding sum in metallic money.

The operation, begun in 1897, for the entire sum of 45,000,000 lire was reduced on June 30, 1909, to the sum of 23,277,555 lire, with which the Bank of Naples had

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obtained, as a result of the above law, a reconstruction of capital amounting to 21,722,445 lire.

Meanwhile the Government, in order to assure the exact, efficacious application of the exceptional provisions made in favor of the bank of Naples named as its general director Signor Nicola Miraglia, who was then deputy to Parliament, and general director to the ministry of agriculture, industry, and commerce; a man of broad culture and great energy, who entirely fulfilled the expectations of the Government.

CHAPTER XII.

DISORDERS OF 1898—THE COMMERCIAL AGREEMENT WITH FRANCE—EXCESS OF SPECULATION—NEW IDEAS IN THE MANAGEMENT OF THE BANK OF ITALY—NOTEWORTHY IMPROVEMENT IN THE FINANCIAL SITUATION.

The series of provisions intended to facilitate the reconstruction of the capital of the Italian banks of issue and to reform the currency by the liquidation of old operations not easily realized on produced an excellent impression, but it could not give immediate results, partly because in the year 1898 there appeared insurrectional movements in various parts of Italy, particularly at Milan and Apulia. These movements reacted injuriously on the financial and economic conditions of the country. Italian rentes, which had risen gradually again in Paris from the minimum quotation of 78, to which they had fallen in 1896 as a result of the military disaster in Africa, to the maximum quotation of 96.65, fell again to 87.45, and exchange which in 1897 had reached the minimum rate of 104.35 rose to 109.60.

The significant features of the situation at that period bring clearly into evidence the damage that may be caused a country by political agitations and excessive speculation. The latter, in fact, after a brief period of inactivity following the decline in prices which came in

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1897, as a result of the disaster at Adowa, and in the beginning of 1898 because of insurrectional movements, seemed to gain fresh vigor and set to work with the intention of making a prosperous campaign to advance prices, being encouraged in a particular way by the commercial agreement with France obtained by the Rudinì ministry. This agreement produced an excellent impression in the country, not only because it revived trade, to the advantage of both countries and especially Italy, making due allowance for Italy's condition of inferiority to France, but also because it cancelled an ugly page of ill feeling and misunderstanding between the two sister nations that other pages, glorious and fraternal, had inscribed together on the battlefield.

Meanwhile, however, the Rudinì ministry, weakened by events that took place in the country and vigorously attacked by the constitutional opposition which had found an allied opponent in the extreme left, enraged as it was by the violently energetic measures with which the ministry had conquered the revolt and restored order, handed in its resignation without even waiting for a vote of the Chamber.

The excessive impetus given to affairs of a speculative nature caused great harm, thus retarding the benefits of the commercial Franco-Italian agreement, which became then very evident in the field of industry.

The commercial movement of Italy, which had been represented in the year 1897 by a sum of 2,383,000,000 lire, exports and imports together, rose to 2,617,000,000 lire

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in 1898 and to 2,938,000,000 lire in 1899. The excessive activity of speculation is clearly shown by the following variations in the prices of the principal securities:

	1898.	1899.	Differ- ence.
Banca d'Italia	782	1,084	+ 302
Banca Commerciale	650	826	+ 176
Credito Italiano	508	717	+ 209
Ferrovie Meridionali ^a	712	789	+ 77
Ferrovie Mediterranee ^b	512	613	+ 101
Acciaierie Terni ^c	419	1,815	+ 1,396
Raffineria Lig. Lomb. ^d	320	486	+ 166
Edison Co.	390	450	+ 60

^a Southern railroads.

^b Mediterranean railroads.

^c Terni Steel Works.

^d Ligurian and Lombardian refinery.

With regard to the currency it is to be said that the progressive improvement which had been started by legislative provisions not only suffered a check, but even showed a backward movement. The many needs created by greater activity, united to those of speculation, made an increase in the paper of the banks, loans and discounts together, from 369,000,000 lire in 1897 to 538,000,000 lire in 1889.

The increase from 50,000,000 lire to 116,000,000 lire in loan operations clearly indicates the intervention of the speculative factor.

Corresponding to the increase of operations, the circulation advanced from 1,086,000,000 lire to 1,180,000,000 lire, while the metallic reserve to cover the notes fell off 22,000,000 lire, declining from 538,000,000 lire to 516,000,000 lire so that the proportion between the reserve and the notes went down from 49 per cent to 43 per cent.

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In Parliament and the press a lively debate was started on the condition of the market and the inefficacious action of the banks of issue in the face of it, to say nothing of the encouragement speculation had received from the promptness with which these institutions had furnished it superabundant aid. The Government intervened in the question, and having subjected the paper of the Bank of Italy to an examination, expressed the opinion that certain operations carried on by it under the form of discount of bills not having a commercial origin and guaranteed by securities were not in accordance with the law and requested that all such operations be eliminated.

The bank provided, therefore, for liquidating the contested operations or for transferring them into others, which should answer in substance and form to the requirements of the law. The loans of the three institutions fell in 1900 from 116,000,000 to 71,000,000 lire. The events of this period showed that rigid and severe provisions by law, statute, or regulation are not always enough to give a sound direction to the institutions of issue.

In the year 1900 the general director of the Bank of Italy, Signor Giuseppe Marchiori, died. In 1894 he had succeeded the general director of the Banca Nazionale in the direction of the new Bank of Italy, to which he had rendered useful service. By unanimous consent of the superior council, approved by the Government, Prof. Bonaldo Stringher, a deputy to Parliament and under-secretary of State at the treasury, was elected general director.

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Since a change of method then took place in the government of the Bank of Italy, it seems a fitting moment to examine the conditions of this bank and of the two others at this time with regard specially to the liquidation of old operations difficult to realize on.

And it must be noted here that these operations amounted to much larger sums than those discovered by the inspection made in 1894.

Those of the Bank of Italy, placed by the inspectors at the sum of 449,420,000 lire, rose to 519,665,000 through a new audit made by agreement between the minister of the treasury and the bank, by putting in order the account current of the *crédit foncier* as to expenses, purchases of credits, and improvements on real estate. At the end of 1900 the operations remaining to be liquidated amounted to 245,000,000 lire; therefore 274,400,000 lire were already liquidated, composed of 56,700,000 lire in payments on bills of exchange, 96,300,000 lire in payments on various credits, 36,000,000 lire in transfers of securities not admitted by law into others admitted by law, and 19,300,000 lire in sales of real estate, making in all 209,000,000 lire. To complete the sum of 274,400,000 lire payment of 30,000,000 lire was arranged for, to be made by the shareholders in conformity to the agreement of 1894; 30,000,000 lire was deducted from the capital established by the agreement of 1896, and 5,300,000 lire were raised on a loan stipulated with the *Istituto Italiano di Credito Fondiario*. It was then remarked that the effective liquidation was represented by 172,000,000 lire collected in payment of bills of exchange and credits

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for a total of 153,000,000 lire, and of only 19,300,000 lire collected for the sale of real estate; it was said that this result was attained with comparative ease, because the bank had been able to liquidate the part of its assets that was easiest to realize on. It was therefore concluded that the greatest effort was already made and that the bank would not succeed in freeing itself from the heavier burden that still remained.

It should be said that such a conclusion was not sincerely felt and impartially expressed. It was intended to impress public opinion and to exert pressure on the Government and the bank to make the latter sell off in a block its real estate, giving it at a low price to a company that was to be organized.

Taken as a whole, the operations not realized on of the three institutions amounted at the end of 1900 to 373,261,839 lire.

With the year 1900 there began in Italy a period of financial solidity and economic progress. The ponderous obstacles against excessive expenditures raised by the Honorables Giolitti, Sonnino, and Luzzatti; the determination already made by Sonnino and energetically continued by Luzzatti to cease making any issues of bonds so that through the proposal of Signor Luzzatti, there were included in ordinary expenditures the expenses for the construction of railroads, for which provision had been made until then by issuing bonds; the vigorous impulse given to the industrial movement; and the right administration of the banks and currency—all these things produced a salutary effect throughout the country.

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The budget closed in the years named with surpluses as follows:

	Lire.
1899.....	5,000,000
1900.....	41,000,000
1901.....	32,000,000
1902.....	69,000,000
1903.....	34,000,000
1904.....	48,000,000
1905.....	63,000,000

The commercial movement expanded prosperously. From 2,938,000,000 lire in 1899 it rose gradually to 3,795,000,000 lire in 1905. Exchange, which still remained at 108.50 in 1899, went down gradually until it reached in 1902 the rate of 98.89, fluctuating a little above or a little below par in spite of the fact that Italy was redeeming from abroad large sums in government rentes and other securities.

All this showed clearly that Italy had now become a creditor country. The relatively small quantity of Italian securities still owned abroad were in the hands of capitalists who kept them as permanent investments, and no longer constituted an uncertain element of disturbance for the monetary economy of the country. The Paris Bourse, on which the whole Italian market had depended in the past, indicated and still indicates to-day, on a few days of the week only, the price of Italian government stock, henceforth entirely unspeculative. It had advanced on the Paris market from 96.75, the maximum price of 1899, to 106.60, the maximum price of 1905.

As a result of this new situation, Italy, which was once obliged to provide for payments to be made abroad,

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on account of the State and the country, by shipments of metal or a continual stream of new bond issues, began instead to receive annually important sums of gold and silver that flowed into the coffers of the banks of issue, which gave bank notes in exchange. Their metallic reserve, which amounted to 600,000,000 lire, of which 61,000,000 lire were a cover for sight liabilities, went up at the end of 1905 to 1,076,000,000 lire, of which 78,000,000 lire were a cover for sight liabilities. The circulation increased from 1,180,000,000 lire in 1899 to 1,406,000,000 lire in 1905, and the ratio between the metallic reserve and the notes, which had fallen in 1899 to 43 per cent, went up gradually to 70 per cent, while at the same time the ledger of discounts and loans of the banks of issue, which was now purified, aiding and seconding the economic earnings of the country, increased from 318,000,000 lire in 1897 to 589,000,000 lire in 1905.

Meanwhile the work of improvement of the banks of issue was progressing. These institutions were continuing to liquidate operations not realized on, and were providing in conformity with the law to reconstitute their capital. The activity of the Bank of Italy in 1900 was, in this respect, energetic and profitable. Having provided for systematizing its relations with its *crédit foncier* in liquidation, the Bank, as we have seen before, operated to good advantage the conversion of its realty bonds.

Because of the importance it had for public interest, as well as for the Bank of Italy and the Bank of Naples, mention should be made here of the agreement entered into between the Government and the two banks in order

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to assure the completion of the work of the sanitation of the city of Naples, an undertaking which had been decided upon after the outbreak of cholera, which plunged that beautiful city into mourning in the year 1884. The Bank of Italy and the Bank of Naples, which were largely involved in the "*Società per il Risanamento di Napoli*," consented to contribute the sum of 8,000,000 lire, of which 7,200,000 lire was furnished by the former and 800,000 lire by the latter, while the State participated with 7,000,000 lire. The sum to be used for this purpose was to be taken from the guaranty funds of the respective realty credit department, to which it should be restored at the charge of the banking administrations, by annual quotas, during a period of twenty-five years, until the liquidation and realization of the credits of the two banks should have permitted the integral reimbursement of the sum still due the realty credit department. To these, meanwhile, the banks themselves ceded for their respective amounts the mortgages already made out in their favor on the property of the *Società per il Risanamento di Napoli*. The Bank of Italy and the Bank of Naples were further authorized to make the *Società del Risanamento* loans for fixed sums at an interest of 3.50 per cent.

As a result of the financial assistance given toward the completing of the sanitation of Naples, the Bank of Italy and the Bank of Naples were authorized to deduct from the amount of operations not realized on that must be liquidated within 1908, the respective credits not liquidated against the *Società del Risanamento*.

Meanwhile, along with the improvement of the financial conditions of the State and the national economy, improve-

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ment likewise began to be evident in the real-estate market, whether as a result of the gradual increase of the population in Rome and other centers, or through a spontaneous return to these values of the capital which, owing to the high price of transferable securities and the expectation of a conversion of the public debt, now considered ripe, was less disposed to investment in these securities. It was then that with a happy insight into the situation which was taking shape the general director of the Bank of Italy conceived the plan of making a more rapid and convenient transfer of the real estate that was serving as a guaranty for the operations not realized on, through conveyances of property to building or construction companies. The bank had now got beyond the period in which the narrow limits of the law on the one hand and the depression of real-estate values on the other placed it in a position of inferiority toward the market. The fortunate results obtained from the patient attention given to its own building up and the favorable situation in general had now placed the bank in a position to treat on a basis of equitable conditions. Of the final result of the operations carried through by the Bank of Italy from 1900 we shall speak later. It is enough to state here that the plan conceived by its general director was not long in giving good results, since at the end of the year 1905 real estate sales made to building and construction companies already amounted to about 45,000,000 lire and operations not realized on still to be liquidated amounted to 84,369,400 lire, about 87,000,000 lire having been made good with the fund put aside by the amounts deducted from the annual profits.

CHAPTER XIII.

THE CONVERSION OF ITALIAN RENTES AND ITS EFFECT ON THE MONEY MARKET—THE CRISIS OF 1907—MODIFICA- TIONS OF THE BANKING ACT.

As we have already seen, public opinion in Italy now considered the market prepared to make a conversion of Italian rentes 5 per cent gross (4 per cent net), especially as a former conversion of domestic $4\frac{1}{2}$ per cents to $3\frac{1}{2}$ per cents net had been successful. And, indeed, with a financial situation like that in Italy, the strength of which was daily increasing through an uninterrupted series of relatively notable surpluses, the belief did not appear unfounded that Italy could reduce the burden of interest on the great body of its public debt by means of an honorable operation in conversions. Already various negotiations made with this purpose in view had had to be suspended, because of numerous difficulties of a monetary or political nature arising in the international market. The war between Russia and Japan kept the conversion from being carried out in 1905; but in the following year under the ministry presided over by Signor Giolitti, in which Signor Giuseppe Majorana was minister of the treasury, the great operation, with the help of Signor Luzzatti and of the general director of the Bank of Italy, was accomplished in a most fortunate manner, thanks especially to the prompt cooperation of French high finance, which wished to give Italy a mark of special sympathy.

The conversion was made by the reduction of the interest from 4 per cent net to $3\frac{3}{4}$ per cent net, with a further

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reduction to $3\frac{1}{2}$ per cent after five years. The result of the operation may be summed up as follows: Out of a sum of 8,100,434,840 lire the reimbursement at par was asked for 4,689,700 lire, of which 1,661,900 lire were domestic and 3,027,800 lire foreign. It may indeed be asserted that never in any country has an operation of conversion of this importance had such a brilliant success.

But the legitimate satisfaction of Italy in this auspicious event, which crowned a long series of sacrifices and of sound and fruitful activity and economy, was to be in a short time, partly because of this very event, tempered by the arrival of a speculative crisis which produced a serious disturbance of the money market, with an inevitable reflex action on the general conditions of the economic structure. Already, beginning with 1905, the improved financial conditions of the State and the economic conditions of the country had provoked a speculation for the rise of all securities, which was pointed out by a few unheeded observers as extremely exaggerated and dangerous. The price reached by the aggregate of Italian securities represented a 70 per cent increase over their nominal value, without, of course, any justification for this increase by a corresponding increase in prosperity in banking, industrial, and commercial undertakings, and by larger dividends.

On the contrary the securities that rose the highest in price were precisely those of companies recently created, which had not yet distributed any dividends, and also those of companies which had distributed dividends corresponding to 2 or 3 per cent of the current price of the shares. The watchword, faithfully passed on by the body

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of speculators, was that they must discount in good season a brilliant future of economic prosperity.

In the autumn of this same year of 1905 there was a brief pause that occasioned a decline in prices; however, speculation for the rise was not abashed, but on the contrary showed the inclination to resume with greater eagerness its place in the fight, being encouraged still more to continue in its work by the negotiations already mentioned for the conversion of government stock, which was regarded as imminent and which would cause new currents of capital to converge on banking, industrial, and commercial securities. The quotation on the stock exchange of these securities, which amounted in 1904 to 2,420,000,000 lire had risen in 1905 to 3,280,000,000 lire and in 1906 to 3,720,000,000 lire, with an increase in the three years of 1,300,000,000 lire, or about 58 per cent, while the paid-up capital of the joint-stock companies had increased merely for the greater part by the formation of new companies by 753,000,000 lire, advancing from 1,585,000,000 lire to 2,338,000,000 lire.

These figures alone are enough to give a clear idea of the degree of speculative inflation which the Italian market had reached and to show how amply justified was the foresight that the edifice artificially reared and without any solid foundation must inevitably collapse. And, indeed, it would have collapsed in a short time even without the crisis that seized at this moment the American market and those of several European countries.

As it had always happened in Italy in like cases, as soon as a certain stringency in the money supply made itself felt, as soon as the higher *contango* made speculators

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feel tardily all the gravity of the situation into which they had recklessly plunged, and gave an inkling of imminent danger of disaster, on all sides the Government and the banks of issue were called on to intervene. With heedless boldness an increase of bank circulation was called for, under the pretext that the needs of industry and commerce required a larger money supply.

But the Government and the general director of the Bank of Italy, in agreement with the general directors of the two other banks, decided that frenzied and heedless speculation ought not to be subsidized, and that instead it was desirable to liquidate a dangerous and untenable situation, using at the same time all due precaution to prevent the evil from spreading to sound parts of the country and attacking the living sources of industry. Thus, as soon as the grave difficulties were known in which the Società Bancaria Italiana was involved, because of the tying up of a large part of its capital and serious and irreparable losses; as soon as the panic spread in the country because of the apprehension that, through the swift contagion of terror it might be communicated to other institutions, the general director of the Bank of Italy was ready to intervene to avoid the disaster that was threatening. He consented to put at the disposal of the Società Bancaria Italiana the capital needed to meet the pressing necessities of the situation, and obtained also to this end the contribution of banks and bankers who consented to furnish a part, though not an important part, of the amount needed. The general director of the Bank of Italy asked, however, that the administrators of the company should make themselves personally liable;

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that the capital of the company should be reduced from 50,000,000 lire to 20,000,000 lire and should then be restored by a new payment of 20,000,000 lire; in this way the capital was to be reduced to 40,000,000 lire.

The immediate arrangement of the position of the *Società Bancaria*, which as a result of this energetic action found itself in a most solid situation, put an end to the alarm in the country. The Bank of Italy had given the *Società* a total credit of 42,000,000 lire. At the end of May, 1909, the credit was reduced to about 5,000,000 lire through discount of commercial bills and loans on securities.

This assistance, very different from the forms of aid that had been afforded twenty years before, showed how effective a safeguard for a country is the existence of a great bank of issue in moments of difficulty and disturbance; and it showed further that the most difficult ordeals can be surmounted and the most severe disasters avoided by comparatively insignificant means, when there is no lack of precise perception of the situation and promptness in meeting it.

The same thing, which has been observed on other occasions, appeared contemporaneously in even more impressive form in the prodigious effect produced on the international market by the prompt intervention of the Bank of France, which succeeded in arresting the panic and diminishing the intensity of the crisis in the United States, in England, and, together with the more direct aid of the Bank of Austria-Hungary, even in Germany, by putting at the disposal of the Bank of England not more than 82,000,000 lire.

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It must necessarily seem inexplicable that the markets of colossally rich countries should find themselves exposed to profound disorders and grave disasters because of the lack of less than a hundred million lire. The reason is that crises are considerably aggravated by fear, which causes the disappearance from the market of a great part of the capital at the very moment when there is greatest need of it. This psychological cause of the aggravation and prolonging of crises is instantly removed when it is known that the great institutions are disposed to intervene, because this is sufficient to restore confidence and bring timid capital out of its hiding places. But in addition to this, it must be stated that in moments of crisis it is always a relatively limited amount that is needed to meet the differences in operations which in the great body are arranged by mutual compensations.

The examples afforded by the history of crises and repeated in 1907, show once more not only the great usefulness of the existence of powerful banking institutions but also the absolute necessity that their supreme direction should be intrusted to men of great ability who understand the vast problems of credit and monetary economy in which are summed up, as in a synthesis, all the problems that touch the economic life of a country. For it is not enough that the person in supreme control of a great institution of issue should have an ordinary business sense such as must be possessed by a manufacturer, a merchant, or the director of a credit institution, if his affairs are to be well managed. It is undoubtedly imperative that a bank of issue shall accept for discount only bills of exchange that represent valid

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transactions, promptly payable on maturity. But the efficient cooperation of all the directors provides for that, especially as they are assisted by a large staff of discount advisers. Together with the duty of watching closely the quality of the operations concluded by the establishments, a higher function is incumbent upon the general director of a great bank of issue; he should have a mind capable of understanding the grave problems of monetary economy that may suddenly force themselves on his attention and that he must be able to solve without hesitation or uncertainty, with practiced speed, in order to ward off a convulsion from the country or, by prompt intervention, to lessen its disastrous results. Therefore, a great institution of issue, while it is able in tranquil and normal times, by a wise distribution of credit and a correct regulation of the currency to give vital aid to every sound form of activity and to be a valuable element of economic well-being, can then perform the important functions of healing and effacing the consequences of any misfortune that falls upon the country. Nor in order to perform properly this very lofty function is it always enough to study assiduously the economic and monetary conditions of one's own country; since a disturbance may also be determined by the reflex of a crisis that breaks out in other countries for political, monetary, or speculative reasons.

Meanwhile, though the after effects of the crisis are not entirely done away with, even yet, especially in the harm done to certain industries, the situation was no longer acute, and Signor Carcano, minister of the treasury, was able to turn his attention to several timely modifications

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in the banking law. Although firmly convinced that the base and limits of the paper currency ought not to be substantially modified he recognized that the recent experience had shown that it lacked the necessary elasticity to enable the banks of issue to adapt their workings to the changing needs of the market, especially in case of monetary stringency. The resolution presented by Minister Carcano was ratified by Parliament and became a law December 29, 1907.

He proposed a slight increase of the circulation, as follows: For the Bank of Italy from 630,000,000 to 660,000,000 lire; for the Bank of Naples from 190,000,000 to 200,000,000 lire; for the Bank of Sicily from 44,000,000 to 48,000,000 lire.

The irreducible metallic reserve to be left as guaranty for holders of notes was, however, to be increased: For the Bank of Italy from 300,000,000 to 400,000,000 lire; for the Bank of Naples from 90,500,000 to 120,000,000 lire; for the Bank of Sicily from 21,000,000 to 28,000,000 lire.

The Bank of Sicily continued to enjoy the privilege already granted by the laws of 1906 and 1907 of an increase of 10,000,000 lire in bank notes, to be used exclusively for loan and discount operations in favor of the sulphur industry.

Minister Carcano proposed further, along with other stipulations of minor importance, that the limits of the issue of bank notes beyond the normal circulation and the relative taxes on circulation should be modified in the following manner: For the Bank of Italy from 45,000,000 to 50,000,000 lire; for the Bank of Naples from 14,000,000 to 15,000,000 lire; for the Bank of Sicily from 3,500,000 to

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4,000,000 lire, with the payment of a tax equal to one-third of the discount rate.

In addition to the above sums, and up to double their amount, it should be modified by a tax equal to two-thirds of the discount rate.

For subsequent issues, and up to the amount of:

	Lire.
For the Bank of Italy.....	150, 000, 000
For the Bank of Naples.....	45, 000, 000
For the Bank of Sicily.....	12, 000, 000

by a tax equal to the discount rate.

Further increases of circulation or deficiencies of metallic reserve were to pay a tax of 7.50 per cent.

Discount operations at a rate lower than normal in favor of people's banks and other intermediary institutions were increased: For the Bank of Italy from 70,000,000 to 100,000,000 lire; for the Bank of Naples from 21,000,000 to 30,000,000 lire; for the Bank of Sicily from 6,000,000 to 9,000,000 lire.

By this law was also approved an agreement entered into between the Government and the Bank of Italy to decide jointly certain questions that had arisen regarding the payment of the tax on circulation, and it was established that the bank was to pay under this head fixed sums; on the other hand, it should be authorized to comprise among the profits to be distributed to shareholders, for the years 1907 and 1908, a part of the income of the fund set aside to meet the losses resulting from the liquidation of old operations difficult to realize on.

CHAPTER XIV.

THE RESTORATION OF THE BANKS OF ISSUE.

With the year 1908, according to the provisions of the law, was completed the laborious work of restoration of the Italian banks of issue, and it was completed under more satisfactory conditions than there had been reason to foresee. The Bank of Italy in the period of eight years succeeded in liquidating operations for 245,000,000 lire, of which more than 108,000,000 lire were represented by real estate which had come into the hands of the bank for various credit accounts. We should state that the Bank of Italy not only did not profit by the statutory reserve to wipe out unrealizable operations, as the law would have permitted, but increased extraordinarily this reserve, carrying it by December 31, 1909, to the maximum total of 48,000,000 lire. The sales of real estate gave returns of more than 116,000,000 lire, of which 82,500,000 lire helped the liquidation of old operations, while the remainder was taken up by mortgages that encumbered the property sold. To complete the carrying out of the scheme for selling real estate in lots, about 14,000,000 lire in rural property, of which 10,865,000 lire were included in the account of operations not in liquid form, had been sold in 1907 to the Istituto di Fondi Rustici.

The general director of the Bank of Italy, at the general meeting of shareholders held March 29, 1909, in summing up the work accomplished by the bank during fifteen

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years, certified in conclusion a surplus fund of 32,000,000, in addition to the surplus which already resulted in the *crédit foncier* in liquidation. This fund would serve to make up the deficit of the liquidation of the Banca Romana, for which the Bank of Italy must continue setting aside annually 2,000,000 lire until the end of 1913.

Considering that to make up for the losses of the liquidation of operations not in liquid form or not allowed by law, the shareholders contributed out of the annual profits a sum which together with the accumulated interest amounted to 113,000,000 lire, and also 60,000,000 lire capital, of which 30,000,000 lire was paid up without increase of capitalization and 30,000,000 lire deducted from valuation of capitalization—that is, 173,000,000 lire—it is seen that the total loss was, in round numbers, 140,000,000 lire.

The surplus of 32,000,000 lire, remaining as a final result of the liquidation of old operations, gave rise to the question as to the use to be made of it, taking into consideration the stipulations contained in the agreement made with the Government in 1894, which, foreseeing precisely this contingency of a surplus, authorized the bank to pay back gradually to stockholders the 30,000,000 lire capital paid by assessment that year.

The Bank of Italy considering that the cash fund for pensioning employees needed replenishing, since it had been almost used up in the pension service, inasmuch as the conditions of the cash balance of the bank did not permit making annual assignments of the sums needed for this service, and considering, moreover, the opportunity of contributing a special reserve to meet any contingency,

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decided to arrange with the Government an agreement in which it engaged, in substance, not to restore to the shareholders the 30,000,000 lire capital paid by assessment and to employ for the above ends the surplus of 32,000,000 lire and any other surpluses that might result from disposing of extraordinary assets.

It is worth while reproducing here from the report of the general director of the Bank of Italy the following table, which shows the situation of the bank at the end of the years 1894, 1900, and 1908:

[Expressed in million lire.]

	December 31—		
	1894.	1900.	1908.
ASSETS.			
Gold	292.7	300.8	932.1
Silver	67.8	46.1	110.2
Domestic discounts	184.2	258.7	388.6
Loans	27.7	35.0	77.4
Securities	71.8	175.3	164.8
Foreign discounts	23.1	72.0	70.8
Foreign credits	10.5	20.2	26.8
LIABILITIES.			
Circulation	826.4	820.4	1,389.1
Demand liabilities and accounts current	210.3	190.5	195.7
Ratio between the reserve (deducting that for demand liabilities) and circulation per cent..	43.39	48.27	77.46

However, by December 31, 1908, the Bank of Italy had liquidated more than half a billion in operations of difficult realization and of a nature different from operations which banks of issue, in every well-regulated banking system, should undertake; the bank succeeded in doing this after

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providing to meet and make up a loss of 140,000,000 lire resulting from the liquidation of these operations, after bringing up the statutory reserve to the sum of 48,000,000 lire with an increase, after 1894, of 5,500,000 lire, holding besides among special reserves more than 5,000,000 lire to provide for a possible decline in the price of State securities owned by it, and for other purposes, with more than 16,000,000 lire of extraordinary reserve, already realized to the amount of 10,000,000 lire, the remainder still to be realized. So, in all, the bank has a reserve of about 70,000,000 lire.

This much is given from the point of view of the capital and surplus. From the economic point of view, the bank appears on December 31, 1908, with an increase of 682,000,000 lire in the metallic reserve—from 360,000,000 lire to 1,042,000,000 lire—of which 640,000,000 lire were in gold; with an increase, besides, from 33,000,000 lire to 97,000,000 lire in the discounts and foreign credits payable in metallic money; with an increase of 563,000,000 lire in the circulation, which had advanced from 826,000,000 to 1,389,000,000 lire and with an increase from 43.39 per cent to 77.46 per cent in the ratio between the metallic reserve and the notes in circulation.

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The three Italian banks of issue show in the aggregate, from December 31, 1894, to December 31, 1908, the differences indicated in the following table:

[Expressed in million lire.]

	December 31—		Differ- ences.
	1894.	1908.	
ASSETS.			
Gold	433	1, 179	+ 746
Silver	80	132	+ 52
Foreign discounts	23	124	+ 101
Domestic discounts	310	550	+ 240
Loans	67	117	+ 50
Securities	116	259	+ 143
Foreign credits	12	32	+ 20
LIABILITIES.			
Circulation	1, 126	1, 862	+ 736
Demand liabilities and accounts current	343	325	+ 18
Ratio between the reserve (deducting that for demand liabilities) and the circulation per cent	42	74	+ 32

As may be seen, the metallic reserve, including the part represented by foreign credits and foreign treasury bonds, has increased from 479,000,000 lire to 1,391,000,000 lire, and, without taking into account the part that is to guarantee sight liabilities at the ratio of 40 per cent, has gone from 42 to 74 per cent of the notes in circulation, which have increased from 1,126,000,000 lire to 1,862,000,000 lire.

The discount operations of the banks, which amounted in 1894 to 310,000,000 lire (in which were still included, for large sums, operations not easily realizable, which were later accounted separately), are increased to 550,000,000 lire, and, as has been shown by the accurate audits

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carried out, represent commercial paper surely payable on maturity; whereas, in the meantime, there has disappeared from the bank statements with the liquidation of the old operations every trace of the heavy inheritance from a melancholy past, a result that is really gratifying.

The circulation of the Italian banks of issue now answers in its entirety to the most severe standards of banking technique, since in addition to commercial paper and State securities and securities guaranteed by the State, it is protected by a very large metallic reserve and represents, for a noteworthy part, true and proper certificates of coin.

For this reason, and also as a result of the withdrawal from abroad of an enormous body of Italian securities, the disturbing element of the money market has been removed and exchange remains nearly at par and is subjected only at intervals to the fluctuations, in the vicissitudes of international trade, to which is subject even the exchange of countries possessing the firmest monetary basis.

And, indeed, considering that after an adverse trade balance of 1,184,000,000 lire in 1908, there was one of 1,245,000,000 lire in 1909, in which is included a greater importation of grain to the amount of about 116,000,000 lire, in comparison with 1908; considering that the remittances of Italian emigrants in the United States were considerably less, and that likewise, because of the crisis of 1907 and the earthquake of last year, the number of tourists coming to Italy was greatly diminished; considering that credits made to Italy by discount of bills of exchange have not been renewed by several

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foreign markets since the advance in the price of money at London and Berlin and elsewhere; and finally, considering that the State has been obliged to make payments of large sums abroad for railroad materials, one cannot fail to recognize that Italian exchange, which has not risen above 100.60, has stood the test of fire.

In this connection it is really interesting to note that while in 1882, notwithstanding the recent abolition of forced currency, effected through the importation of 644,000,000 lire in gold, Italian exchange advanced suddenly from 99.32 to 104.22 because of the reflex of the speculative crisis that seized upon the French market in that year, in 1907, on the other hand, exchange fluctuated only between the two extreme points of 99.65 and 100.24, in spite of the fact that the crisis of the home market was aggravated by that of the foreign market.

It would be impossible to demonstrate in a more eloquent manner the difference between the situation of Italy at the two dates mentioned and the difference that exists with regard to exchange, between the conditions of debtor countries, with disordered finances and currency, and those of countries that are in the respects just mentioned in a normal condition. There is no doubt that if the domestic and foreign crisis of 1907 had found Italy in the same condition as in 1882 and 1893, exchange would have had a sudden and considerable advance.

CHAPTER XV.

THE PROGRESS OF ITALY FROM 1894 TO 1908 IN COMPARISON WITH ENGLAND, FRANCE, GERMANY, AUSTRIA-HUNGARY, SPAIN, AND BELGIUM.

And yet, the mere statement of the progress made by Italy in the last fifteen years can not give in the figures in which it is expressed sufficient elements to permit a just estimate of its importance, since the degree of progress or retrogression of a country can not be considered in and by itself, but must, in a proper and right judgment, be compared with the progress or retrogression of other countries in general, and in particular of those with which it finds itself in more immediate contact and in closer and more frequent business relations. A country that has advanced in a given period, in a given proportion, can not consider itself stronger, if, in the same period, other countries have advanced in much greater proportion, because it will find itself, in relation to these countries, in a position of relative inferiority.

It is therefore timely to make a comparison between the principal financial, economic, and monetary indices of Italy and those of other countries from 1894 to 1908, in order to gain a clearer and more precise idea of the progress made by Italy.

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The circulation of the principal European banks of issue has had, from 1894 to 1908, the following variations:

[Expressed in million lire.]

	1894.	1908.	Differ- ence.	Per cent.
Bank of England.....	646	747	+ 101	15
Bank of France.....	3,481	5,225	+1,744	50
Imperial Bank of Germany.....	1,295	2,370	+1,075	83
Bank of Austria-Hungary.....	1,066	2,218	+1,152	107
Bank of Spain.....	909	1,645	+ 732	80
Bank of Belgium.....	446	800	+ 253	79
Italian banks.....	1,126	1,862	+ 736	65

The Italian banks of issue occupy the fourth place, in the increase, in absolute figures of the circulation, coming after the Bank of England, the Bank of Belgium, and the Bank of Spain; and they occupy the third place after the Bank of England and the Bank of France in the per cent of increase of the circulation itself.

The metallic reserve has had the following variations:

[Expressed in million lire.]

	1894.	1908.	Differ- ence.	Per cent.
Bank of England.....	817	772	- 45	- 5
Bank of France.....	3,311	4,371	+1,060	+ 33
Imperial Bank of Germany.....	1,256	1,176	- 80	- 6
Bank of Austria-Hungary.....	^a 644	^b 1,612	+ 968	+150
Bank of Spain.....	^c 533	^d 1,282	+ 749	+140
Bank of Belgium.....	^e 229	^f 343	+ 114	+ 50
Italian banks.....	536	^g 1,477	+ 941	+175

^a Of which 26,000,000 are in foreign paper.

^b Of which 63,000,000 are in foreign paper.

^c Of which 275,000,000 are in silver and 57,000,000 in foreign paper.

^d Of which 810,000,000 are in foreign paper.

^e Of which 99,000,000 are in foreign paper.

^f Of which 184,000,000 are in foreign paper.

^g Of which 141,000,000 are in foreign paper.

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The figures relating to the metallic reserve of the Bank of Spain can not rightly be compared with those of the other banks because of the unduly large amount of silver included in them, which far exceeds the ratio of 25 per cent allowed but not reached by the Italian banks. In order to reduce the metallic reserve of the Bank of Spain to a monetary value approximately comparable to that of the other banks, it seems just, therefore, to add to the amount of gold an amount of silver representing 25 per cent of the total, and to consider the surplus silver at its market value, according to the proposal made by the former Spanish minister of finance, Señor Besada. The reserve of the Bank of Spain thus made up would be:

[Expressed in million lire.]

	1894.	1908.	Differ- ence.	Per cent.
Gold.	257	472	+215	+ 83
Silver at the rate of 25 per cent.	64	157	+ 93	+145
Silver at commercial value.	127	271	+144	+113
Total.	448	900	+452	100

It appears, therefore, that while Italy occupies, with a slight difference, the third place after France and Austria-Hungary in the increase, in the absolute figures, of the metallic reserve of the banks of issue, it occupies, on the other hand, the first place, at a considerable distance from the other countries, in the proportional increase of the reserve itself from 1894 to 1908, an increase equal to 175 per cent.

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This increase has a greater importance if one considers that gold enters into it in greater proportions than in the other countries, as appears from the following data:

[Expressed in million lire.]

	1894.	1908.	Differ- ence.
GOLD.			
Bank of England	817	768	— 49
Bank of France	2,070	3,488	+1,418
Imperial Bank of Germany	799	919	+ 120
Italian banks	433	1,179	+ 746
Bank of Austria-Hungary	326	1,241	+ 915
Bank of Spain	200	472	+ 272
Bank of Belgium	88	127	+ 39
SILVER.			
Bank of England	00	00	00
Bank of France	1,242	883	— 359
Imperial Bank of Germany	469	306	— 163
Italian banks	80	132	+ 52
Bank of Austria-Hungary	29	308	+ 279
Bank of Spain	276	811	+ 535
Bank of Belgium	41	32	— 9

Percentage of silver to the total reserve.

	1894.	1908.	Differ- ence.
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
Bank of England	00	00	00
Bank of France	37	20	—17
Imperial Bank of Germany	37	25	—12
Italian banks	15	10	— 5
Bank of Austria-Hungary	8	19	+11
Bank of Spain	57	63	+ 6
Bank of Belgium	32	20	—12

As may be seen, silver forms only 10 per cent of the reserve of the Italian banks.

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The ratio between the reserve and the notes in circulation has had in the fifteen years the following variations:

	1908.	Difference from 1894.
	<i>Per cent.</i>	<i>Per cent.</i>
Bank of England	103	-23
Bank of France	83	-12
Imperial Bank of Germany	49	-48
Italian banks	74	+32
Bank of Austria-Hungary	72	+12
Bank of Spain	55	+ 6
Bank of Belgium	42	- 9

In this regard also the Italian banks occupy the first place with an increase of 32 per cent of the ratio between the metallic reserve and the notes.

In consequence of the movement which took place in the paper currency and the metallic reserve of the same banks in the period from 1894 to 1908 the total of bank notes not covered by reserve has varied as follows:

[Expressed in million lire.]

	1894.	1908.	Differ- ence.	Per cent.
Bank of France	170	854	+ 684	+ 402
Imperial Bank of Germany	39	1,194	+1,155	+2963
Italian banks	590	385	- 205	- 34
Bank of Austria-Hungary	422	606	+ 184	+ 43
Bank of Spain	461	741	+ 280	+ 60
Bank of Belgium	218	457	+ 239	+ 109

The uncovered circulation alone of the Italian banks has diminished by 205,000,000 lire, at the ratio of 34 per cent.

It should be explained here that in the comparisons between the circulation and the metallic reserve of foreign

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banks and Italian banks no account has been taken with regard to the latter of the part of the reserve which by legal provision was to be held as guaranty for the sight liabilities at the ratio of 40 per cent, and the whole reserve has been placed over against the total of the notes in circulation. It is a question here of an article of the Italian law which has no parallel in the banking laws of other countries, and which there is no occasion to consider in the comparative study of the metallic reserves and the circulation, because otherwise the terms of the comparison would need to be altered to the loss of Italy, and this would destroy the homogeneity necessary for an exact comparison. It is a question, in fact, of a legislative provision which can not alter the state of things which should be considered with a unified standard. Nor is it a valid objection that the sight liabilities of the Italian institutions for which the law requires a reserve of 40 per cent has no parallel in the foreign bank of issue, since they are composed almost wholly of negotiable paper of a kind that does not exist outside of Italy. To raise such an objection would be to conceal a question of substance behind a question of form.

Now, the question of substance is that the foreign banks have, like the Italian ones, under the form of transfers or accounts current, debts that must be considered as a virtual supplementary circulation, which, on the demand of creditors, may increase the real circulation. If, therefore, a reserve is considered necessary against the sight liabilities of the Italian banks, a reserve should also be considered necessary against the other debts of

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the same banks and of foreign ones; or at least, since the Italian law is more severe on this point, it would be necessary in a comparative study, to leave out of account the terms of the law, or else extend, through analogy and homogeneity, the informing concept of it to foreign banks also.

Given this standard, this is what the relation would be between the metallic reserves and the total of the active circulation, demand liabilities, and deposits in accounts current:

[Expressed in million lire.]

	1894.			1908.		
	Circulation, demand liabilities, deposits.	Metallic reserve.		Circulation, demand liabilities, deposits.	Metallic reserve.	
		Total.	Per cent.		Total.	Per cent.
Bank of France.....	4,039.7	3,311.5	82	5,882.0	4,371.2	74
Imperial Bank of Germany	1,894.6	1,256.4	66	3,158.4	1,176.1	37
Bank of Austria-Hungary .	1,095.4	644.7	59	2,369.2	1,612.6	68
Bank of England.....	1,471.3	817.4	52	2,095.0	772.1	37
Bank of Belgium.....	490.4	228.8	46	877.6	343.1	39
Bank of Spain.....	1,191.5	448.6	37	2,094.7	900.0	42
Italian banks.....	1,468.8	535.7	36	2,187.0	1,477.2	67

^aThe amounts of the metallic reserve for the Bank of Spain have been calculated according to Señor Besada's scheme referred to above.

The Italian banks which figure in the last rank in 1894, with a percentage of 36, advance in 1908 to the third rank with a percentage of 67, against 74 for France and 68 for Austria-Hungary.

Now that we are on the point of concluding fortunately with the picture of an auspicious ending, the exposition of the perilous vicissitudes of the banks of issue in Italy, and of completing this sketch with a brief outline of the

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principal points of the financial and economical progress of Italy during the fifteen years, in comparison with those of other countries, it should be stated that this outline is all the more necessary in that the new elements to be passed in review can not be considered foreign to those we have just examined; so close and intimate are the ties and so frequent the relations between all of these elements that it is very often hard to distinguish which of them are to be considered as causes and which as effects in the economic and financial vicissitudes of the country.

And indeed, as for the increase of the metallic reserves of the banks, through which their note circulation has come to be increased in quantity and improved in quality, is it not due in part to the work of reconstruction of the banks, giving value to their notes, and in part to the greater and more profitable industrial and commercial activity of the country, enabling it to free itself in a monetary way from foreign markets? And has not this same greater industrial and commercial expansion of the country been promoted or at least effectively helped by the banks of issue?

The industrial and commercial advancement of Italy is clearly shown by the table on page 195, in which is indicated the total of the international commercial imports and exports in each of the years from 1894 to 1908, in comparison with that of other countries.

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[Expressed in million lire.]

Year.	Eng-land.	Ger-many.	France.	Aus-tria.	Bel-gium.	Italy.	Spain.
1894.....	15,693	9,200	6,928	3,139	2,505	2,121	1,292
1895.....	16,171	9,398	7,086	3,087	3,065	2,225	1,347
1896.....	18,561	9,846	7,241	3,179	3,244	2,232	1,606
1897.....	18,737	9,960	7,675	3,221	3,262	2,283	1,718
1898.....	18,787	11,375	7,879	3,417	3,580	2,617	1,456
1899.....	20,397	11,576	8,116	3,610	3,880	2,938	1,661
1900.....	21,956	12,465	8,486	3,820	3,917	3,038	1,586
1901.....	21,906	12,851	8,981	3,770	4,033	3,903	1,539
1902.....	22,082	12,862	8,652	3,818	4,133	3,248	1,563
1903.....	20,975	13,763	8,818	4,207	4,414	3,379	1,646
1904.....	21,428	14,457	9,012	4,320	4,676	3,473	1,718
1905.....	22,509	15,933	9,646	4,609	5,102	3,721	2,058
1906.....	22,585	17,900	10,894	4,791	5,566	4,420	1,912
1907.....	26,961	19,325	12,219	5,208	6,243	4,829	1,889
1908.....	24,395	18,695	11,363	5,100	5,958	4,889	1,878
Difference between 1908 and 1894—per cent ..	+55	+103	+64	+62	+137	+130	+45

Italy, as it is seen, comes directly after Belgium, with an increase of 130 per cent in the general movement of its commerce in comparison with 1894.

The budget also presents satisfactory data during the fifteen years in spite of the ups and downs passed through by Italian finance.

The table on page 196 sums up as a whole the aggregate results of the budgets and the movements of the public debts of the principal countries during the fifteen years.

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Period from 1894 to 1908.

[Expressed in million lire.]

	Expenditures.			Public debt.			
	Total from 1894 to 1908.	Surplus (—) or Deficit (+).		Amount to—		Difference.	
		Total.	Per cent.	1894.	1908.	Total.	Per cent.
Italy	28,000	— 630	— 2.50	12,453	12,648	+ 195	+ 1.56
England	55,500	+ 3,500	+ 6.00	16,750	17,872	+ 1,122	+ 6.69
German Empire . . .	37,000	— 114	— .30	2,443	25,318	+ 2,875	+ 117.68
France	54,000	— 390	— .70	31,000	32,990	+ 1,990	+ 6.42
Austria	29,500	— 400	} — 1.48	13,473	16,403	+ 2,930	+ 21.74
Hungary	19,800	— 334					

^a This is the debt of the German Empire. If one adds to this the aggregate of the debts of the various German states, it appears that the total German debt has increased from 12,183 million lire, in 1894, to 21,218 million lire in 1908, or an increase of 74.16 per cent.

It is apparent from these figures that Italy has had a total increase in the budget amounting to 630,000,000 lire, equal to 2.50 per cent of the aggregate expenditure, having also included in the ordinary expenditures more than 300,000,000 lire in expenditures on railroads, whereas the public debt has increased by only 195,000,000 lire, equal to 1.56 per cent.

The absolute increase may therefore be considered 435,000,000 lire; to this, in order to give the terms of the comparison the necessary homogeneity, should be added the 300,000,000 lire expended on railroads; and thus, in comparison with the other countries, Italy presents an increase of 735,000,000 lire, without any addition to the debt.

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Proceeding with the same method of rectification in respect to the other countries, bearing in mind that the increase of debts is generally due to the need of making up for financial expenditures, we shall have the following table:

	Actual deficit in the fifteen years (millions).	Per cent of debt to 1894.
England	1, 122	6. 69
German Empire	2, 761	113. 01
France	1, 600	5. 16
Austria-Hungary	2, 196	16. 29

All this confirms in a sufficiently eloquent manner the fact that Italy, even in regard to State finances, has obtained during the fifteen years results that seemed beyond all hope and that place it in the first rank for the importance of the increase of returns and the small increase in the debt. One must consider, of course, with a comparative and proportioned standard the progress made in the fifteen years by the various countries, keeping in mind the different degree of economic and financial power of each of them and the possibility of richer countries being able to face financial deficits and bear the burden of an increased debt without its weighing too heavily upon their economic conditions. This, considering the degree of the pressure of taxation in relation to private wealth, and considering the weight of the burden of the debt, would be very difficult, if not entirely impossible, in Italy.

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Therefore Italy should be given credit for the great merit of having grasped the gravity of the situation and its inherent dangers and of having avoided these dangers by improving the situation, thanks to intelligent, energetic, and enlightened action.

As we have said above, the successive measures taken by the Honorables Sonnino and Luzzatti contributed to put Italian finance on the right road, and particularly the determination to cease from all issues of public securities, including those for building railroads, which are provided for by the ordinary resources of the budget. This determination was called extreme and may still seem so to-day, unless one considers that Italy had abused debts beyond all measure of prudence and proportion, and the burden of these debts far surpassed that of other countries, taking into account the relative private wealth. Here is a statement of the situation in this regard in 1897:

Sum total and cost of the public debt.

	Total (millions).	Per cent of private wealth.	Cost (millions).	Per cent of private wealth.
Italy	13,000	24.07	703	1.30
France	31,090	13.80	1,020	.45
England	16,019	6.38	625	.25
Germany	15,767	7.17	637	.29
Austria-Hungary	13,972	16.25	653	.76
Belgium	2,328	6.85	113	.33

It will be helpful now to see what has happened since then in the matter of loans in Italy and the other countries. The following table gives the total amount of obligations issued for the past eleven years, distinguishing those of the Government, the provinces, and the com-

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munes and those of the banking, industrial, and railroad companies:

	Total issues (millions).	State, provincial, and communal issues.	Banking, industrial, and railroad issues.
		<i>Per cent.</i>	<i>Per cent.</i>
Italy.....	1,195	13	87
France.....	12,047	18	82
England.....	34,309	35	65
Germany.....	31,647	37	63
Austria-Hungary.....	2,509	47	53
Belgium.....	3,873	44	56
Spain.....	3,550	58	42

As may be seen, Italy during the past eleven years is the country that has had recourse to loans for relatively the smallest sum in comparison with other countries, and has had occasion to borrow only 155,300,000 lire on government, provincial, and communal obligations, and 1,039,600,000 lire for issues of stocks and bonds for banking, industrial, commercial, and railroad companies. If one considers the small amount of the issues for the State and for companies, together with the regulation accomplished of public finances and the economic progress of the country, eloquently proved by the figures of the movement of trade, it will be seen that Italy has been able to find within itself the strength to rise from the slough into which it had fallen, and has, by faithful and fruitful work, multiplied the productive capacity of its available capital.

From the comparison of the progress of the various countries in the last fifteen years all the relative value of the progress of Italy does not appear, a value that can not fail to attain much greater importance if we consider that Italy was in 1894 in a very serious economic, financial, and

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monetary condition, and was obliged from that time to devote a great part of its activity to curing the ills by which it was afflicted before being able to carry on the work of economic reconstruction; whereas, with the exception of Spain and England, which had to bear the expense of the wars in Cuba and the Transvaal, the other countries were able to continue quietly devoting themselves to their economic activity.

CHAPTER XVI.

CONCLUSION.

The satisfactory results obtained in every field, of which Italy is justly proud, would not, however, have been possible without the accompanying aid of all propitious circumstances; unless, after framing suitable laws, gradually adapted to the modified conditions of the country and the banks, their administration had been scrupulously and profitably carried out; unless, while the banks were bent on improving their own situation, the State had done energetic, active, and vigorous work to establish finance upon a stable and durable footing; and, above all, unless the industriousness of the inhabitants and their powers of sacrifice and economy, reconstructing and increasing the public riches, had efficiently aided the restoration of the banks, circulation, and finance; and indeed, if the Italian people, by the vigorous impulse given to industry, had not opened new avenues of trade; if they had not been aided by the upbuilding and compensatory elements represented by the industrious and economical emigrants who pour into the country plentiful remittances of money, and by the exploitation of the glories of history, art, and nature, that bring under its wonderful sky tourists from all quarters, it would not have been possible to change gradually the position of Italy from a debtor country to a country often creditor; the wisdom and firmness of statesmen and bank directors would not alone have been enough to perform the wonder.

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For it is due precisely, in great part, to the fruitful industry of the Italian people that Italy, ceasing to be a debtor country, under monetary tribute to foreign countries, has become a creditor country and has seen turned in its favor the economic and monetary balance, even to the point of receiving from abroad large sums of gold which have flowed into the banks of issue in exchange for notes. It is likewise due further to the accumulations of savings of the Italian people that a considerable part of the State securities, which had been owned abroad, has returned to Italy, so as to save the country henceforth, as we have already seen, from the violent and disturbing effect of the sudden return of securities to which debtor countries with abnormal finances and circulation are often exposed whenever the creditor markets are affected by a crisis or pressed by monetary difficulties.

And indeed, whereas in the preceding crises of the international market, Italian exchange had to suffer considerable disturbances, the crisis of 1907 left it quiet in the neighborhood of par in spite of the fact that the home market, as we have seen, was also, for reasons peculiar to itself, gravely affected.

On the other hand, it must be recognized that the efforts of the Italian people would have given less results if they had not been ably aided in the work of economic reconstruction by the right direction given to the public finance and the regulation of the banks and circulation.

As in the preceding period of difficulty and distress, so in the fortunate period of reconstruction it has been possible to see that there is an intimate connection between the finances of a country and its economic conditions.

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For this reason, in order to give to each in equitable measure the merited share of praise, it should be recognized that all those who in the government and direction of the banks of issue helped to start finance and the circulation in the right path have acquired a high title to the gratitude of the country whose economic reconstruction they have efficiently aided. And among the men who succeeded each other in the Government we should mention with special honor the Honorables Giolitti, Luzzatti, and Sonnino, who in the field of finance and that of circulation have made an ineffaceable impress upon the history of modern Italy.

The edifice of finance and credit auspiciously and solidly reconstructed, with such keenness of intellect and so much vigorous effort, must henceforth be considered as a sacred thing, over the safety of which Italy must keep watch with jealous care. This warning can hardly seem superfluous if we consider that although there is reason to suppose that the severity of the law, the ability and unanimity of the men placed in the management of the banks of issue, and the sad but salutary records of the past, will save Italy new banking crises; there is, on the other hand, reason to fear that the sound structure of finance may be shaken unless efficient and energetic action is brought to bear to repulse all the attacks to which, under every sort of pretext of the public interest, the Italian budget is exposed.

This warning is all the more opportune if one reflects further that the passing of the management of the railroads to the State represents an unknown quantity that is not reassuring, and demands, meanwhile, an enormous

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sum that will not be adequately remunerated by the railroad earnings—a sum that must be obtained by issues of special obligations; and also if one bears in mind that, as we have already seen, the national economic conditions are still disturbed, especially in the industrial field, by the errors committed by speculators in 1906 and by the results of the crisis that broke out in 1907.

Statistical items on finance, circulation, credit, and trade in Italy from 1871 to 1908.

[In millions of lire.]

Year.	Banks of issue.											Movement of trade.		Exchange.		Italian rentes.				State budget.				Effective debt of the state at the end of fiscal year.	State circulation.		
	Discounts.	Loans.	Loans to the state.		Deposits.	Demand liabilities.	Circulation.	Reserve.				Imports.	Exports.	Maximum.	Minimum.	Rome.		Paris.		Fiscal year.	Total expenditures.	Surplus.	Deficit.		Notes in circulation.	Reserve against the notes circulation.	
			Not included in the total of circulation.	Included in the total of circulation.				Against demand liabilities.		Against notes.						Total.	Maximum.	Minimum.	Maximum.								Minimum.
								Total.	Per cent.	Total.	Per cent.																
1871.....	343	89	678	.....	61	109	578	36	33.33	271	47	307	961	1,075	106.57	102.31	76	56.20	69.80	50.50	1871.....	1,176	43	.....	Dec. 31—	.....	.....
1872.....	399	111	790	.....	63	129	623	43	33.33	239	38	282	1,182	1,162	111.37	104.81	75.67	70.25	71.45	65.35	1872.....	1,224	.....	22	7.651	.....	.....
1873.....	420	119	840	.....	53	126	664	42	33.33	265	39	307	1,261	1,131	115.55	109.60	74.30	65.80	68.40	58.10	1873.....	1,287	.....	82	7.680	.....	.....
1874.....	387	83	880	.....	56	128	633	43	33.33	275	43	318	1,296	978	115.70	108.55	74	67.17	68.85	58.95	1874.....	1,225	.....	35	7.662	.....	.....
1875.....	334	94	940	.....	57	100	621	33	33.33	243	39	276	1,207	1,022	109.40	105.15	77.35	71	73.90	66.10	1875.....	1,259	21	.....	7.507	.....	.....
1876.....	325	97	940	.....	81	113	646	38	33.33	262	40	300	1,307	1,208	108.85	106.40	78.30	72.60	74.95	67	1876.....	1,321	.....	7	8.731	.....	.....
1877.....	352	102	940	.....	80	137	629	46	33.33	229	36	275	1,141	934	113	107	78.20	69.30	74.47	62.25	1877.....	1,369	11	.....	8.797	.....	.....
1878.....	380	98	940	.....	103	143	672	48	33.33	268	39	316	1,062	1,021	110.70	107.05	82.15	75.45	78.40	68.70	1878.....	1,319	12	.....	8.818	.....	.....
1879.....	381	130	940	.....	97	121	732	40	33.33	283	38	323	1,252	1,072	114.22	107.67	89.75	79.90	82.35	73.90	1879.....	1,317	42	.....	8.837	.....	.....
1880.....	423	147	940	.....	88	163	749	54	33.33	269	36	323	1,187	1,104	111.97	100.60	95.15	86.60	88.95	79.55	1880.....	1,329	19	.....	8.896	.....	.....
1881.....	404	113	940	.....	91	126	736	42	33.33	255	34	297	1,240	1,165	101.55	98.72	92.55	86.32	94.56	87.25	1881.....	1,401	51	.....	9.506	.....	.....
1882.....	427	96	940	.....	109	140	732	47	33.33	257	35	304	1,227	1,152	104.22	99.32	90.90	86.70	90.80	84.20	1882.....	2,116	9	.....	10.847	340	a13
1883.....	374	75	598	.....	94	134	794	45	33.33	405	51	450	1,288	1,186	101.25	98.75	91.05	84.05	93.50	85.55	1883.....	1,469	10	.....	10.904	340	a13
1884.....	453	73	339	.....	91	145	899	48	33.33	446	49	494	1,320	1,071	100.40	99.77	99.67	89.47	99.45	89.43	First semester, 1884.....	725	.....	5	.....	218	a13
1885.....	617	140	196	.....	146	155	948	52	33.33	382	40	434	1,460	950	101	100.14	98.37	91.10	98.15	90.25	1884-85.....	1,581	35	.....	.....	289	a13
1886.....	674	130	128	.....	137	182	1,032	60	33.33	391	38	451	1,458	1,028	100.45	99.84	102.87	96.21	102.55	96	1885-86.....	1,637	15	.....	11.073	305	a13
1887.....	713	140	73	.....	160	157	1,076	52	33.33	399	37	451	1,605	1,005	101.76	100.40	100.75	92.82	100	90.50	1886-87.....	1,696	12	.....	11.100	318	a13
1888.....	674	123	15	.....	165	153	1,075	51	33.33	409	38	460	1,175	892	102.21	100.10	99.54	94.03	99.15	92.05	1887-88.....	1,904	.....	57	11.120	328	a13
1889.....	744	127	12	.....	177	162	1,117	54	33.33	385	34	439	1,391	951	102.26	100.09	98.37	93.52	98.15	90.90	1888-89.....	2,005	.....	230	11.584	332	a13
1890.....	671	123	10	.....	233	155	1,126	52	33.33	358	32	410	1,320	896	102.10	100.55	98.45	93.81	97.60	91.60	1889-90.....	1,815	24	.....	12.022	332	a13
1891.....	645	121	.....	123	255	149	1,122	50	33.33	393	35	443	1,127	877	103.85	100.67	96.28	89.96	95.50	87	1890-91.....	1,775	46	.....	12.033	333	a13
1892.....	599	110	.....	98	229	173	1,138	58	33.33	389	34	447	1,173	958	105.05	102.30	97.42	91.50	94.10	86.70	1891-92.....	1,696	.....	48	12.330	333	a13
1893.....	617	126	.....	97	112	153	1,212	51	33.33	396	32	447	1,191	964	115.95	103.97	97.49	89.35	93.50	78.05	1892-93.....	1,682	9	.....	12.497	333	a13
1894.....	310	67	.....	75	201	142	1,126	57	40.00	479	42	536	1,095	1,026	115.70	106.37	92.61	82.64	87.30	72	1893-94.....	1,818	.....	59	12.629	336	a13
1895.....	279	55	.....	73	192	131	1,085	52	40.00	475	43	527	1,187	1,038	109.37	104.02	95.14	90.41	90.95	83.80	1894-95.....	1,721	.....	2	12.453	399	b80
1896.....	313	55	.....	.....	171	137	1,069	55	40.00	500	47	555	1,180	1,052	112.62	104.50	97.33	86.23	93.75	78	1895-96.....	1,760	.....	2	12.907	400	b80
1897.....	318	51	.....	.....	175	151	1,086	61	40.00	539	49	600	1,192	1,092	106.27	104.32	100.58	92.26	96.65	87.45	1896-97.....	1,680	.....	1	12.610	400	b80
1898.....	391	63	.....	20	174	171	1,122	69	40.00	536	47	605	1,413	1,204	109.60	104.75	102.05	97.99	95.50	90.30	1897-98.....	1,669	.....	1	12.542	466	b91
1899.....	422	117	.....	40	131	163	1,180	65	40.00	516	43	581	1,507	1,431	108.45	105.80	103.30	98.41	96.75	91.25	1898-99.....	1,669	15	.....	11.797	453	b133
1900.....	457	72	.....	.....	128	156	1,139	63	40.00	551	48	614	1,700	1,338	107.32	105.40	101.24	97.20	96	90.90	1899-1900.....	1,680	5	.....	12.807	451	b132
1901.....	469	69	.....	7	130	163	1,154	65	40.00	568	49	633	1,718	1,374	105.97	101.40	102.78	99.07	101.50	93.75	1900-1.....	1,711	41	.....	13.002	450	b130
1902.....	484	83	.....	.....	113	157	1,176	63	40.00	607	51	670	1,776	1,472	102.70	98.99	105.02	101.05	104.10	99.50	1901-2.....	1,826	33	.....	12.993	448	b128
1903.....	484	72	.....	.....	113	176	1,236	71	40.00	792	64	863	1,862	1,517	100.27	99.05	104.55	101.90	104.40	101.90	1902-3.....	1,810	70	.....	12.894	446	b127
1904.....	526	63	.....	.....	116	182	1,277	73	40.00	815	64	888	1,914	1,597	101.66	99.88	105.55	99.52	105.60	98	1903-4.....	1,788	34	.....	12.867	444	b124
1905.....	589	101	.....	.....	103	196	1,406	78	40.00	998	70	1,076	2,065	1,731	100.10	99.75	106.59	103.64	106.60	103.55	1904-5.....	1,832	48	.....	12.832	443	b123
1906.....	627	79	.....	.....	100	187	1,605	75	40.00	1,145	71	1,220	2,512	1,893	100.12	99.75	105.75	102.02	105.95	102	1905-6.....	2,428	63	.....	12.865	440	b120
1907.....	754	109	.....	.....	128	218	1,851	87	40.00	1,341	72	1,428	2,760	1,851	100.24	99.65	103.74	100.58	103.90	100.70	1906-7.....	2,086	102	.....	12.772	438	b118
1908.....	550	117	.....	.....	109	216	1,862	86	40.00	1,391	74	1,477	3,031	1,858	100.21	99.77	105	101.77	105	101.67	1907-8.....	2,180	62	.....	12.669	438	b117
																					1908-9.....	2,439	82	.....	12.648	436	b178

^a Consisting of state securities.

^b Consisting of specie.

The Italian Banks of Issue

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THE ITALIAN BANKS OF ISSUE.

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PART I.—THE BANKS PRIOR TO 1893.

I.—THE BANCA NAZIONALE.

The Sardinian Government in the year 1844 sanctioned the foundation in Genoa of a discount and deposit bank having the privilege of issuing notes, and a similar institution in Turin was chartered in 1847. Each was to have a capital of 4,000,000 lire. Royal decrees of 1849 and 1850 authorized the consolidation of the two banks into a single institution called the Banca Nazionale, with its seat in Genoa, with a capital of 8,000,000 lire, a monopoly of the issue of bank notes, and a chartered term

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of existence of thirty years. In 1852 the capital was increased to 32,000,000 lire and the bank proceeded to establish branches.

In 1859 the institution extended its operations to the newly liberated Lombardy. A new bank act was sanctioned by royal decree of October 1, 1859, and the capital was increased to 40,000,000 lire. In 1861 two banks of issue, the Banca di Parma^a and the Banca di Bologna (or *Banca delle Quattro Legazioni*)^b were incorporated with it. At the same time new branches and sub-branches were opened in the Neapolitan and Sicilian provinces, and the institution assumed the title of Banca Nazionale nel Regno (National Bank in the Kingdom). In 1865 its capital was increased to 100,000,000 lire. A branch was at this time established in the new capital of Italy, Florence, and later subbranches were opened in other cities of Tuscany. The same thing was done in 1866-7 in the newly liberated Venetian provinces, and the institution absorbed another bank of issue, the Stabilitamento Mercantile Veneto, at Venice.^c Finally, in 1871 headquarters were established at the new capital, Rome, and in 1872 the bank was authorized to increase its capital to 200,000,000 lire, of which only 150,000,000 lire was paid in.

Thus the little Sardinian bank, by the absorption of all other banks of issue in upper Italy and the establishment

^a The Banca degli Stati Parmensi, at Parma, had a capital of 500,000 lire, of which 300,000 was paid in.

^b The Banca delle Quattro Legazioni, at Bologna, had a capital of 200,000 Roman scudi.

^c This institution had a capital of 2,100,000 florins. It issued bank notes called cash certificates (*buoni di cassa*), whose average circulation was between 1,200,000 and 1,500,000 florins.

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of branches and subbranches in many important places throughout the country, rose to the position of the leading credit institution in the kingdom.

From 1885 it carried on a great mortgage business, a feature of which was the issue of debentures.

II.—THE EXTINCT BANKS OF ISSUE.

BANCA NAZIONALE TOSCANA—BANCA TOSCANA DI CREDITO—
BANCA ROMANA.

The grand-ducal government of Tuscany established in 1816 a public discount bank, the capital of which was advanced by the State and which was invested with the privilege of issuing bank notes. After an existence of only ten years this bank was dissolved and was succeeded by a new discount bank (with its seat at Florence), which had a capital of 1,000,000 Tuscan lire (afterwards increased to 1,250,000 lire) and had the right to issue notes, which were guaranteed by the Government up to three times the amount of the capital. A discount bank (joint-stock company) was established at Leghorn (*Livorno*) in 1837, with a capital of 2,000,000 Tuscan lire, which was authorized to issue notes likewise up to three times the amount of its capital. In 1841 the Bank of Siena, a joint-stock bank, with a capital of 150,000 lire, was opened. It could issue notes up to the amount of its capital. In 1846 the Bank of Arezzo, a joint-stock bank, was established, with a capital of 120,000 Tuscan lire, up to which amount it had a right to issue notes. Then came the Bank of Pisa (1847), a joint-stock bank of issue, with a capital of 150,000 lire, soon raised to 300,000 lire. Its circulation was restricted in the same way as in the case of the two

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preceding institutions. In 1850 the Bank of Lucca was opened, with a capital of 299,666 lire. It was authorized to issue notes up to twice the amount of its capital and was allowed to make them of very small denominations. Tuscany had now six banks of issue. There was no legal provision in regard to the mutual redemption of notes.

In 1857 the two banks at Florence and Leghorn were consolidated. The new institution, which had a main office in each city, took the name of National Bank of Tuscany (*Banca Nazionale Toscana*). Its capital was fixed at 8,000,000 Tuscan lire and was to be increased by one-third of this amount every fifth year. The other banks of issue were permitted to change their status and convert themselves into branches of the newly constituted bank, and, in accordance with this provision, the banks of Siena, Pisa, Lucca, and Arezzo were merged in 1860 in the Banca Nazionale Toscana. The capital of this institution was now 9,410,000 Tuscan lire and was soon raised to 10,000,000 lire. In 1864 it opened a subbranch at Pistoja and in 1873 one at Grosseto, and later other subbranches were established. The act of August 18, 1870, prolonging the term of the bank's charter, authorized the increase of its capital up to a maximum of 50,000,000 lire. The administrative council of the bank, however, fixed the capital at only 30,000,000 lire, of which 21,000,000 lire was paid in.

In March, 1860, the provisional government in Tuscany decreed the establishment of the Tuscan Credit Bank for the industry and trade of Italy (*Banca Toscana di Credito per le industrie e il commercio d'Italia*). Its capital was supposed to be fixed at 40,000,000 lire

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but only 5,000,000 lire was paid in. This institution, in addition to all regular banking business, was authorized to issue cash certificates (*buoni di cassa*) up to three times the amount of the paid-in capital. It began business in 1863. It was located at Florence and had no branches.

A bank was established at Rome as early as 1833. After a rather inactive existence it was superseded in pursuance of a papal decree of 1850 by a larger institution, the Bank of the Pontifical States (*Banca dello Stato Pontificio*), which had branches at Bologna and Ancona. Its capital was to amount to 1,000,000 scudi (5,375,000 Italian lire), but only 600,000 scudi was paid in when it was opened. This institution had the monopoly not merely of the issue of notes (in denominations of 1, 10, 20, 50, and 100 scudi), for which a one-third reserve was to be provided, but also of every kind of banking business. Its charter was to terminate in 1881. The two branches were abolished in 1857 and were superseded by the Bank of the Four Legations (*Banca dello Quattro Lagazioni*), which was merged in 1861 in the Banca Nazionale nel Regno. The administration of the Banca dello Stato Pontificio was anything but a model one, so that in 1866 the papal government was compelled to offer its security for the bank notes. At the close of 1869 the circulation was 30,700,000 Italian lire and the reserve 10,900,000 lire.

When Rome became the capital of the Kingdom of Italy, in 1870, the notes of the bank were declared a legal tender in the province of Rome, and the institution was reconstituted under the name of the Roman Bank (*Banca Romano*). It renounced its monopoly in consideration

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of a payment of 2,000,000 lire, other banks being permitted to establish branches at Rome. In 1874 it was authorized to increase its capital to 15,000,000 lire, which was all paid in. The Government at the same time ceased to guarantee the security of the notes. This bank did not make use of the privilege of establishing branches.^a

III.—THE BANK OF NAPLES AND THE BANK OF SICILY.

From the second half of the sixteenth century there were large pawn banks in the Kingdom of Naples. At the time of the French Revolution the Bourbon Government seized their property in order to make use of the funds for carrying on the war against France. The French Government sought, by means of a law enacted in 1806, to retain one of the old banks—that of San Giacomo—for the service of the court and the Government and to establish a bank for the business of the people, and in 1808 it proceeded to create a single institution in place of the two—the Bank of the Two Sicilies. The necessary capital, however, was not forthcoming. Nothing came of a further attempt in 1809, but the restored Bourbon Government succeeded in bringing into existence, by decree of December 12, 1816, the Bank of the Two Sicilies. This was a dual establishment—a court bank for the service of the Government, and a people's bank, which took deposits and loaned money on pledges. The former was dependent on the minister of finance and the latter was under the supervision of the Government. The employees in both cases were government officials. The scheme included also a discount bank as part of the establishment. This discount bank, which was opened

^a For later history see sections IV and V.

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in 1818 with capital advanced by the Government, was in reality nothing more than a department of the court bank. It was constantly involved in the financing operations of the royal treasury. Although the Government acted rather arbitrarily in the matter of fixing the rate of discount, and was not always ready to comply with the provisions determining their status, these institutions enjoyed the confidence of the people in a high degree, and they were extensively utilized, all the more so as they were the only institutions of the kind in the country. A new department of the court bank was opened at Naples in 1824, designed to serve some special branches of governmental and local administration. Private individuals were, however, also allowed to avail themselves of it, so that the distinction between the court bank and the people's bank practically ceased to exist. A similar department of the court bank was established much later (1857) at Bari.

The characteristic business of the Bank of the Two Sicilies, the feature that made it popular, was the deposit business (*servizio apodissario*). The certificates of credit (*fedi di credito*) were transferable by indorsement. They might be converted into a certificat  for the purpose of making a succession of payments by means of cash orders, called "polizze," each payment being entered on the certificate, which thus served as a pass book, the depositor having in this way an actual account current with the bank, of which he could avail himself in making payments to third parties. The certificates of credit, cash orders, and the orders for small amounts (*polizzini*) became a legal tender and were redeemable in coin at the tax offices.

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They, as well as the drafts (*Mandati*) issued by the bank, served for making remittances, a quality which in those days of defective means of communication was very useful and highly appreciated. These instruments were therefore very extensively used in the Kingdom of Naples.

The Italian Government reorganized the Bank of the Two Sicilies by a series of decrees between 1860 and 1866. The institution, which was renamed the Bank of Naples, was deprived of its character as a state bank and was transformed into an independent credit corporation, having its own administration under the supervision of the Government. In 1866 the bank began to issue certificates of credit for a specific sum, transferable without indorsement and drawn on the cashier, which were in reality nothing else than bank notes. In the same year, the currency in Italy having come down to a paper basis, the certificates of credit and the cash orders were declared a legal tender within the provinces of the former Kingdom of Naples. In the meanwhile the bank proceeded to establish branches, and it has since made extensive use of this privilege. The act of April 30, 1874, conferred upon the Bank of Naples the character of an actual bank of issue, although it carried on the business also of a pawn office, a savings bank, and a mortgage bank. Subsequently an agricultural credit department was added. A royal decree of September 23, 1874, assigned the sum of 48,750,000 lire as a permanent fund for the issue of notes.

In 1843 the Neapolitan Government had established a court bank at Palermo and another at Messina. They were dependencies of the Bank of Naples, which, at that time, as we have seen, was styled the Bank of the Two

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Sicilies. The revolution of 1848 severed the connection, and after the restoration of the Bourbon dynasty, in 1849, the separation of the Sicilian court banks from the Bank of the Two Sicilies was consummated. In 1850 the two banks were consolidated into a single institution, styled the Royal Bank of the King's Domain in Sicily (*Banco Regio dei reali Domini al di là del Faro*). The institution was a bank of deposit for the Government and for the people. It had the same arrangements as the Bank of Naples in the matter of certificates of credit and cash orders, which were a legal tender. The banks served the needs of the financial administration of Palermo and Messina. The royal domains in Sicily were mortgaged as security for the deposits. In 1858 two newly established discount banks at Palermo and Messina were affiliated with the Banco Rigio. The events of 1860 affected these institutions in a most serious manner, a large part of their property being taken for the purposes of war. The gradual restoration of the funds enabled them to resume banking operations, and in 1867 they were transformed into the existing Bank of Sicily (*Banco di Sicilia*), which is a public corporation and no longer a state institution. In 1872 the bank was authorized to establish branches.

In 1870 the Bank of Sicily began to issue actual bank notes in the shape of certificates of credit for a specific sum, drawn on the cashier and transferable without indorsement. The act of April 30, 1874, consummated the conversion of the institution into an actual bank of issue, and in the same year a fund of 12,000,000 lire was assigned to it for its bank-note circulation. In 1871 the bank instituted a realty credit department and in 1888 an agricultural credit department.

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IV.—BANK LEGISLATION OF THE PERIOD 1866–1892.

A royal decree of May 1, 1866, rendered the notes of the Banca Nazionale nel Regno a forced currency. This institution at the same time made a loan of 250,000,000 lire to the Government for the war that was to be waged against Austria. The other banks of issue (the Bank of Naples, the Bank of Sicily, and the two Tuscan banks) were authorized to continue the issue of certificates of credit, cash orders, cash certificates, and bank notes, and these instruments were to remain a legal tender; that is to say, they were to retain this quality in the provinces in which they had hitherto possessed it. They continued, however, to be redeemable in coin or the notes of the Banca Nazionale. Thus arose in the history of Italian banking the oft-recurring distinction between forced currency and legal-tender currency.

The Banca Nazionale nel Regno had thus acquired an exceptional status, which it deserved to have, inasmuch as it had extended its network of branches and sub-branches over the entire Kingdom. At the close of 1873 it had 790,000,000 lire in circulation on account of the Government (the indebtedness of the State to the bank having reached this sum) and 353,300,000 lire on its own account, and it had in addition loaned 39,500,000 lire to the other institutions, which had immobilized that amount of coin in their vaults. The aggregate amount of outstanding bank notes without forced circulation (including the notes of the Banca Romana, which had been incorporated in the Italian banking system in 1871), certificates of credit, and cash orders was at that time 733,300,000 lire.

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In spite of the presence of notes of very small denominations (50 centesimi, 1 lira, 2 lire) up to an aggregate of 101,300,000 lire, there was a considerable volume of legally unauthorized small notes in circulation that had since 1866 been taking the place of the silver fractional currency, which had disappeared. They were issued by friendly societies, communes, charitable institutions, savings banks, people's banks, mercantile houses, and private individuals, and at the close of 1873 they amounted in the aggregate to 33,300,000 lire. The necessity of doing away with this abuse, a certain hostility in political and banking circles, as well as among business men, toward the privileges of the Banca Nazionale, and the need of regulating the issues of the Bank of Naples and of the Bank of Sicily on the same basis as the issues of the other institutions, brought about the legislation of April 30, 1874. This placed the Banca Nazionale and the five other banks on an equality as regards privileges and duties. All the six institutions were organized into an association (*consorzio*), which had to put at the disposal of the Government, in place of the previous advances of the Banca Nazionale, 1,000,000,000 lire in so-called "association notes" issued in denominations ranging from 50 centesimi to 1,000 lire. These association notes constituted, as irredeemable paper money (forced currency), the basis of the entire currency. The volume of notes outstanding on account of the State had reached, at the close of 1875, the sum of 940,000,000 lire, which was never exceeded, as the Government did not make full use of its right to an issue of 1,000,000,000 lire. The banks were allowed to issue their own notes, redeemable over the counter in association notes in denominations

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ranging from 50 to 1,000 lire, up to three times their paid-in capital (in the case of the Banca Nazionale and the other three joint-stock banks) or of their fixed property (Bank of Naples and Bank of Sicily) on condition of keeping a one-third cash reserve against circulation in coin and association notes. Their metallic cash might be invested only in securities payable in coin. The bank notes were invested with the quality of a legal tender under certain restrictions. The issue of notes by private individuals and institutions of any kind was strictly forbidden, and in a few years this mischievous currency was driven from circulation.

The legislation of 1881, with the provisions discontinuing forced currency, dissolved the association of the banks of issue. The coin obtained by means of a loan was used for withdrawing the association notes from circulation. At the same time the issue of 340,000,000 lire of treasury notes was decreed (100,000,000 lire in 5-lire notes and 240,000,000 lire in 10-lire notes). First of all, the small notes of denominations up to 2 lire were replaced by fractional silver currency. The privilege of issuing notes was to terminate for all six banks at the close of 1889. The Government was empowered to authorize the banks to issue notes of the denomination of 20 or 25 lire, as it thought most expedient. The denomination was fixed by royal decree in 1883 at 25 lire.

The forced currency was discontinued in 1883. The law of 1881 provided that the reserve against bank note circulation should consist exclusively of coin. In pursuance of a royal decree of 1883 at least two-thirds of it had to be in gold. As a matter of fact, the treasury notes were

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placed on a par with gold and silver, as they were redeemable in coin at any time on presentation at the main treasury of the Kingdom. The continuance of the legal-tender quality of the notes of the six banks of issue was extended by numerous successive enactments. The privilege of issuing notes which, as we have seen, was to terminate at the close of 1889, was prolonged by a law of 1891 to the close of 1892.

PART II.—THE BANKS SINCE 1893.

V.—CAUSES OF THE NEW LEGISLATION.

All who had been observing without political or doctrinaire bias the course of government action in Italy with respect to the banks of issue had urged the necessity of thoroughgoing reform. The Italian system of banks of issue was a curious mixture of monopoly and plurality, which had all the disadvantages and none of the advantages of these systems. The competition of the six banks that had the exclusive privilege of issuing notes—institutions representing every grade of economic capacity—had led to an excessive issue of paper currency for the promotion of building speculation in the large cities (especially in the capital and in Naples), for the support of industrial undertakings of an artificial nature and necessarily doomed to failure, as well as of ill-managed credit institutions, and for the purpose of influencing legislation by the lavish use of money. The institution which was economically and morally most corrupt was the Banca Romana, which, ill conducted under the papal administration, had not had a sound existence under the national Government, and was the veritable poison of Italian credit. Its rottenness was fully revealed at the beginning of 1893 by an inquiry instituted at the instance of the Chamber of Deputies. Its suppression was inevitable, and as the condition of the other institutions was not a favorable one, Parliament had to make up its mind to the discussion of a rather

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radical reform, which was embodied in the act of August 10, 1893.

This act provided for the fusion of the Banca Nazionale Toscana and the Banca Toscana di credito with the Banca Nazionale. The institution thus constituted took the name of the Bank of Italy. The affairs of the Banca Romana were to be wound up, and so there were left but three banks of issue—the Bank of Italy, the Bank of Naples, and the Bank of Sicily. The laws of 1894 and 1895 declared the two latter banks to be public autonomous credit institutions under the supervision of the Government, intrusted the liquidation of the affairs of the Banca Romana to the Bank of Italy, and amended the law of 1893 in important respects. In spite, however, of further statutory enactments (1895-96), the banks were unable to improve their condition materially. Their troubles were mainly due to two causes. A large amount of paper, which had been discounted for individuals and concerns ruined or temporarily embarrassed, remained unpaid, and the banks were obliged to take in place of what was due them a large quantity of securities and real estate. Furthermore, as they were not merely banks of issue, but also mortgage banks, they were compelled, by reason of the continuous and severe agricultural depression and the crisis in the building trade in some of the large cities (in particular, Rome), to dispossess many owners of lands and buildings, and thus to burden themselves with a fresh mass of parcels of ground and houses. The mortgage business had indeed been delegated, in the case of each of these institutions, to an officially distinct

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administrative branch, but the regular banking department was constantly making fresh advances to this separate administrative branch on current account, and as these mortgage operations had been continually swallowing up new capital, the aggregate of the amounts thus advanced constituted a large sum to the credit of the banking department, on which it could not easily realize. In the case of the Bank of Naples, for example, an amount of money nearly equal to its entire free capital (*patrimonio*) had been gradually absorbed by the realty credit department, which, nevertheless, was on the verge of bankruptcy. These two categories of bad assets constituted in the balance sheets of the banks the so-called "immobilized assets" (*partite immobilizzate*), and to this were added the legally no-longer-permissible assets acquired previous to the law of 1893. The principal aim of the fresh legislation of 1897 and 1898 was to remove the dangerous consequences of this untenable condition and to remedy it as fast and as far as possible. The previously initiated liquidation of the mortgage institutions connected with the three banks of issue was definitively sanctioned, and arrangements were made for effecting it with the least possible loss to the banks and the creditors. Every facility was afforded, also, for the liquidation, or, as it was termed, "mobilization," of the "immobilized assets" that figured on the balance sheets, especially in the way of accommodations on the part of the fiscal administration and extensions in the matter of payments.

In order to secure and facilitate the application of the new legislative injunctions, energetic men were placed at

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the head of the institutions. The Government undertook the task of codifying most of the laws relating to the banks of issue, and the result was the legal code bearing the date of October 9, 1900. The duration of the legal-tender quality of the bank notes was extended year by year, and the lawmaker made constant use of the opportunities thus afforded in order to furnish fresh facilities to the banks for healing the wounds of the past. In the years 1899-1903 further improvements were made in the statutes of the Bank of Italy and the provisions relating to the other two banks.

The extraordinary development of industry, especially in upper and middle Italy, the strides made by commerce, and the progress in agriculture have in the last few years added greatly to the riches of the country. Emigration, although it has shown an unexpected and almost pathological increase, has afforded to the Italians permanently or temporarily settled abroad the means of sending or bringing home large sums of money, while the expenditure of the ever-increasing number of foreigners visiting Italy has contributed an important item on the credit side in the international balance of payments. In spite of the increased expenditure, the financial condition of the Kingdom has been considerably improved. The better credit of the State made it possible in 1906 to reduce the rate of interest on the public debt. This improvement in the economic and financial state of the Kingdom has naturally meant for the banks of issue a progressive development of their business and has afforded them the means of making a sounder selection in their transactions and of effecting more readily

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the liquidation of their immobilized assets. Great credit is due to the men at the head of these institutions, and we may point especially to the splendid manner in which the Bank of Italy weathered the financial crisis of 1907.

In spite of the progress thus made, the moment had not yet arrived, in the opinion of our legislators, for removing the forced currency of the bank notes, and by the act of December 29, 1907, its duration was extended to the close of 1908. On the occasion of the enactment of this law important measures were framed (among them one raising the normal maximum of bank-note circulation) in order to make the legal provisions conform more closely to the present condition of the banks of issue and the economic and financial state of the country. These measures were embodied in the act of December 31, 1907. By the act of December 24, 1908, the duration of the forced currency of the bank notes was extended to the close of 1909, and by the act of December 26, 1909, to the close of 1910. A fresh revision of the statutes of the banks took place in 1908 and 1909; the act of July 15, 1909, embodied provisions regarding interest-bearing deposits, and finally all the laws on the banks of issue (with exception of the act of August 8, 1895, Appendix Q, T.) were codified by the act of February 3, 1910.

VI.—CHARACTER AND ADMINISTRATION OF THE BANKS OF ISSUE.

THE BANK OF ITALY.

The Bank of Italy is a joint-stock company. The shares, which are registered, are nominally of 800 lire. Their nominal value was originally 1,000 lire, but they were

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reduced in 1894 to 900 lire and in 1897 to 800 lire. The amount actually paid in was 700 lire, but, as will be explained later on, the paid-in capital is put down as having been only 600 lire per share.

The central offices are at Rome. There are numerous branches, subbranches, "agencies," etc.

At the head of the administration is the director-general, who is assisted by the vice-director-general. They are elected and retired by the superior council of the bank, but they have to be confirmed by the Government.

The superior council (*consiglio superiore*) is elected in the following manner: The administrative council of each branch (*sede*) appoints two councillors from its midst. Five additional councillors are chosen by the general assembly of the shareholders from the midst of the remaining members of the administrative councils of the main offices or branches.

The director-general is a member of the superior council. The vice-director-general may attend the meetings, but he has no vote unless he takes the place of the director-general when the latter happens to be absent. The superior council, among other important functions, appoints the employees of the bank on the initiative of the director-general.

The directory (director-general and vice-director-general) and superior council carry on the general administration of the bank. Their management is supervised by the syndics (*sindaci*), who are chosen annually by the general assembly of the shareholders to the number of five.

The regular meeting of the shareholders is held annually at Rome, and extraordinary meetings are held whenever

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it appears necessary, in conformity with certain statutory provisions.

Each branch has a director, appointed by the superior council at the instance of the director-general, and an administrative council (*consiglio di reggenza*), composed of from seven to twelve (in exceptional cases, fourteen) councillors and of not more than four censors. The precise number of councillors and censors is fixed by the superior council.

The councillors and censors are elected for a term of six years by the general assembly of the shareholders, which meets for that purpose at the various main offices. One-half retire every three years, the general assembly of the shareholders being therefore required to meet every third year at each of the main offices. Each branch has from eight to fifteen discount councillors (the precise number being fixed by the superior council) elected for a term of two years, one-half retiring annually. They are chosen by the administrative council of the main office from a double list, indorsed by the director-general. The discount commission is composed of the director, two administrative councillors, and one discount councillor.

Each subbranch (*succursale*) has a director appointed by the superior council at the instance of the director-general, several censors (as many as may be deemed necessary), appointed by the superior council and confirmed by the syndics, and from four to eight discount councillors, elected by the superior council for a term of two years, one-half retiring annually. The discount commission is composed of the director and two discount councillors.

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Each agency (*agenzia*) is under the management of an agent, appointed by the superior council on the initiative of the director-general.

THE BANK OF NAPLES.

The Bank of Naples is an autonomous public credit institution under the supervision of the Government, having its own property or free capital. The central seat of administration is at Naples.

It has a peculiarly constituted general council (*consiglio generale*). This is composed as follows:

(a) The Neapolitan representation, consisting of the mayor of Naples, the presiding officer of the Council of the province of Naples, the president of the Neapolitan Chamber of Commerce, a delegate of the municipal Council of Naples, a delegate of the provincial Council, and a delegate of the Chamber of Commerce.

(b) A delegate of the Council of the province of Bari and a delegate of the Chamber of Commerce of the city of Bari.

(c) A delegate of the provincial Council of each of the following provinces: Aquila, Avellino, Benevento, Campobasso, Caserta, Catanzaro, Chieti, Cosenza, Foggia, Lecce, Potenza, Reggio-Calabria, Salerno, and Teramo.

(d) A delegate from each of the chambers of commerce in the other provinces of the Kingdom in which the bank has a main office.

(e) The director-general and the two administrative councillors appointed by the Government.

The delegates are elected for a term of two years. The general council has its regular meeting at Naples once in

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the course of the first three months in each year, and may be convened again later in extraordinary session conformably to special statutory provisions. Its functions correspond in the main to those of the general assembly of the shareholders of joint-stock banks.

The managing body is the administrative council (*consiglio di amministrazione*). This comprises the following members: The director-general, who is appointed by the Government (by royal decree); three ordinary delegates and one substituting delegate, who are chosen by the general council from its midst; and two administrative councillors, appointed by royal decree (one retiring each year), who are reeligible. The general secretary of the bank is appointed by the finance minister from a list of three persons submitted by the administrative council. The directors of each of the branches and of the sub-branches are appointed by the administrative council on the initiative of the director-general.

Each branch and subbranch has from eight to twelve discount commissioners, appointed by the administrative council (which fixes the number) for one year on the initiative of the director-general. The discount commission consists of the director and two commissioners.

The bank has a savings institution and a pawn office.

THE BANK OF SICILY.

The Bank of Sicily is an autonomous public credit institution under the supervision of the Government, having its own property or free capital. The central seat of administration is at Palermo.

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It has, like the bank of Naples, a general council (*consiglio generale*). This body is constituted as follows:

(a) The representation of Palermo, consisting of the mayor of the city of Palermo, the presiding officer of the Council of the province of Palermo, the president of the Chamber of Commerce of Palermo, a delegate of the municipal Council of Palermo, a delegate of the provincial Council, and a delegate of the Chamber of Commerce.

(b) The mayors of Messina, Catania, and Girgenti, a delegate of the Chamber of Commerce of each of these cities, and a delegate of the Council of each of the provinces of Messina, Catania, and Girgenti.

(c) A delegate of the Council of each of the provinces of Caltanissetta, Syracuse (*Siracusa*), and Trapani.

(d) A delegate from the Chamber of Commerce of each of the other provinces of the Kingdom in which the bank has established a main office.

(e) The director-general and the two administrative councillors appointed by the Government.

The delegates are elected every second year.

The general council has its regular meeting at Palermo once in the course of the first three months in each year and may be convened again later in extraordinary session, conformably to special statutory provisions. Its functions, as is the case with the Bank of Naples, correspond, in the main, to those of the general assembly of the shareholders of joint-stock banks.

With respect to its administrative personnel, the Bank of Sicily is organized in the same manner as the Bank of Naples. It has an agricultural credit department and a savings bank

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VII.—THE SYSTEM OF BRANCH BANKS.

The banks of issue are permitted to maintain branches, sub-branches, and agencies, to have correspondents, and to make use of banking houses as their representatives in the redemption of their notes.

The branches (*sedì*) are those offices which are located in the principal cities or which have the largest volume of business. These two conditions usually coincide. The banks are obliged to maintain a main office at the capital.

The agencies (*agenzie*) are those offices which have been established by the bank at its own expense and are managed by its own officials, and whose business it is to collect bills, to cash the drafts of the bank and the negotiable paper so-called (*vaglia cambiari*), and to redeem its notes.

The Bank of Italy is obliged to maintain a branch or a subbranch at the capital of each of the 69 provinces. It may establish sub-branches in other cities also, and it has done this to some extent. In the establishment and abolition of branches and subbranches and in the transformation of sub-branches into agencies the action of the bank requires the sanction of the Government, which is given simply in the form of a ministerial order. In the establishment and suppression of the agencies the action of the bank is untrammelled.

The Bank of Naples and the Bank of Sicily are at liberty to abolish the existing branches and sub-branches or to establish new ones in the capitals of the provinces, but the establishment and suppression of such branches can be effected only by royal decree, at the instance of the

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administrative council with the consent of the general council. In the case of the agencies an order of the finance minister is required in place of a royal decree.

The correspondents are the credit institutions and private banks which collect bills and cash drafts, etc., for account of the banks of issue.

These credit institutions and private banks, as well as the savings banks (as a general thing, in the larger cities), may, on due notice being given to the Government, be charged by the banks of issue with the redemption of their notes. They are invested by the bank of issue with the power of "representation for redemption" (*rappresentanza pel cambio*). This takes place usually in those provinces in which the bank of issue has no offices of its own belonging to any one of the three categories above mentioned. In such cases the bank selects a representative, whose place of business is generally the capital of the province. The bank may, however, have several representatives in the same province. The banks of issue may perform mutual services in respect of the redemption of their notes. The Bank of Naples, for example, represents the Bank of Sicily at a number of places.

The following table gives the statistics of the branch offices, etc., of the banks of issue. The figures are for the end of September, 1909.

Bank.	Branches (sedi).	Sub-branches (succursali).	Agencies (agenzie).	Representatives for the redemption of notes (rappresentanze pel cambio).
Bank of Italy.....	11	69	22	-----
Bank of Naples.....	12	15	10	35
Bank of Sicily.....	7	4	21	69

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There are a great many correspondents, each of the banks having hundreds. They are to be found even in very small places, and their number is constantly increasing with the foundation of new cooperative credit associations, regular credit associations, and private banks.

VIII.—CAPITAL OF THE BANKS OF ISSUE.

The Bank of Italy (joint-stock bank) has a nominal capital of 240,000,000 lire, the paid-in capital being 180,000,000 lire. The Bank of Naples and the Bank of Sicily (public credit institutions) have a fixed property amounting, respectively, to 50,000,000 and 12,000,000 lire.

The nominal capital of the Bank of Italy is divided into 300,000 shares. The paid-in capital amounts actually to 210,000,000 lire; that is to say, 700 lire was paid in for each share. But in order to make it possible to devote a larger quota of the net earnings to the improvement of the condition of the bank, which had been seriously compromised by the unsound management to which we have referred, this paid-in capital was reduced on the books by 30,000,000 lire, so as to be reckoned at only 180,000,000 lire; that is to say, the amount paid in for each share is considered to have been 600 lire instead of 700. It was arranged, however, that the bank, after the expiration of an interval of not less than fifteen years, beginning with 1893, if it had fulfilled its legal obligations, would be empowered to restore those 30,000,000 lire to its shareholders in annual quotas not exceeding 6,000,000 lire. But when the time arrived (1909), it was considered best not to turn over the sum that was available to the shareholders but to devote it to an extraordinary reserve fund. (See section XI).

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As the Bank of Naples and the Bank of Sicily had likewise invested part of their funds in insecure loans and unsafe mortgage operations, and as the figures given above originally represented in part not actually existing property but merely the amount due the banking department by the realty credit department, it was provided that these two banks should for a term of fifteen years, beginning with 1893, add all their net earnings to their free capital except what was required to meet their legal obligations, and this is what was actually done.

IX.—THE ISSUE OF BANK NOTES.

The three institutions which we have here described have the exclusive right to issue bank notes, the privilege having been conferred for a period of twenty years, 1893-1913, with a conditional extension for ten years.

The chief function of the banks is to issue notes for the needs of trade. The so-called "normal maximum limit" of the issue is fixed for the respective institutions as follows:

	Lire.
Bank of Italy	660, 000, 000
Bank of Naples.....	200, 000, 000
Bank of Sicily.....	48, 000, 000
Total.....	908, 000, 000

The Bank of Sicily is empowered to issue an additional 10,000,000 lire, which amount, however, has to be devoted to the assistance of the sulphur industry.

The cash reserve has to be not less than 40 per cent of the amount of the outstanding notes. The banks are, however, allowed to exceed the normal maximum limits under the following conditions:

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(a) They may issue up to any amount, provided there is a cash reserve against the full amount of the excess above the normal maximum.

(b) They may exceed the normal maximum, provided there is a 40 per cent covering for the entire issue, on condition of the payment of a special tax on circulation, which is levied only on the excess. This tax is one-third of the rate of discount when the excess is not more than 50,000,000 lire in the case of the Bank of Italy, 15,000,000 lire in that of the Bank of Naples, and 4,000,000 lire in that of the Bank of Sicily. It is two-thirds of the rate of discount when the excess is not less than 50,000,000 lire and not more than 100,000,000 lire for the Bank of Italy, between 15,000,000 and 30,000,000 lire for the Bank of Naples, and between 4,000,000 and 8,000,000 lire for the Bank of Sicily. It is equal to the full rate of discount when the excess is, respectively, between 100,000,000 and 150,000,000 lire, between 30,000,000 and 45,000,000 lire, and between 8,000,000 and 12,000,000 lire.

When the excess is above 150,000,000, 45,000,000, and 12,000,000 lire, respectively, an extraordinary tax of $7\frac{1}{2}$ per cent is levied on the additional amount over and above these figures. This extraordinary tax is also imposed in case the entire 40 per cent cover is not provided, even when the normal maximum limit is not exceeded. It must be borne in mind that so much of the circulation as corresponds to the cash cover is not taxed.

It has been sought in this way to maintain the necessary elasticity of the bank-note circulation and to prevent

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the danger of an excessive issue for the purposes of speculation.

As the banks are under the obligation to make advances to the State (at the present time, up to the sum of 125,000,000 lire), the corresponding issue of notes is not included in the normal maximum issue, and a cash cover of only one-third is required.

The cash cover, or metallic reserve, must consist, up to at least three-fourths, of gold coin or gold bullion, and the remaining one-fourth must be made up of coins of the Latin League nine-tenths fine and of subsidiary silver currency (this last not to exceed 2 per cent of the total reserve). In place of metal, however, the following securities, payable in gold or in silver coin of the Latin League (nine-tenths fine) may be partially substituted: Foreign bills of exchange; foreign treasury bills; certificates of sums deposited in current account in foreign banks. The quota of such substituted funds shall not exceed 11 per cent of the total cash reserve in the case of the Bank of Italy, 15 per cent in that of the Bank of Naples, and 15 per cent in that of the Bank of Sicily. It is further provided that the above-mentioned certificates of deposit shall never exceed $3\frac{1}{2}$ per cent of the legal circulation.

The cash cover, or metallic reserve, must under no circumstances be allowed to fall below the following figures:

	Lire
Bank of Italy.....	400, 000, 000
Bank of Naples.....	120, 000, 000
Bank of Sicily.....	28, 000, 000

This metallic reserve must be kept absolutely separate from the other assets of the bank, and the State is to exercise a special supervision over its maintenance.

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This reserve guarantees the bank notes, but inasmuch as the holders of these notes can in no way derive any benefit from it because there can be no redemption out of this reserve, either at present or in future time, as will be explained later on, they have been accorded a preferred claim over the following assets of the bank: The gold coin, gold bullion, and legal silver coin in the possession of the bank not included in the above-mentioned minimum metallic reserve nor set aside as a reserve against sight liabilities; the Italian treasury bills acquired by the banks and other securities issued by the Italian Government or guaranteed by it; the foreign bills not reckoned as part of the metallic reserve; sums due to the bank on account of loans on collateral and secured by such collateral, including sums due from the Government on account of advances and guaranteed by securities deposited by the Government; domestic bills of exchange as much as may be needed to make up the required sum.

The following will serve as an illustration:

The Bank of Italy had on September 30, 1909, a total circulation of 1,467,167,300 lire. Up to the sum of 400,000,000 lire these bank notes were secured by this minimum metallic reserve. There remained, therefore, 1,067,167,300 lire. For this there was the following security:

	Lire.
Gold and legal silver coin.....	689, 194, 527
Italian treasury bills and other government obligations or securities guaranteed by the Government.....	214, 137, 718
Foreign bills of exchange.....	1, 838, 090
Sums due on account of loans.....	78, 953, 004
Domestic bills of exchange.....	83, 043, 961
Total.....	1, 067, 167, 300

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These 1,067,000,000 lire represent the assets in regard to which the holders of the notes had the above-mentioned preference on September 30, 1909. Of course, as has been seen, the above-mentioned 400,000,000 lire of the metallic reserve are a security for the notes, but it is certain that the actual circulation of the Bank of Italy in peaceful times will never sink below 400,000,000 lire, and consequently these 400,000,000 lire of bank notes will never be presented for redemption, even if there should be a redemption of notes. In case of war the Government will appropriate this metallic reserve and make forced currency out of a corresponding amount of bank notes.

The banks are not obliged to redeem their notes so long as the treasury notes are irredeemable. They may, if they choose, redeem them in treasury notes (as is usually done), or they may, if they so desire, redeem them in coin, making use of the metallic money which they may have on hand over and above the minimum reserve, but in that case they have the right to exact from the holder of the notes the premium on coin set on that day at the nearest exchange.

The treasury notes are issued in denominations of 5, 10, and 25 lire, but the 25-lire notes are now being withdrawn from circulation. The total issue is not permitted to exceed the sum of 465,000,000 lire. The total of the outstanding notes on September 30, 1909, was 433,611,895 lire. This national paper money is irredeemable; it is a currency with forced circulation. There is, however, a guaranty fund, consisting of a gold reserve that may not be touched, which must not be less than 151,250,000 lire. It has

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recently exceeded this sum, having amounted on September 30, 1909, to 175,175,805 lire.

The notes of the banks are restricted to the denominations of 50, 100, 500, and 1,000 lire.

The aggregate of the outstanding notes of these legal denominations on September 30, 1909, was as follows:

Denominations.	Lire.	Per cent.
1,000 lire.....	271, 138, 000	13.98
500 lire.....	307, 888, 000	15.87
100 lire.....	730, 381, 800	37.64
50 lire.....	630, 816, 600	32.51
Total.....	1,940, 224, 400	100.00

At the same date the three banks of issue held notes to the aggregate amount of 709,400,000 lire.

The form of the notes in each denomination is prescribed by an ordinance of the minister of finance, as well as the number of notes that may be turned out at each printing. The manufacture of notes and the destruction of old or mutilated ones are carried on under the constant supervision of the finance minister. The manufacture is so arranged that no bank note can be turned out complete without the participation of the bank of issue and the Government in the operation. The notes that are not placed at the disposal of the banks are kept in a special treasury, and every withdrawal of notes from this treasury for the sake of putting them in circulation, as well as every deposit of notes not required for circulation, must be effected under the supervision of the state inspectors.

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THE LEGAL-TENDER QUALITY OF THE BANK NOTES AND
THEIR MUTUAL REDEMPTION AMONG THE BANKS OF
ISSUE.—DURATION OF THE PRIVILEGE OF ISSUE.

Bank notes are a legal tender, that is to say, they are a legal tender in those provinces in which the bank has either a branch (*sede*), a subbranch (*succursale*), or an agency (*agenzia*), or else a representative charged with the redemption of the notes.

At the present time the notes of all three banks of issue are a legal tender throughout the whole kingdom. .

By means of a voluntary agreement, which has to be sanctioned by the Government, each of these institutions may bind itself to put again in circulation the notes of another institution in making its payments.

Inasmuch, however, as, in accordance with the law and by reason of the legal-tender quality, each institution is obliged to accept the notes of either of the other institutions, and as, in case one institution makes use in its payments of the notes of another, a certain amount of such notes may remain in its treasury, it has been found necessary to regulate the mutual redemption of notes (the so-called “*riscontrata*”) between the banks of issue. This duty was legally reserved for the Government, which has issued the following regulations:

On the 10th, 20th, and last day of each month one bank informs the other of the amount of the notes and other sight paper (as, for example, drafts) of that other institution it has in its possession. After the lapse of five days from the date of this communication the latter (the debtor bank) has the right to take back its own notes,

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drafts, etc., in exchange for the notes, drafts, etc., of the former (the creditor bank) and other instruments that may legally serve for redemption, as, for example, national paper currency or coin. If it is not in a position to get back all its notes and other sight instruments in this manner, part remains in the hands of the creditor bank, which charges the amount to the debtor bank in a special account current, and may demand interest at a rate not exceeding three-fifths of the official rate of discount. The liquidation of the account is effected at the end of June and at the end of December of each year.

So long as the bank notes continue to be legal tender the debtor bank can not be compelled in the exchange of the notes and the liquidation of the account current to hand in, in addition to the notes of the creditor bank, an amount of other instruments, that may legally serve for redemption, in excess of one-twentieth of its legally permitted circulation. The debtor bank is allowed to discharge the remainder of its obligations with bills of exchange having no more than fifteen days to run and with government bonds.

But inasmuch as all payments into and from the national treasury throughout the Kingdom are made through the Bank of Italy, and as this institution therefore accumulates a large volume of notes of the other two banks that have been used in the payment of taxes, a provision has been enacted in favor of these institutions, limiting the amount which they may be called upon to take back to the volume of the notes of the Bank of Italy which they happen to have in their possession.

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The duration of the legal-tender quality of the bank notes is to terminate at the close of 1910 but a further prolongation is anticipated.

Those of the institutions which at the expiration of the twenty-year privilege of the issue of bank notes (August 10, 1913) will have fully discharged their legal obligations will have the privilege extended to the close of 1923. Two years before the expiration of the present term the condition of the banks is to be investigated by a commission, which shall ascertain whether it is such as to satisfy in every way the legal requirements with respect to the prolongation of the privilege. This commission shall be composed of two members chosen by the Senate and two by the Chamber of Deputies and of three members appointed by decree of the Government with the approval of the cabinet.

X.—DISCOUNTS, LOANS, DEPOSITS.—DRAFTS, CHECKS, ETC.—THE RATE OF DISCOUNT.

In addition to the issuing of notes, the banks of issue are allowed to engage in the following kinds of business:

(a) The discounting of bills and checks having no more than four months to run and bearing at least two signatures, treasury bills, warrants of the public warehouses, and coupons of the securities on which loans may be made.

(b) The making of advances for a term not exceeding four or six months (according to the nature of the securities furnished as collateral) on government bonds,

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treasury bills,^a and securities guaranteed by the State, on debentures of realty credit banks, securities issued or guaranteed by foreign governments and payable in gold, on gold and silver coin, on silk, on orders for merchandise (obligations to deliver a certain quantity of a particular kind of goods at a specified date), on warrants of the public warehouses, etc. The loans on securities may, according to the nature of the collateral, represent either the full nominal value or a fraction thereof—nine-tenths, four-fifths, three-fourths, two-thirds, or one-half.

(c) The purchase and sale of foreign bills and drafts payable in gold with at least two good signatures and having three months to run at the utmost, as well as the issue of drafts on foreign countries. But as such business serves mainly for the accumulation of coin for the reserve and for effecting the monetary transactions of the Government, the banks are permitted to engage in it only to the extent that it is necessary for such purposes. In any case the aggregate amount involved in it, as well as in foreign accounts current, is not, as a regular thing, to exceed the twentieth part of the maximum permissible note circulation. A temporary excess may be authorized or a contraction decreed by the finance minister if the note circulation with 40 per cent reserve exceeds the normal maximum circulation or if the state of the foreign exchanges seems to call for it.

All other property, immovable as well as movable, especially such as the banks may acquire in the payment

^a If these have a very long time to run, the term of the loan may be prolonged to as much as two years.

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of debts, is to be sold within two years. The banks are, however, permitted to invest such of their available resources as are not to go to the surplus in government bonds or in securities guaranteed by the State. The amount of such investments shall not exceed 75,000,000 for the Bank of Italy, 30,000,000 for the Bank of Naples, and 8,000,000 for the Bank of Sicily. Some special laws, however, have excluded from this restriction certain government securities and the securities of several mortgage and agricultural credit institutions.

The banks are not permitted to have any part of their assets in accounts current without security or to make loans on real estate. As was stated above, the affairs of the realty credit institutions connected with the banks of issue are being wound up.

The banks are permitted to take current-account deposits and pay interest on them. When the amount of these deposits exceeds 200,000,000 lire in the case of the Bank of Italy, 80,000,000 in that of the Bank of Naples, and 25,000,000 in that of the Bank of Sicily, the bank-note circulation shall be reduced, the amount of the reduction being one-third of the amount by which the deposits exceed these limits. The rate of interest shall not exceed one-third of the rate of discount. The finance minister may, however, authorize the banks to allow a higher rate, which shall not exceed three-fourths of the rate of interest allowed on deposits in the postal savings banks.

The banks also receive simple non-interest-bearing deposits, and may draw banking assignments on foreign banking institutions for their own account or for account of a third party, issue, etc.

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An interesting feature of the business of these institutions is the issue of certificates of deposit having the character of negotiable paper (*vaglia cambiari*), which are extensively used, lending themselves especially to the transfer of sums from one place to another. They are made out for the depositor for any amount he may desire, and are made payable to him or to a third party designated by him. They may be transferred from one holder to another by a simple signature or by indorsement. Such drafts are payable at every branch or subbranch of the bank or at the office of any correspondent and cease to be valid only at the expiration of five years.

Mention should be made of the following instruments issued by the Bank of Naples and the Bank of Sicily as certificates of interest-bearing and non-interest-bearing deposits:

(a) Certificate of credit. This is handed out to a depositor on his being credited with a deposit of at least 50 lire and is transferable by signature or indorsement.

(b) Small cash order. This is a certificate of credit issued for a sum of less than 50 lire. It is made out by the depositor himself and certified by the bank and is transferable in the same way as the preceding.

(c) Cash order noted *in fede*. If the depositor wishes to make use of the sum certified in the certificate of credit for making several successive payments, the document is converted into one that is not transferable, a *madre-fede*, which assumes the character of a pass book. The instrument which the depositor makes out in order to dispose of part of his credit balance is presented with the *madre-fede*

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and certified by the bank and is known as a cash order noted *in fede* because of the entry that has to be made on the madre-fede. The cash order (*polizza*) is transferable in the same way as the certificate of credit.

The Bank of Naples has authorized its correspondents to draw banking assignments upon it up to an aggregate sum previously agreed upon, for which security is furnished. They are payable at every branch and subbranch of the bank, but must be presented for payment within fifteen days. This shorter term distinguishes this instrument from the above-mentioned negotiable paper.

The Bank of Italy has also authorized its correspondents under like conditions to make out such banking assignments, but they are to be drawn only upon a specified branch or subbranch and they must be presented within a specified short time. This instrument is therefore distinguished from the above-mentioned draft in a double manner—by being made payable at a specified place and within a short time.

All demand liabilities are to be covered by a cash reserve amounting to 40 per cent of their aggregate amount. The composition of this reserve shall be the same as that of the reserve against bank-note circulation.

In order to prevent the abuses of former times the Government was empowered to make agreements with the three institutions and to prescribe uniform norms for the compilation of the lists of individuals and firms to whom credit is granted (the maximum amount being entered), for the mutual exchange of these lists or the partial communication of their contents, for the choice of correspondents, etc.

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The institutions receive for safekeeping (or in trust) securities, objects made of the precious metals, and money for account of the Government, individuals, and stock companies (first installment of the capital paid in at the organization).

The institutions may, conformably with the norms prescribed by royal decree, establish and operate clearing houses (*stanze di compensazione*). This has been done in some of the large cities (Florence, Genoa, Milan, Naples, Rome, Turin).

So long as the bank notes are legal tender, the normal rate of discount, as well as the rate of interest on loans, must be the same for all the banks of issue, and they can not be altered without the sanction of the Government. The Government is empowered to institute a change simultaneously for all three institutions. These are permitted, however, in certain cases to lower the rate of discount, although by not more than 1 per cent. They may do so in the case of loans to people's banks, agricultural loan institutions, banks established for the promotion of the mining industry, and discount banks that fulfill certain legal requirements, such as the promotion of the retail trade and the discounting of the warrants of the public warehouses. They are empowered to do the same in the discounting of warrants issued by the public warehouses against deposits of silk, sulphur, and lemons and oranges and preparations made from them. This discount is termed "sconto di favore" or preferential rate. The aggregate sum applicable to such transactions is limited to 100,000,000 lire for the Bank of Italy, 30,000,000 for the Bank of Naples, and 9,000,000 for the Bank of Sicily.

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In addition to this, when the aggregate circulation of notes is below the normal maximum, the banks of issue are allowed to discount below the normal rate the promissory notes of mercantile firms and banking houses of the first rank which have not over three months to run. This is termed *sconto a saggio ridotto* or reduced rate discount. It is not permitted to fall below 3 per cent. Changes in the rate are to be made according to the state of the market on the application of the banks by decree of the minister of finance. This reduced rate can not be legally obtained in the case of the renewal of promissory notes in whole or in part, or in the case of promissory notes put forth for the liquidation of debts created by previous notes. The decisions of the discount commission in regard to these promissory notes must be by an absolute majority of the members, and a special bookkeeping has to be provided for this business. The notes thus discounted must be kept in a special portfolio, so that they shall be absolutely apart not only from the notes discounted at the normal rate, but also from the "preference" notes of the people's banks, agricultural loan institutions, etc., in order that they may be under the special supervision of the Government.

There are thus three rates of discount—the normal or official rate, the preferential rate (*sconto di favore*) and the reduced rate (*sconto a saggio ridotto*).

XI.—THE SURPLUS (FONDO DI RISERVA, MASSA DI RISPETTO).

In the case of the Bank of Italy the surplus is to be equal to one-fifth of the nominal capital. It is constituted by setting aside one-twentieth of the yearly net

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earnings. When the yearly net earnings exceed 5 per cent of the paid-in capital, 20 per cent of such excess is taken and assigned to the surplus.

When the amount of the surplus shall in this manner have attained to the legal requirement, the general assembly of the shareholders may resolve that an additional part of the net earnings shall be set aside for the accumulation of special surplus funds for particular purposes. The funds thus constituted (a part of the surplus is still set aside as security for the operations of the mortgage department, now in process of liquidation) are invested in government obligations or in securities guaranteed by the Government.

An "extraordinary surplus" (*riserva straordinaria*) was constituted out of the profits realized in the liquidation of the "immobilized assets" and the sums that had been set aside for the purpose of covering any incidental losses that might be incurred in such liquidation. A part of the interest on this surplus for the ten years 1914-1923 is to be turned over to the shareholders as an indemnity for the lowering of the paid-in capital mentioned above.

The Bank of Naples and the Bank of Sicily have no shareholders, and the yearly net earnings are, therefore, devoted to some extent to public purposes and mainly to the creation of a surplus, which has already attained to a very respectable sum. In the case of these two institutions, inasmuch as they have no shareholders but own their capital outright, the distinction between the property which constitutes their regular capital and the surplus is of minor importance. In their case the surplus is in reality merely a distinct part of their property in their bookkeeping.

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XII.—THE BANKS OF ISSUE IN THEIR RELATIONS TO THE STATE.—TAXES.—THE GOVERNMENT'S SHARE IN THE PROFITS.—STATEMENTS.

The banks of issue are obliged to advance money to the Government at the rate of interest of $1\frac{1}{2}$ per cent net, government bonds and treasury bills being deposited with them as security. The maximum amount of these advances is fixed at 115,000,000 lire for the Bank of Italy and 10,000,000 lire for the Bank of Sicily. On account of its former unfavorable condition, the Bank of Naples was freed from this obligation.

The Bank of Italy is furthermore obliged, on the demand of the minister of finance, to advance to the National Deposit and Loan Institution (*Cassa dei Depositi e Prestiti*) cash sums up to 50,000,000 lire at a rate of interest not exceeding 3 per cent, government bonds or other obligations guaranteed by the Government being given as security.

The receiving and disbursing of the public moneys throughout the whole extent of the Kingdom has been intrusted to the Bank of Italy since February 1, 1895. The bank furnished as security government bonds to the value of 90,000,000 lire.

The supervision over the banks of issue rests with the ministry of finance. For this purpose the ministry maintains a central bureau under an inspector-general and a permanent commission. The former discharges the actual duties of supervision. An inspector is delegated by the Government to attend the meetings of the general assembly of the shareholders and the superior council of the Bank of Italy and of the general and ad-

The Italian Banks of Issue

ministrative councils of the Bank of Naples and the Bank of Sicily, and is empowered to interpose his veto against any resolution considered by him illegal, a report being submitted by him to the finance minister, with whom the ultimate decision rests. It is his business to report directly concerning all resolutions, even those against which he has not interposed his veto, and on the strength of his report the minister of finance may within five days suspend and finally annul all illegal resolutions irrespective of whether the inspector has interposed his veto or not. The resolutions adopted at the meetings of the managing bodies must be communicated to the minister of finance by the director-general within two days. The finance minister orders periodical (triennial) and extraordinary examinations of the cash on hand, the reserve, the circulation, and the stock of bills and promissory notes, in particular the foreign bills and the notes that have been discounted at reduced rate (*saggio ridotto*). The central bureau exercises a general supervision over the administration and over the nature of the business transactions with respect to legal requirements. It supervises the business of the Bank of Italy in the receiving and disbursing of public moneys. The permanent commission draws up legal opinions for the benefit of the Government concerning important questions relating to the bank laws and their execution and the administration and inspection of the banks. This body consists of four commissioners appointed by the Senate from its midst, four commissioners appointed by the Chamber of Deputies from its midst, and five delegates

National Monetary Commission

of the Government. The delegates of the Government are: The president or a member of the council of state, the president or a member of the chamber of audit, the director-general of the treasury, the inspector-general of the banks of issue in the ministry of finance, and the director-general of the credit department in the ministry of commerce.

The banks are subject to the following taxes and dues:

(a) The general personal-property tax.
(b) The dues in connection with demand liabilities and loan transactions.

(c) An ordinary tax on circulation levied upon the amount of notes outstanding (taking the average for the year) below the normal maximum. Of this amount, however, that portion which corresponds to the sum of the reserve and the advances to the Government is not subject to the tax. In other words, so much is to be deducted from the total circulation. With the discharge of their obligations in the matter of the progressive liquidation of their real estate assets and such investments as were no longer permissible, the banks had the benefit of a gradual reduction of this tax on circulation, which at first was 1 per cent of the average amount of notes outstanding (with the above-mentioned deduction) and which came down in 1909 to the minimum of one-tenth of 1 per cent, the immobilized assets having ceased to exist.

(d) A special and an extraordinary tax on the amount of notes in circulation in excess of the normal maximum (or the amount not covered by the prescribed reserve of

The Italian Banks of Issue

40 per cent), as described in detail in a preceding section. Here likewise the amount corresponding to the reserve is exempt from the tax.

(e) A sort of penal tax on transactions not sanctioned by the law, amounting to three times the rate of discount or of interest involved in the business in question.

(f) Inspection fees, designed to reimburse the Government for the expense of supervision. The annual sums paid by the banks are at present as follows: Bank of Italy, 70,000 lire; Bank of Naples, 21,000 lire; Bank of Sicily, 5,000 lire.

(g) The Bank of Italy pays the regular transfer tax on its shares when they change hands, and the Bank of Naples and the Bank of Sicily, as permanent institutions owning their own capital, have to pay mortmain dues, or rather, taxes.

The State receives furthermore (since January 1, 1909), as its share of the profits of the banks of issue, one-third of the yearly net earnings, if these are in excess of 5 per cent and below 6 per cent, and if the net earnings exceed 6 per cent, one-half of such excess in addition. It is to be noted here that the determination of the percentage of the net earnings of the Bank of Italy relatively to the capital is to be made with reference only to the paid-in capital and with deduction of a definite portion assigned to the pension fund in behalf of the employees. In the case of the Bank of Naples and the Bank of Sicily the percentage of the net earnings is reckoned with reference to the aggregate amount of their free capital and the surplus, as the latter is merely a separately reckoned part of the former.

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On the tenth, twentieth, and last day of each month the banks have to send to the ministry of finance a detailed statement of their condition. The form of the statement is prescribed by royal decree. The statements are all published succinctly in the official organ of the Government and those that appear at the end of the month are given in full to the public by the ministry of finance in a special bulletin. This bulletin contains also the monthly reports concerning the amount of bank notes issued and redeemed, the volume of the discount and loan transactions at each of the branches, the exchange of notes between the banks, the treasury notes, etc.

XIII.—STATISTICS.

Condition of the banks of issue on December 31, 1897, and September 30, 1909

[In millions of lire.]

Date of statement.	Bank.	Paid-in capital or fixed property.	Surplus.	Circulation.	Deposits and other liabilities		Reserve against circulation and demand liabilities, ^a	Discounts ^b and loans.	Invested in securities. ^c
					Demand liabilities.	Time liabilities.			
1897.									
Dec. 31--	Bank of Italy-----	180.0	43.6	789.2	88.1	130.0	445.6	195.5	120.2
	Bank of Naples-----	65.0	3.9	238.8	41.0	31.7	116.1	78.4	75.2
	Bank of Sicily-----	12.0	5.0	58.2	22.3	13.5	38.2	33.4	13.3
1909.									
Sept. 30--	Bank of Italy-----	180.0	48.0	1,467.2	134.2	79.4	1,142.9	503.7	173.1
	Bank of Naples-----	50.0	11.5	386.0	55.5	32.7	281.5	146.4	83.5
	Bank of Sicily-----	12.0	8.0	87.1	29.8	12.9	69.1	63.3	9.9

^a Including foreign bills and securities and credit balances in foreign institutions.

^b Exclusive of foreign bills, which are reckoned in the reserve.

^c Exclusive of foreign securities, which are reckoned in the reserve.

The Italian Banks of Issue

Cash reserve of the banks of issue.

[In millions of lire.]

Date of statement.	Bank.	Gold.	Silver .900 fine.	Foreign bills and securities and credit balances in foreign institutions.
Dec. 31, 1897 ---	Bank of Italy -----	300.2	40.4	60.1
	Bank of Naples -----	61.6	10.5	-----
	Bank of Sicily -----	35.2	1.3	1.3
Sept. 30, 1909 ---	Bank of Italy -----	947.7	107.8	87.4
	Bank of Naples -----	195.9	17.4	45.2
	Bank of Sicily -----	56.0	4.2	8.9

Rate of discount of the banks of issue.

Date of statement.	Bank.	Normal rate.	Special rate.			
			Sconto di favore.		Sconto a saggio ridotto.	
			Maximum.	Minimum.	Maximum.	Minimum.
Dec. 31, 1897 --	Bank of Italy -----	5	4¾	4	4¾	4
	Bank of Naples -----	5	4¾	4	4½	4
	Bank of Sicily -----	5	4½	4	4½	4
Mar. 31, 1908 --	Bank of Italy -----	5	4	4	3½	3½
	Bank of Naples -----	5	4	4	3½	3½
	Bank of Sicily -----	5	4	4	3½	3½

Text of the Law Relating to the Banks of
Issue and the Circulation of
Bank Notes in Italy

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TEXT OF THE LAW RELATING TO THE BANKS OF ISSUE AND TO THE CIRCULATION OF BANK NOTES IN ITALY.

ROYAL DECREE.

VICTOR EMMANUEL III, BY THE GRACE OF GOD AND THE
WILL OF THE NATION, KING OF ITALY.

By virtue of the power conferred upon the Government by article 5 of the law of December 24, 1908, No. 723, to collect and publish by our decree in a new text the whole body of laws governing banks of issue and the circulation of bank notes; and

In pursuance of the Text of the Law relative to the banks of issue and to the circulation of bank notes, approved by Royal Decree, October 9, 1900, No. 373; and

In pursuance of the laws of February 1, 1901, No. 24; July 7, 1901, No. 334; July 7, 1902, No. 290; December 27, 1903, No. 499; June 25, 1905, No. 261; July 7, 1905, Nos. 349 and 350; March 29, 1906, No. 100; June 25, 1906, No. 255; July 15, 1906, Nos. 333, 383, and 441; December 31, 1907, No. 804; July 2, 1908, No. 320; July 5, 1908, Nos. 351, 388, and 404; July 12, 1908, No. 444; December 24, 1908, No. 423; July 15, 1909, No. 492; and

With the consent of the banks of issue; and

National Monetary Commission

In pursuance of the results of the meetings held February 11, 12, 13, and 16, 1909, of the subcommittee of the permanent committee for the supervision of the circulation and the banks of issue; and

In pursuance of the report of the aforesaid permanent committee; and

With the consent of the council of state;

With the consent of the council of ministers; and upon the proposal of our secretary of state for the treasury;

We have decreed and do hereby decree:

That the attached Text of the whole body of law regarding banks of issue and the circulation of bank notes be, and is hereby, approved.

We hereby command that the present decree, sealed with the State seal, be placed in the official compendium of the laws and decrees of the Kingdom of Italy, binding upon all the persons whose duty it is to observe it to enforce the observation thereof.

Given at Rome on this 28th day of April, 1910.

VICTOR EMMANUEL.

LUZZATTI.

TEDESCO.

Witness the keeper of the seals:

FANI.

(This present decree was published in the Official Gazette of the Kingdom, May 27, 1910, No. 123.)

Law Relating to Banks of Issue

TEXT OF THE LAW.

TITLE I.—ISSUE OF NOTES AND OTHER OBLIGATIONS.

ARTICLE I.

[Articles 1, 2, and 24, law of August 10, 1893, No. 449. Article 7 of agreement with the Bank of Italy, October 30, 1894, approved by royal decree December 10, 1894, No. 533 (appendix to the law of August 8, 1895, No. 486). Articles 1 and 21 of agreement with the Bank of Italy, November 28, 1896, approved by royal decree December 6, 1896, No. 517 (Appendix A to law of January 17, 1897, No. 9). Article 17, Appendix B, and Article 15, Appendix C, to previous-named law. Article 14, law of March 3, 1898, No. 47.]

The right to issue bank notes or other equivalent obligations payable to bearer at sight is granted for a period of twenty years from August 10, 1893, to the following institutions:

The Bank of Italy, with a nominal capital of 240,000,000 lire, divided into 300,000 personal shares of 800 lire each;

The Bank of Naples;

The Bank of Sicily.

Two years before the expiration of the aforementioned term a commission composed of seven members, of whom two are to be elected by the Senate, two by the Chamber of Deputies, and three appointed by royal decree with the consent of the Council of Ministers, shall proceed to an examination of the condition of the three banks of issue with a view to certifying their exact fulfilment of the requirements imposed by law.

The said commission shall complete its labors and make a report within six months.

If, upon such examination, it shall appear that said requirements have been fulfilled, the privilege above named shall be extended until December 31, 1923.

National Monetary Commission

ARTICLE 2.

[Article 14, law of April 30, 1874, No. 1920. Article 19, law of April 7, 1881, No. 133. Article 1, law of August 10, 1893, No. 449. Article 2, Appendix T to law of August 8, 1895, No. 486.]

The banks authorized to issue notes are empowered to establish branches (*sedì*), subbranches (*succursali*), or agencies (*agenzie*) in any Province in the Kingdom under the conditions of their respective charters. They must, however, maintain representative headquarters in the capital.

ARTICLE 3.

[Article 7, law of August 10, 1893, No. 449. Article 10, Appendix I to law of July 22, 1894, No. 339.]

The Bank of Italy, the Bank of Naples, and the Bank of Sicily are authorized to issue notes of the denominations of 50 lire, 100 lire, and 1,000 lire.

ARTICLE 4.

[Article 9, law of August 10, 1893, No. 449.]

In the manufacture of notes of the three institutions, the State and each one of them, respectively, participate, so that neither the State nor the institution alone may manufacture an entire note.

The rules for the manufacture of notes, for their replacement when they shall be worn out or damaged, and for their cancellation and destruction, are determined by a regulation approved by royal decree. The same decree states the amount of notes to be allowed to each institution as an initial working fund, and establishes rules to control the use of same.^a

^a Royal decree of Oct. 30, 1896, No. 508, modified by royal decree of Mar. 7, 1907, No. 73.

Law Relating to Banks of Issue

The forms, denominations, and characteristics of notes to be manufactured are fixed by decree of the minister of the treasury.

The expenses of manufacture of notes shall be met by the institutions.

The manufacture and the supplying of notes shall involve the State in no liability either to the public or to the banks.

ARTICLE 5.

[Article 11, paragraph 2, law of August, 1893, No. 449.]

Promissory notes, bills of exchange, banking assignments, and certificates of credit payable at sight in all the offices of each institution must be personal.

TITLE II.—CIRCULATION.

SECTION I.—*Limit of circulation.*

ARTICLE 6.

[Law of December 31, 1907, No. 804 (Appendix A).]

The maximum normal limit of circulation of the banks is fixed at 908,000,000 lire, divided as follows:

	Lire.
Bank of Italy.....	666,000,000
Bank of Naples.....	200,000,000
Bank of Sicily.....	48,000,000

The privilege of the Bank of Sicily to extend the normal limit of its circulation up to a further 10,000,000 lire is confirmed, for the exclusive purpose of making advances on certificates of deposit and granting preferential rates of discount on warrants in its dealings with the sulphur industry, under article 22 of the law of July 15, 1906, No. 333, and the law of June 6, 1907, No. 286.

National Monetary Commission

ARTICLE 7.

[Article 2, law of August 10, 1893, No. 449. Article 2, law of February 16, 1899, No. 45.]

The circulation of each institution may exceed the limit stated in article 6, when their respective notes are entirely covered by legal metallic coin or by gold bars on hand, excepting the provision made by article 11 for fractional silver currency.

Exception is also made in the case of the circulation of notes corresponding to the advances made by the banks to the State, as per article 25.

All other infractions of the circulation limit assigned to each institution by the said article 6 will be subject to the provision made in article 21.

SECTION II.—*Exchange of notes.*

ARTICLE 8.

[Article 3, law of August 10, 1893, No. 449. Article 5, Appendix F, and Article 6, Appendix I, to law of July 22, 1894, No. 339.]

Holders of notes payable at sight to bearer are entitled to require from the institutions issuing same the redemption of said notes in coin having legal currency in the Kingdom: In Rome and in the cities of Bari, Bologna, Cagliari, Catania, Florence, Genoa, Leghorn, Messina, Milan, Naples, Palermo, Turin, Verona, and Venice.

However, until further legislative provision is made, and so long as the convertibility of government notes with coin shall remain suspended, the exchange of the notes of the banks of issue may be made either in government notes or metallic specie.

Law Relating to Banks of Issue

In the latter case the said banks shall have the right to collect from the bearers of the respective notes the price of exchange of the metallic specie, as determined by the rate of that day in the nearest stock exchange.

ARTICLE 9.

[Article 2, law of June 30, 1891, No. 314. Article 4, law of August 10, 1893, No. 449. Law of December 24, 1908, No. 723.]

The notes of the Bank of Italy, the Bank of Naples, and the Bank of Sicily have legal circulation up to and including the year 1909 in those provinces in which there is a branch or representative of the institution which has issued the same, subject to the charge for exchange, as prescribed in the preceding article.

The several institutions may agree to reciprocal representation for the purpose of effecting exchange.

ARTICLE 10.

[Article 17, law of April 7, 1881, No. 133.]

The Royal Treasury may accept the notes of the banks of issue, even when such notes shall no longer have legal currency.

SECTION III.—*Reserve.*

ARTICLE 11.

[Article 6, law of August 10, 1893, No. 449. Article 31, law of August 8, 1895, No. 486. Article 19, aforementioned agreement of November 28, 1896. Article 13, Appendix C, to law of June 7, 1897, No. 9. Articles 7, 8, and 9, law of March 3, 1895, No. 47. Article 2, law of February 16, 1899, No. 45. Article 2, law of December 27, 1903, No. 499. Article 19, law of July 7, 1905, No. 350.]

The reserve of banks of issue must not be less than 40 per cent of the circulation within the normal limit, as per article 6.

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The metallic portion must be in Italian legal coin, foreign money admitted to legal circulation in the Kingdom, and gold bars; and it must consist of at least three-fourths gold.

Fractional silver coin may be included in the metallic reserve of an institution only up to 2 per cent of the total of the said metallic reserve.

The following may be included in the 40 per cent of the aforesaid reserve:

1. Bills of exchange, drawn on first-class foreign firms, which are recognized as such by the minister of the treasury.

2. Certificates of sums deposited in current accounts abroad in large banks of issue or with banks or bankers correspondents of the treasury.

3. Treasury bonds of the British treasury, and, in general, treasury bonds of other foreign countries, for terms even longer than three months, except as per paragraph 1, article 14. These classes of securities may be included as part of the aforementioned reserve as follows:

For the Bank of Italy up to 15 per cent.

For the Bank of Naples, up to 15 per cent, except as per article 13; on condition, however, that 8 per cent must be exclusively in foreign government treasury bonds.

For the Bank of Sicily up to 15 per cent.

The bills of exchange, certificates, and treasury bonds aforesaid must be payable in gold or in coin at the full valuation of the Latin Monetary Union.

The certificates of amounts deposited abroad in current accounts must not in any case represent a value more than 3.50 per cent of the above-named circulation.

Law Relating to Banks of Issue

ARTICLE 12.

[Article 8, Appendix B, to law of January 17, 1897, No. 9. Article 9 of same law.]

The interest of the Italian Government bonds or of bonds guaranteed by the State, acquired by the Bank of Naples in 1897, together with the notes furnished to it by the treasury in exchange for gold coin and temporarily included in its reserve, is to be used every six months for the reintegration of its metallic reserve in gold coin, thus providing for a gradual restitution of government notes to the treasury in redemption of an equal amount of gold to be kept in its vaults.

The guaranty clause in favor of holders of notes issued by the bank, applying to the personal certificates of the aforesaid bonds shall continue in force until redemption of the gold reserve shall have been completed. The government notes which are returned to the treasury shall be withdrawn from circulation.

ARTICLE 13.

[Articles 10 and 15, Appendix B to the law of January 17, 1897, No. 9. Article 4, law of December 24, 1903, No. 499. Article 19, law of July 4, 1905, No. 350.]

The Bank of Naples, besides the 15 per cent, as per article 11, is empowered to invest up to 14,000,000 of its metallic working fund in treasury bonds of foreign governments, payable in gold or in silver at the full valuation of the Latin Union, or in foreign bills of exchange or current accounts payable at the same rates, subject to the gradual redemption of gold specie paid into the treasury in exchange for the issue of state bonds as per the preceding article, and to an amount not exceeding one-half the amount of specie released annually.

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The Government may, in view of the conditions of the money market, and the condition of the government balance, suspend such power of investment of the metallic working fund of the bank, or may reduce the amount which may be invested, on condition that it compensate the institution for the loss of benefits which it might derive therefrom by a corresponding allowance on the amount of the annual circulation tax. Such allowance may not, in any case, exceed the sum of 350,000 lire.

ARTICLE 14.

[Article 31, law of August 8, 1895, No. 486. Article 9, law of March 3, 1898, No. 47.]

The requirements for the inclusion of bills of exchange on foreign countries in the reserve fund, the forms of certificates of foreign current accounts, and the rules for balancing the relative active deposits are determined by the royal decree of October 10, 1895, No. 627.^a

Whenever the treasury bonds designated in article 11, No. 3, are for terms exceeding three months, their value shall be diminished by a sum equal to their loss in value in case such bonds should be discounted or rediscounted.

ARTICLE 15.

[Article 2, law of January 17, 1897, No. 9. Article 3, agreement of November 28, 1896, before mentioned. Article 9, Appendix B, and 2, Appendix C, to law of January 17, 1897, No. 9. Article 3, agreement of November 26, 1907, law of December 31, 1905, No. 804, Appendix A.]

Anything in the article 11 to the contrary notwithstanding, the metallic reserve for the circulation granted to the three banks, actual or equalized by process of law, must in no case fall below the minimum irreducible limit

^a Appendix I.

Law Relating to Banks of Issue

of 400,000,000 lire for the Bank of Italy, of 120,000,000 lire for the Bank of Naples (excepting, in the case of the Bank of Naples, the substitution, as per article 12, of Italian Government bonds, or bonds guaranteed by the State, for a part of said bank's gold reserve), and of 28,000,000 lire for the Bank of Sicily. These said sums are to act exclusively as a guaranty for an equal amount of notes in circulation of the three institutions.

The holders of that portion of the notes in circulation which is not covered by the irreducible reserve have a preferred claim on the following assets:

1. Gold specie and legal silver coin, property of the institution, less the amount assigned as guaranty for sight deposits, as per article 19, and over and above the irreducible amount;
2. Italian treasury bonds or other Italian Government bonds or bonds guaranteed by the State at current value, including, for the Bank of Italy, bonds set aside for the Roman Bank in liquidation, and, for the Bank of Naples, those released, as per article 12, by successive redemptions of gold specie;
3. Bills of exchange on foreign countries not included in those forming part of the metallic reserve;
4. Credits for advances on bonds and securities, as per article 29;
5. Domestic discounts in liquid form.

The circulation of the Bank of Italy and the Bank of Sicily on account of their ordinary advances to the treasury, is entirely covered by the respective bonds, which, like the irreducible reserve, constitute an exclusive guarantee in favor of holders of the respective notes.

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ARTICLE 16.

[Article 5, law of March 3, 1898, No. 47.]

The irreducible metallic reserve, actual or equalized by process of law, as per the preceding article, intended solely to guarantee the bank notes in circulation, is held separate and distinct from the other reserve possessed by the institutions and is subject to the "permanent syndicate" of the State, according to the rules fixed by a royal decree.^a

ARTICLE 17.

[Article 4, agreement aforementioned, November 28, 1896. Article 11, Appendix B, and Article 3, Appendix C, to law of January 17, 1897, No. 9. Article 7, law of December 31, 1907, No. 804.]

The domestic discounts of the three banks of issue will be relieved from preference for a sum equal to their respective increase of amounts invested in Italian treasury bonds and in other bonds of the Italian Government or those guaranteed by the State, except, in the case of the Bank of Naples, such as come under article 12.

ARTICLE 18.

[Article 7, law of June 30, 1891, No. 314. Article 21, law of August 10, 1893, No. 449.]

Such notes as the Bank of Italy and the Bank of Sicily have in circulation on account of advances made to the state treasury within the limits laid down in article 25, and not included in the circulation under article 6, must be covered by metallic reserve to the extent of not less than one-third.

^a Royal decree of Aug. 3, 1898, No. 392.

Law Relating to Banks of Issue

ARTICLE 19.

[Articles 6 and 11 (paragraph 1), law of August 10, 1893, No. 449. Article 2, law of February 16, 1899, No. 45.]

The debt of the several institutions represented by promissory notes or bills of exchange, banking assignments, certificates of credit, or other certificates, besides the notes issued but payable at sight, must be guaranteed by a special reserve, equal to at least 40 per cent of the debt itself, of which 33 per cent is to be made up of Italian legal coin, foreign coins admitted to legal circulation in the Kingdom, and gold bars, while the remainder may be made up of bills of the first class on foreign countries, recognized as such by the treasury.

The metallic portion of the reserve must be at least three-fourths in gold.

Fractional silver money may be included as per article 11.

SECTION IV.—*Circulation tax and the participation of the State in the profits of banks of issue.*

ARTICLE 20.

[Article 13, law of July 7, 1905, No. 350. Law of December 31, 1907, No. 804, Appendix A.]

The circulation tax is based on the average effective circulation of notes, deducting, however, an amount equal to the amount of reserve as per article 11. Such circulation is not subject to tax, even if it exceeds the limit fixed by article 6, provided that the notes are wholly covered by legal coin or by gold bars on hand, as per article 7, first paragraph.

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Freedom from taxation is also granted to the circulation on account of the ordinary advances to the treasury, as per article 25, and to the circulation of the notes of the Bank of Italy, as per article 68.

The rate of taxation for the three banks of issue, on the normal circulation, is one-tenth of 1 per cent per annum.

Beginning with January 1, 1909, there will be remitted to the Bank of Naples the circulation tax on an amount of notes of its own issue equal to the amount of its current account with the realty branch closed on December 31, 1896, reduced by the reservations provided by article 87.

ARTICLE 21.

[Law of December 31, 1907, No. 804.]

The tax shall be equal to one-third of the rate of discount of the circulation of notes exceeding the normal limit, provided that the prescribed relation be maintained with the metallic reserve, as per article 11, and provided such excessive circulation be not above the following amounts:

	Lire.
Bank of Italy.....	50,000,000
Bank of Naples.....	15,000,000
Bank of Sicily.....	4,000,000

When the circulation of notes exceeds these amounts, the tax on the excessive circulation, up to twice these same amounts shall be equal to two-thirds of the rate of discount, provided always the prescribed relation be maintained with the metallic reserve.

On the circulation which exceeds the amounts of 100,000,000 lire and up to 150,000,000 lire for the Bank

Law Relating to Banks of Issue

of Italy, 30,000,000 lire and up to 45,000,000 lire for the Bank of Naples, and 8,000,000 lire and up to 12,000,000 lire for the Bank of Sicily, provided that the prescribed relation with the metallic reserve be maintained, the tax shall be equal to the whole rate of discount.

On further excesses of circulation, or when the prescribed relation with the metallic reserve is not maintained, the institutions shall pay to the State an extraordinary tax of 7.50 per cent.

ARTICLE 22.

[Article 10, law of August 10, 1893, No. 449. Article 3, law of July 2, 1896, No. 253.]

The circulation tax on notes, and that imposed, as prescribed by article 67 of the law (Text) of July 4, 1897, No. 414, on the circulation of sight bills therein described, shall be paid between January 20 and July 20 of each year, at the average rate of the respective circulation ascertained for the six months preceding.

ARTICLE 23.

[Article 16, agreement before mentioned of November 28, 1896. Article 16, Appendix B to law of January 17, 1897, No. 9. Article 12, Appendix C to law of January 17, 1897, No. 9. Appendix A to law of December 31, 1907, No. 804. Article 5, agreement of November 29, 1908, between the Bank of Italy and the Government and approved by law of December 24, 1908, No. 123.]

Beginning with January 1, 1909, the State shall participate in the earnings of the Bank of Italy exceeding 5 per cent per annum on the capital invested, net after making all deductions prescribed in the succeeding article, and in the earnings of the Bank of Naples and the Bank of Sicily exceeding 5 per cent on the total free capital—

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capital and surplus—to be determined at the time this present article goes into effect.

The State shall participate to the extent of one-third of the net earnings exceeding 5 per cent when such net earnings do not exceed 6 per cent; one-half of the said earnings when such earnings exceed 6 per cent.

ARTICLE 24.

[Article 13, law of August 10, 1893, No. 449. Article 7, Appendix B to law of January 7, 1897, No. 9. Article 1, Appendix C to law of January 17, 1897, No. 9. Article 4, law of December 31, 1907, No. 804. Article 5, aforesaid agreement of November 29, 1908.]

In the years 1909 to 1923, inclusive, 5 per cent of the net earnings of the Bank of Italy shall be deducted from the net earnings for the fiscal year for a pension fund, as stipulated by article 1 of the agreement of November 29, 1908, between the said bank and the Government, and in the years 1914–1923 a constant annuity of 750,000 lire shall be deducted, for the same purpose and from the same earnings, before declaring a dividend.

In the year 1923, by agreement between the royal treasury and the administration of the bank, the necessary measures shall be taken to assure a pension to such as are on the pay rolls of defunct institutions from 1924 and on; if there shall be a final remainder, it shall go eventually into the earnings of the institution.

The banks of Naples and of Sicily shall be empowered to grant, yearly, to approved purposes of public utility and benefit, a sum which must not exceed one-tenth of the earnings of the previous year.

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The Bank of Sicily is authorized to give for agricultural education in Sicily one-tenth of the net earnings of its agrarian credit and two-hundredths of those of the banking business.

TITLE III.—ADVANCES TO THE TREASURY.

ARTICLE 25.

[Article 30, law of August 8, 1895, No. 486. Article 11, law of March 3, 1898, No. 47.]

The total amount of advances which the banks of issue must make to the treasury is fixed at 125,000,000 lire, divided as follows:

	Lire.
Bank of Italy.....	115,000,000
Bank of Sicily.....	10,000,000

The interest due from the treasury on said advances is made up at the rate of 1.50 per cent free of all taxation.

TITLE IV.—OPERATIONS.

ARTICLE 26.

[Article 12, law of August 10, 1893, No. 449.]

The institutions of issue can not carry on operations other than those indicated in the following articles:

SECTION I.—*Discounts.*

ARTICLE 27.

[Article 12, law of August 10, 1893, No. 449.]

Banks of issue may discount for not more than four months:

(a) Bills of exchange bearing the signatures of two or more persons or firms well known to be solvent.

(b) Treasury bonds.

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(c) Warrants (*note di pegno*) issued by public warehouse companies legally constituted and free consignments (*franchi depositi*).

(d) Stock certificates on which the bank may make advances.

ARTICLE 28.

[Article 5, law of December 27, 1903, No. 449. Law of December 31, 1907, No. 804 (Appendix A). Article 8, law of July 5, 1908, No. 404.]

During the legal currency of notes the normal rate of discount is the same for all the banks and may not vary without the authorization of the minister of the treasury.

The minister of the treasury, by a provision applicable to all three banks simultaneously, may effect changes in the normal rate of discount whenever he may consider that conditions of the market so require.

But the banks may discount, at a charge of 1 per cent or less, bills of exchange presented by people's banks, mining banks,^a and by such institutions of discount and agricultural credit as are organized:

1. To serve as intermediaries between the small tradesmen and the banks of issue.

2. To discount warrants of public warehouses and consignments free taxation (*franchi depositi*).

The banks of issue are also authorized to discount at 1 per cent or less, for two-thirds of their value, warrants issued on citrus products, on whose certificates of deposit in the public warehouses the Chamber of Citrus Fruit, established by law of July 5, 1908, No. 404, has made advances, except as per article 12 of the same law.

^a See the royal decree of February 9, 1908, No. 62 (Appendix III).

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Said discount at preference rate must not exceed:

	Lire.
For the Bank of Italy	100,000,000
For the Bank of Naples.	30,000,000
For the Bank of Sicily.	9,000,000

The banks may moreover apply the preferential rate to the direct discount of warrants:

(a) Issued by the companies, as per article 2 of the law of July 8, 1903, No. 320, which conduct the public stores for vegetables.

(b) On silks deposited in public warehouses legally constituted.

(c) On sulphur deposited in public or similar warehouses as per article 13 of the royal decree of July 22, 1906, No. 378.

Besides the exceptions considered in this article, the banks of issue may charge discount on bills of exchange, during the period of their legal currency, at a rate lower than the normal, under the circumstances determined by the royal decree of October 25, 1895, No. 639.^a

The said rate, which must in no case be less than 3 per cent, may be varied by decree of the minister of the treasury, with the consent of the banks of issue, whenever the conditions of the market render it advisable.

^a Appendix II.

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SECTION II.—*Advances.*^a

ARTICLE 29.

[Law of December 31, 1907, No. 804 (Appendix A). Article 19, law of July 12, 1908, No. 444.]

The banks may make advances for not more than four months:

1. On government bonds or treasury bonds. On long-term treasury bonds an advance may be made for as long as two years, under article 3 of the law of April 7, 1892, No. 111.

2. On bonds guaranteed by the Government or of which the Government has guaranteed the interest, whether

^a By virtue of article 5, of the royal decree of July 11, 1904, No. 337, having force of law, the banks of issue are authorized to make advances on the special notes issued by the Autonomous Section of Communal and Provincial Credit in accordance with the law of July 8, 1904, No. 320, and the accompanying decree, under the conditions fixed by the present article of the Text of the banking laws for advances on "government bonds or bonds guaranteed by the State."

By article 6 of the law of June 25, 1905, No. 261, the certificates authorized by article 2 of the same law and already issued, or such as shall be issued, under succeeding laws, are equalized for all intents and purposes—and therefore for the purposes of this present Text of law—with "bonds on the public debt of the State or bonds guaranteed by the State."

According to article 13 of the agreement of Mar. 26, 1906, between the Government and the Italian Southern Railway Company and approved by law of July 15, 1906, No. 324, the obligations issued up to and including Mar. 26, 1906, by the said company under its statutes are placed on a parity with "bonds directly guaranteed by the State," in the purview of article 12 of the banking law of Aug. 10, 1893, No. 449, and also of articles 29 and 32 of this present text.

According to article 3 of the agreement of July 20, 1906, between the Government and the Bank of Italy for a loan in favor of the colony of Eritrea—an agreement approved by royal decree of Aug. 26, 1906, No. 531—the personal certificates of debt given to the said bank in relation to the said operation are considered "for all purposes as government bonds."

As such will also be considered the certificates to be issued by the government of Eritrea to the Bank of Italy, as per the royal decree of Dec. 6, 1908, No. 755.

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directly or by subvention expressly restricted to the payment of said bonds.

3. On notes of realty credit institutions.

4. On notes issued under the law of June 25, 1906, No. 255, by the department temporarily annexed to the Catanzaro branch of the Agrarian Credit Institution "Vittorio Emanuele III."

5. On bonds payable in gold, issued or guaranteed by foreign States.

On bonds classed under Nos. 1, 2, and 3, and on long-term treasury bonds, advances may be made up to nine-tenths of their market value.

On bonds under No. 4, up to three-fourths of their current value.

On bonds under No. 5, up to four-fifths of their market value.

On treasury bonds up to their full value.

None of the above-named bonds may be reckoned at more than the nominal value.

6. On gold and silver coins, whether national or foreign, in legal circulation, and on gold bars.

7. On silks, raw and in organzine or woven, reckoned at not more than three-fourths of their current value, and on silver bars reckoned at not more than two-thirds of their current value.

8. On certificates of deposit issued by public warehouses legally established and on consignments free of taxation (*franchi depositi*), and on orders of merchandise or sulphur, for not more than two-thirds of the value of the merchandise which they represent.

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9. On certificates of deposits of spirits and cognac actually on hand in the warehouses established according to articles 8 and 9 of the Text of the law on spirits, approved by royal decree of September 16, 1909, No. 704, for not more than one-half of the value of the alcohol and cognac deposited.

The banks may, moreover, make advances up to six months.

(a) On certificates of deposits of silks, issued by public warehouses legally established.

(b) On certificates of deposits of sulphur issued by public warehouses, for which see law of July 15, 1906, No. 333, and on certificates equalized therewith by article 13 of the royal decree of July 22, 1906, No. 378, up to four-fifths of the value of the sulphur represented by the said certificates, net after all deductions, as per the law of June 6, 1907, No. 286.

The rate of interest on such advances may be less by not more than 1 per cent than the normal rate on other advances.

(c) On certificates of deposit issued by public warehouses dealing in citrus fruits and their products, conducted by companies as per article 2 of the law of July 8, 1903, No. 320, for not more than two-thirds the value of the merchandise which they represent.

(d) On deposits of products of citrus fruits up to two-thirds of their value.

(e) On the obligations issued as per article 171 of the Commercial Code; article 3, law of July 9, 1905, No. 415; article 8, law of June 16, 1907, No. 540; articles

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7 and 8, law of July 12, 1908, No. 444, by grantee railway and subsidized extraurban tramway companies, for not more than three-fourths the current value of such obligations.

ARTICLE 30.

[Article 35, law of August 8, 1895, No. 486. Article 26, Appendix P to same law.]

During their legal circulation, the legal interest on advances (see preceding article) is the same for all the banks, and may not vary without the authorization of the Government.

The minister of the treasury may change the interest rate on advances whenever he deems that the conditions of the market require it.

SECTION III.—*Purchase and sale of bills of exchange, drafts, and assignments on foreign countries.*

ARTICLE 31.

[Article 12, law of August 10, 1893, No. 449. Law of December 31, 1907, No. 804, Appendix A.]

The banks of issue may purchase and sell for cash or on time, on their own account, drafts and assignments on foreign countries, and bills of exchange on foreign countries bearing the signatures of two or more firms well known to be solvent, for a term not greater than three months, and payable in gold. Such operations, during their legal currency, may not, without authorization from the minister of the treasury, be extended further than may be necessary for the said banks to restore their metallic reserve, to convert into deposits

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abroad such personal certificates as may be used for the payment of import duties, or to satisfy possible orders of the treasury.

The banks of issue may make investments in foreign bills of exchange and accounts current, not intended for the reserve covering circulation and sight debts, within such limits as may be prescribed by the minister of the treasury, in view of the general conditions of the money market.^a

SECTION IV.—*Direct investments.*^b

ARTICLE 32.

[Article 12, law of August 10, 1893, No. 449. Article 32, law of August 8, 1895, No. 486. Article 14, law of July 7, 1905, No. 349. Article 57, law of June 25, 1906, No. 255.]

The banks of issue may have a working fund in Italian bonds, or other bonds issued or guaranteed directly by the Government, of a current value not to exceed:

	Lire.
For the Bank of Italy.....	75,000,000
For the Bank of Naples.....	30,000,000
For the Bank of Sicily.....	8,000,000

^a Royal decree of Sept. 17, 1908, No. 585.

^b By the terms of article 5 of the royal decree of July 11, 1904, No. 337, "having force of law," the banks of issue are authorized to make use of the special realty bonds (*cartelle*) issued by the Autonomous Section of Communal and Provincial Credit as per the law of July 8, 1904, No. 320, and the corresponding decree, for the conversion of the loan of the Commune of Rome, for all the purposes and investments for which said banks of issue are authorized to employ government bonds and bonds guaranteed by the States.

See note to article 29 regarding the equalization of railway certificates and the obligations of the Italian Southern Railway Companies with government bonds and bonds guaranteed by the State.

By article 3 of the agreement entered into July 20, 1906, between the Government and Bank of Italy for a loan to the colony of Eritrea, which

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The banks of issue are also authorized to invest in Italian consolidated bonds or in the aforesaid bonds the free portion of their respective surplus, over and above their working fund, within the limitations above established, and over and above the investments as per articles 34 and 35, within the limitations therein established.

With the previous authorization of the treasury, the Bank of Italy and the Bank of Sicily may employ in the acquisition of realty bonds 3.75 per cent or less of their respective realty credits: the former up to five and the latter up to two millions of the surplus.

The banks of issue are, moreover, authorized to acquire the realty bonds issued, under article 57, law of June 25, 1906, No. 255, by the department temporarily annexed to the Catanzaro branch of the Agrarian Institution of Credit "Vittorio Emmanuele III."

ARTICLE 33.

[Article 3, law of June 25, 1905, No. 261.]

The state railway bonds, issued to the banks of issue under article 2 of the law of June 25, 1905, No. 261, may be used for two purposes, namely, for new investments of

agreement was afterwards approved by royal decree of Aug. 26, 1906, No. 531, the said bank is entitled to make use of the special personal certificates of debt, granted to it as an equivalent, and considered "for all purposes as government bonds," in all transactions in bonds made within the limitations and for the ends established by the provisions of the present Text. According to the said article of the agreement, the bank must assign by preference such certificates to cover fixed transactions provided for by the laws in force.

For the same purpose it may use the certificates which may be issued to it by the government of Eritrea, as provided by article 1 of the royal decree of Dec. 6, 1908, No. 755.

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money in bonds, whether said investments are on their own account or for affiliated enterprises, within the limitations and for the objects specified by the provisions of this present text, and to surrogate bonds of various kinds already held by them, especially if protected by security. Such surrogation shall take place after a previous agreement, for the protection of the bond market, between the administrations of the banks of issue and the minister of the treasury.

ARTICLE 34.

[Articles 8 and 9, Appendix C to law of January 17, 1897, No. 9. Article 2, law of March 3, 1898, No. 47.]

The Bank of Sicily is authorized to invest in Italian treasury bonds, without time limit, the sums received up to and including month of December, 1899, from the liquidation of "immobilizations," provided that such sums be not over 2½ million lire.

The bonds thus acquired shall go to increase the working fund, for which see article 32.

ARTICLE 35.

[Article 6, Appendix C to law of January 17, 1897, No. 9.]

The Bank of Sicily is authorized to invest in government bonds, besides the ordinary working fund and the bonds applied to the surplus, a sum equal to that which, as a result of the liquidation of the account current with the realty branch (*azienda fondiaria*), shall be realized from "immobilizations," less the last grant to the said realty branch of 300,000 lire.

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SECTION V.—*Deposits in accounts current.*

ARTICLE 36.

[Article 12, law of August 10, 1893, No. 449. Article 2, Appendix E to law of July 22, 1894, No. 339. Article 34, law of August 8, 1895, No. 486. Article 7, law of July 2, 1896, No. 253. Law of July 15, 1909, No. 492.]

The banks of issue may receive deposits in accounts current bearing interest. When the total of such deposits exceeds:

	Lire.
For the Bank of Italy.....	200,000,000
For the Bank of Naples.....	80,000,000
For the Bank of Sicily.....	25,000,000

the institutions shall reduce their circulation by one-third, except in the case of the Bank of Sicily, for which see article 51.

ARTICLE 37.

[Article 12, law of August 10, 1893, No. 449. Law of July 15, 1909, No. 492.]

The rate of interest on interest-bearing accounts current must not exceed one-third of the rate of discount.

The minister of the treasury has the right to authorize the banks of issue to secure to interest-bearing deposits in current account a rate of interest not greater than three-fourths of the rate paid on deposits in the Postal Savings Bank.

SECTION VI.—*Issue of customs certificates and provincial revenue service.*

ARTICLE 38.

[Article 7, Appendix I to law of July 22, 1894, No. 339.]

Until further notice the banks of issue shall issue personal certificates for the payment of import duties.

These certificates are issued upon request against the payment, in state or bank notes, of the amount of the

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certificate required plus the rate of exchange, determined on the base of the average rates for bills on foreign countries in the exchanges of Genoa, Milan, Naples, and Rome on the day previous to that on which the said certificates are issued.

The relations between the treasury and the banks of issue, resulting from the provisions of the present article, are regulated by special agreement, approved by royal decree.^a

The custom houses will accept said certificates in payment of import duties instead of metallic currency, provided that they are presented within ten days after their date of issue.

ARTICLE 39.

[Law of December 31, 1907, No. 804 (Appendix A).]

The banks of issue may assume the duties of provincial revenue offices.

They are authorized to make advances of overtax to the Provinces for which they have assumed such offices for a sum not greater than the total of two bimonthly payments.

The sums thus advanced must be repaid within the maximum term of six months after the date of the loan, and a new advance can not be granted until the expiration of two months after the entire repayment of the original loan.

^a Royal decree of July 11, 1895, No. 476.

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SECTION VII.—*Provincial service of the Royal Treasury.*

ARTICLE 40.

[Article 9, agreement of October 30, 1894, before mentioned.]

The Bank of Italy, up to and including December 31, 1912, shall act as state treasury in all the Provinces of the Kingdom, subject to fixed rules^a and regulations.

ARTICLE 41.

[Article 10, agreement of October 30, 1894, before mentioned.]

The guaranty bond for the administration of the treasury is 90,000,000 lire in government bonds or bonds guaranteed by the State, calculated at the market value, less the deduction of one-twentieth of the value thus determined, the difference to be made good in the event of a drop in the market.

In this guaranty bond is included the sum set aside by the Bank of Italy under articles 2 and 3 of the agreement entered into with the Government on October 30, 1894, and approved by royal decree of December 10, 1894, No. 533, reproduced in Appendix Q to the law of August 8, 1895, No. 496.

ARTICLE 42.

[Article 12, agreement of October 30, 1894, before mentioned.]

As a fund for the performance of the ordinary treasury service a permanent dotation of 30,000,000 lire is granted to the bank, with suitable provision in cases of extraordinary payments.

When the fund at the disposition of the treasury for any reason becomes greater than 40,000,000 lire, or shows

^a Regulation approved by royal decree of Jan. 15, 1895, No. 16.

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a deficit of 10,000,000 lire, interest on the difference is due to the treasury or the bank, respectively, at a uniform rate of 1.50 per cent free of all taxation.

The permanent dotation made to the bank for the treasury service must be reintegrated every ten days in such a manner that its amount at the close of the 10th, the 20th, and the last days of the month shall not be less than 30,000,000 lire.

ARTICLE 43.

[Article 13, agreement of October 30, 1894, before mentioned.]

As long as the government notes remain inconvertible with metallic currency, and the exchange of notes of the banks of issue is regulated by the provisions of article 8 (second and third paragraphs) of the present text, the moneys deposited in gold and silver in the vaults of the bank on account of the treasury must be kept in the same specie at the disposition of the treasury or assigned to payments in coin to be designated by the treasury.

SECTION VIII.—*Special operations of the Bank of Naples—Savings branch, pawn office, custody of remittances and savings of Italian emigrants abroad.*

ARTICLE 44.

[Article 12, law of August 10, 1893, No. 449. Articles 3 and 12, Appendix T to law of August 8, 1895, No. 486. Article 1, law of July 7, 1901, No. 334.]

The Bank of Naples may continue its pawn-office operations.

The savings branch of the Bank of Naples has its own separate free capital, distinct from that of the bank and free from all claim by the creditors of the bank.

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The bank guarantees with its whole free capital all the obligations of the said branch in favor of all third parties.

The branch is administered by the director-general of the bank, making use therefor of the offices and the employees of the bank.

The bank may hold in interest-bearing accounts current, at a rate of interest not less than half the interest paid by the branch to the public, an amount which shall never be more than one-fifth of the total assets of the branch.

The branch is authorized to invest gradually two-tenths of its deposits in agrarian credit operations in the southern Provinces and in Sardinia, under the law of July 7, 1901, No. 334, and in accordance with the regulation for the execution of the same,^a and to engage in such other operations as it may by special laws be authorized to perform.

All other assets of the branch must be invested exclusively in government bonds or bonds guaranteed by the State.

ARTICLE 45.

[Article 1, law of February 1, 1901, No. 24.]

The Bank of Naples is authorized to collect, hold, invest, and transmit into the Kingdom the savings of Italian emigrants. For such purposes, and with the previous authorization of the treasury, it is empowered to make special agreements with banking houses and with the ministry of posts and telegraphs.

^a Regulation approved by royal decree of July 21, 1904, No. 536.

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It shall also provide, with the permission of the treasury, for the establishment of agencies where the need of such agencies appears.

The bank is authorized to assign up to 2,000,000 lire of its surplus, and, if necessary, of its free capital, for the establishment of a dotation fund for this service.

The bank is forbidden to perform any operation of discount or subsidy for emigrants or any transactions except those indicated in the first paragraph of this present article.

The regulation ^a determines the precautions which the bank must take to protect itself against possible losses resulting from the fluctuation of exchange.

ARTICLE 46.

[Article 2, law of February 1, 1901, No. 24.]

Of the net profits of the service described in the preceding article, one-half shall belong to the Bank of Naples, and is especially intended, in time, to bring the dotation fund up to the sum of 2,000,000 lire and reimburse the surplus or the free capital of the bank for the sum withdrawn.

The other half shall belong to the "emigration fund," in conformity with the rules established by the regulation.

When the 2,000,000 lire shall have been reimbursed to the surplus or the free capital of the bank, two-thirds of the net earnings shall belong to the said "emigration fund."

^a Regulation approved by royal decree of Dec. 29, 1901, No. 571, and modified by royal decree May 16, 1904, No. 323, and Feb. 22, 1906, No. 46.

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ARTICLE 47.

[Article 4, law of February 1, 1901, No. 24.]

The Bank of Naples shall make a yearly report to the minister of the treasury on the conduct of the service described in articles 45 and 46. The report, with the comments of the permanent commission of inspection of banks of issue, shall be presented to Parliament by the minister of the treasury.

SECTION IX.—*Agrarian credit and savings branch of the Bank of Sicily.*

ARTICLE 48.

[Articles 1 and 2, law of March 29, 1906, No. 100.]

An agrarian credit branch of the Bank of Sicily is established, to be known as "The Agrarian Credit of the Bank of Sicily."

The funds necessary for this branch are made up as follows:

(a) An initial fund of 3,000,000 lire furnished by the Bank of Sicily, to be withdrawn from the amount of the surplus available for investment.

(b) An advance in interest-bearing account current granted by the Central Savings Bank "Vittorio Emanuele" in Palermo up to the sum of 2,000,000 lire, and in no case exceeding two-tenths of the bank's saving deposits.

(c) Three-tenths of the deposits in the savings branch of the Bank of Sicily as per article 49.

In the fund described in (a) are included the amounts at present invested in agrarian credit operations transacted by the Bank of Sicily by virtue of the law of January 23, 1887, No. 4276 (third series).

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ARTICLE 49.

[Article 4, law of March 29, 1906, No. 100.]

The Bank of Sicily is authorized to act as a savings bank in the Sicilian Provinces. The operations of the savings branch are regulated by provisions of the law of March 29, 1906, No. 100, reproduced in the present text, and by the law of July 15, 1888, No. 5546 (third series).

ARTICLE 50.

[Article 5, law of March 29, 1906, No. 100.]

The management of the savings branch shall be separate from that of the bank itself. Until such time as the savings branch shall have acquired from its annual earnings a free capital of its own amounting to at least one-tenth of its deposits, the bank of Sicily guarantees with its whole property all the obligations of the savings branch in favor of all third parties.

ARTICLE 51.

[Article 6, law of March 29, 1906, No. 100. Article 8, law of July 15, 1906, No. 383. Law of July 15, 1909, No. 492.]

The Bank of Sicily may invest the initial fund, the advance in account current of the Central Savings Bank "Vittorio Emmanuele" of Palermo, and not more than three-tenths of the deposits in its savings branch, in agrarian credit operations as per the terms of the law of March 29, 1906, No. 100, and of the regulation for its execution.^a

The other assets of the savings branch of the bank shall be invested as follows:

(a) Not more than two-tenths in an interest-bearing account current with the Bank of Sicily.

^a Regulation approved by royal decree of Dec. 23, 1906, No. 731.

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(b) The remainder in bonds issued or guaranteed by the State.

The sums deposited in account current with the Bank of Sicily are not included in the maximum limit of 25,000,000 lire, for which see article 36 of the present text.

SECTION X.—*Other regulations.*

ARTICLE 52.

[Article 56, law of June 25, 1906, No. 255.]

The Bank of Naples shall contribute 4,500,000 lire, payable in thirty annual payments beginning with the fiscal year 1905–6, toward forming the free capital of the temporary department annexed to the Catanzaro branch of the Agrarian Credit Institution “Vittorio Emanuele III,” for which see article 17 of the law of June 25, 1906, No. 255.

ARTICLE 53.

[Article 18, law of July 15, 1906, No. 333.]

The Bank of Sicily shall cooperate in the formation of the capital of the autonomous company for the erection and maintenance of the public warehouses for sulphur, for which see articles 2 and 18 of the law of July 15, 1906, No. 333.

The amount of the quota shall be taken by the bank from its surplus.

ARTICLE 54.

[Articles 2 and 23, law of July 15, 1906, No. 333.]

The 2,000,000 lire which the Bank of Sicily has advanced to the obligatory “Association” for the Sicilian sulphur industry, for the formation of the capital of the autonomous Bank of Mining Credit for Sicily, shall be reimbursed

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by the "Association" to the Bank of Sicily by installments within a period not longer than eight years, at the lowest rate of interest.

The Bank of Sicily shall have a preferential claim on future profits on the sale of sulphur, as per article 13, No. 2, of the law of July 15, 1906, No. 333, and on all assets of the before-mentioned Bank of Mining Credit.

ARTICLE 55.

[Article 17, law of July 15, 1906, No. 333.]

The Bank of Sicily shall act gratuitously as the cashier of the obligatory "Association" of the Sicilian sulphur industry.

Deposits of the "Association" shall bear the same rate of interest as that which the bank pays on savings deposits in interest-bearing accounts current.

ARTICLE 56.

[Article 3, law of July 15, 1906, No. 441.]

The savings branches of the Bank of Naples and the Bank of Sicily are authorized to set aside 5 per cent of their respective annual net earnings to increase their quota of the amortization of land taxes due, respectively, in the continental provinces of the former Kingdom of Naples and in Sicily.

ARTICLE 57.

[Article 25, law of April 30, 1874, No. 1920. Article 9, before-mentioned agreement of October 30, 1894.]

The state treasury, except as under the agreement of October 30, 1894, entered into with the Bank of Italy regarding its treasury service, may deposit any amount

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with the branches and subbranches of any institution of credit authorized to issue notes, and may demand payment in full or in part from one or more branches or subbranches of the same institution. This service shall be rendered to the State free of charge.

ARTICLE 58.

[Article 12, law of August 10, 1893, No. 449.]

Banks of issue are forbidden to engage in new land-credit operations.

ARTICLE 59.

[Article 12, law of August 10, 1893, No. 449.]

Any unsecured operation in account current is forbidden, whether at the time of opening an account or afterwards.

ARTICLE 60.

[Article 12, law of August 10, 1893, No. 449.]

The bonds, securities, and movable property, which in their nature are different from those described in Title IV, and which have come into the possession of the banks as a result of some of their credits, must be liquidated within two years. The banks may, however, accept mortgages on immovable property for overdue credits, but they must liquidate such operations within the term of three years.

ARTICLE 61.

[Article 14, law of August 10, 1893, No. 449.]

At the end of every fiscal year the new overdue credits must pass to the "loss" column, and the amounts recovered must be credited to the year in which they have been wholly or partly collected.

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ARTICLE 62.

[Article 14, law of August 10, 1893, No. 449.]

Banks which shall engage in operations not permitted by law are liable to a tax equal to triple the respective rate of discount, reckoned on the total amount of the illegal business transacted, and for the full duration of such operations.

TITLE V.—MUTUAL REDEMPTION OF NOTES AMONG THE SEVERAL BANKS.

ARTICLE 6.

[Article 5, law of August 10, 1893, No. 449.]

Each bank must accept in payment notes of the other banks wherever these have a branch or a representative. Such notes must be received also for regular operations in Provinces where they have legal circulation.

During the legal circulation of notes the rules for their exchange among the banks are established by a royal decree to be presented to Parliament for approval.^a

ARTICLE 64.

[Article 14, agreement of October 30, 1894, before-mentioned.]

During the legal currency of notes, and while the Bank of Italy performs its treasury service, said bank may not demand of the other banks of issue either the exchange or the redemption of their notes except in an amount equal to the amount of the notes of the said Bank of Italy which may be held by the other institutions.

^a Royal decree of February 27, 1894, No. 58, presented on the same day to the Chamber of Deputies (see acts of Parliament bills No. 318 and 318-a), but not enacted into law.

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TITLE VI.—LIQUIDATION OF THE BANCA ROMANA.

ARTICLE 65.

[Article 25, law of August 10, 1893, No. 449. Article 11, before-mentioned agreement of October 30, 1894. Articles 28 and 29, law of August 8, 1895, No. 486.]

The liquidation of the Banca Romana is assumed by the Bank of Italy at its own risk and peril.

The time for the liquidation of the “immobilizations” involved in the liquidation of the Banca Romana is twenty years, beginning with January 1, 1894, and at the rate of one-fifth of the total every four years.

The State is not responsible for losses which may result from such liquidation even if such losses shall exceed the entire amount to be contributed by the Bank of Italy for such liquidation, as per the terms of article 67.

ARTICLE 66.

[Article 29, law of August 8, 1895, No. 486.]

The acts of sale to third parties of real property possessed by the Banca Romana on October 1, 1894, and the transference to third parties of credits already existing on November 23, 1893, limited to the value of said credits, are subject only to a fixed registration tax of 3.60 lire.

Such preference shall be without effect after December 31, 1912.

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ARTICLE 67.

[Article 29, law of August 10, 1893, No. 449. Article 2, aforesaid agreement of October 30, 1894. Article 8, aforesaid agreement of November 28, 1896. Articles 1 and 2, aforesaid agreement of November 29, 1908.]

The Bank of Italy shall pay each year 2,000,000 lire on account of the liquidation of the Banca Romana to cover losses resulting from the said liquidation.

If that shall be insufficient, the deficit shall be provided for from the extraordinary reserve, for which see the aforesaid agreement of November 29, 1908.

The advances due from the Bank of Italy for the liquidation of the Banca Romana shall not bear interest in favor of the former.

ARTICLE 68.

[Article 10, law of March 3, 1898, No. 47.]

The circulation of notes of the Bank of Italy not covered by metallic reserve but representing the debit of the account current of the Banca Romana in liquidation is not subject to tax.

Such circulation must never exceed the amount which was registered in said account current on October 1, 1896,^a and it must be reduced in proportion to the legal liquidation and amounts set aside for that purpose.

ARTICLE 69.

[Article 30, law of August 10, 1893, No. 449, and articles 28 and 29, law of August 8, 1898, No. 486.]

The Bank of Italy shall institute and prosecute at its own expense all actions against the functionaries and administrators of the Banca Romana, as such, and all others who may be found in any way responsible for the losses of the said Banca Romana.

^a 720,295.43 lire.

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TITLE VII.—LIQUIDATION OF REALTY CREDITS OF BANKS OF ISSUE.

SECTION I.—*Special regulations for the department of crédit foncier or realty credit of the former Banca Nazionale nel Regno and of the Bank of Sicily.*

ARTICLE 70.

[Article 1, law of July 7, 1905, No. 349.]

The realty credit departments in liquidation of the former Banca Nazionale nel Regno and of the Bank of Sicily are empowered to convert their actual loans, not only into 3.50 per cent realty bonds, but also by the issue of new realty bonds bearing interest at 3.75 or 3.25, or 3 per cent net, with the retirement of those actually in circulation, saving the obligation on the borrowers of the Bank of Sicily for the payment of contributions fixed by article 95.

The loans converted must be extinguished in a period of time not greater than fifty years from the day of the contract or the act of conversion. In no case may the extinction of loans be protracted beyond the year 1960.

The mortgages already registered to guarantee the loans preserve their validity and their grade, without need of a special reserve, to guarantee the capital, the interest, and incidentals of the loans substituted, including the contributions, for which see article 95.

The realty credit administration may have the acts of conversion marked on the margin of mortgage records remaining in effect to guarantee the loans.

For the conversion of loans the banks will endeavor, so far as possible, to give preference to those guaranteed by

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farm properties and to those for small sums, always with due regard to the order of applications.

ARTICLE 71.

[Article 2, law of July 7, 1905, No. 349.]

Any difference between the redemption at par of the bonds in actual circulation and the selling price of the new ones shall be charged to the borrower; but, by a previous special agreement with the said borrower, it may be advanced by the realty credit administration.

For such advances the realty credit branches are authorized to dispose of the ordinary reserve fund provided for by article 11 of the law (text) of February 22, 1885, No. 2922. The realty credit of the former Banca Nazionale nel Regno may, moreover, dispose of the special reserve fund, for which see article 9 of the Appendix A to the law of January 17, 1897, No. 9, modified by article 13 of the law of July 7, 1905, No. 349.

ARTICLE 72.

[Article 15, law of July 7, 1905, No. 349.]

Independently of the conversion of the loans, the realty credit departments in liquidation of the former Banca Nazionale nel Regno and of the Bank of Sicily may always proceed to the conversion of their bonds, as per the provision of article 38, paragraphs 1, 3, and 5, of the law of July 17, 1890, No. 6955 (3d ser.).

The conversion may be effected by the issuance of new realty bonds at the rate of 3.75 and 3.50 per cent interest.

The reduction of the interest on the corresponding bonds must be effected within a period not longer than one year from the date of the conversion.

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Notice of the intended conversion must be published in the Official Gazette of the Kingdom and in all the periodicals for legal announcements, and must be repeated twice ten days apart.

After one month from the last publication the bonds in circulation can no longer be presented for redemption, and the interest will be calculated at the rate of the new bonds.

While the conversion is being effected, all the provisions contained in the present text in favor of debtors of the realty credit administration will be applicable to the loans, including the right to extend the loans, as per article 70.

ARTICLE 73.

[Article 6, agreement of November 28, 1896, before cited. Article 5, Appendix C to law of January 17, 1897, No. 9.]

For possible monetary needs, the department of realty credits in liquidation of the former Banca Nazionale nel Regno and that of the Bank of Sicily may obtain, respectively, from the Bank of Italy and from the Bank of Sicily, advances on deposits of government bonds or bonds guaranteed by the State, according to article 29, at a favorable rate of interest, provided it be not less than 3.50 per cent per annum.

For the realty credit department of the former Banca Nazionale nel Regno, the said advances may be made also on bonds of the dotation fund, disposable by the terms of article 76, and up to one-half of their value.

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ARTICLE 74.

[Article 6, agreement of November 28, 1896, before cited. Article 5, Appendix C to law of January 17, 1897, No. 9.]

The banks are not subject to tax on internal advance operations described in the preceding article.

ARTICLE 75.

[Article 7, agreement of November 28, 1896, before cited. Article 7, Appendix C to law of January 17, 1897, No. 9. Article 12, law of March 3, 1898, No. 47.]

The real property actually in the possession of the realty credit branch in liquidation of the former Banca Nazionale nel Regno and that of the Bank of Sicily, or which may come into their possession by the terms of article 104, computed at balance values, shall pass respectively to the Bank of Italy and the Bank of Sicily with exemption from all taxes.

ARTICLE 76.

[Article 8, agreement of November 28, 1896, before cited.]

The dotation fund of the realty credit branch in liquidation of the former Banca Nazionale nel Regno shall maintain the constant proportion of one-tenth of the actual circulation of bonds.

The Bank of Italy shall liquidate on account of the realty credits the excess of the dotation fund.

ARTICLE 77.

[Article 3, law of January 17, 1897, No. 9.]

If the provision of articles 73 and 76 shall not suffice to guarantee the transactions of the realty credit branch in liquidation of the former Banca Nazionale nel Regno and of that of the Bank of Sicily, the deficits shall be charged

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to the balances for the corresponding fiscal year of the respective banks.

ARTICLE 78.

[Article 16, law of July 7, 1905, No. 349.]

The rules for carrying out the provisions of the law of July 7, 1905, No. 349, relative to the conversion of loans, are fixed by appropriate regulation.^a For the application of the other provisions of the same law the rules in force are continued in the regulation of February 1, 1891, No. 66.

SECTION II.—*Special regulations for the realty credits of the Bank of Naples.*

ARTICLE 79.

[Article 1, law of July 7, 1905, No. 350.]

For the department of realty credits in liquidation of the Bank of Naples beginning with January 1, 1906, the interest on loans is reduced to 3.75 per cent, except for the contributions as per article 95. Power is granted to request and to allow the extension of the amortization for a period of time not greater than fifty years from the date of new contracts, with the benefits and rules of the present law, save as regards the obligations of borrowers for the payment of contributions as per article 95, and the maintenance of the existing law relating to the interest, the amortization of the realty bonds, and their guarantees.

In no case may the extinction of the loans be extended beyond 1960.

The mortgages already registered to guarantee the loans shall preserve their validity and their grade, without

^a Regulation approved by royal decree of November 19, 1905, No. 547.

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need of a special reserve, to guarantee the capital, the interest, and incidentals of the loans substituted, including the contributions, for which see article 95.

The realty credit department is entitled to mark the acts of conversion on the margin of the mortgage records remaining in effect to guarantee the loans.

ARTICLE 80.

[Article 1, Appendix B to law of January 17, 1897, No. 9. Law of July 2, 1908, No. 320.]

Revoking article 6, paragraph 5, of the law of February 22, 1885, No. 2922, bonds issued by the crédit foncier of the Bank of Naples, beginning January 1, 1897, shall bear interest annually at 3.50 per cent, exempt from any impost or tax, present or future.

The old bonds of the realty credit department of the Bank of Naples, bearing gross interest at 5 per cent, shall be recalled and cancelled, and in exchange for them shall be issued new bonds of equal nominal value, bearing interest annually at 3.50 per cent, exempt from all imposts and taxes, present and future, payable semi-annually on the 1st of April and on the 1st of October of each year.

The old bonds not presented in exchange for others of the new issue before July 31, 1910, shall be considered as outlawed, and their value shall go to the profit of the crédit foncier.

The interest and amortization of the new bonds are guaranteed by the State.

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ARTICLE 81.

[Article 2, Appendix B to law of January 17, 1897, No. 9. Article 1, law of July 7, 1905, No. 350.]

The debt represented by the bonds of the realty credit department of the bank, in circulation on January 1, 1897, shall be redeemed within the period of fifty years beginning from the same date, by means of a constant annuity, including the net interest at 3.50 per cent, payable in two semiannual installments of 1.75 lire each, and of the proportion of the amortization.^a

The redemption of the bonds shall be by semi-annual drawings on February 1 and August 1 of each year. If the value of the bonds is below par, the bank has power to substitute, for one-half of the redemption by lot, bonds bought direct on the market.

The loans made by the bank must be reduced according to the conditions under which they were granted, with the modifications effected by article 79 of the present text.

ARTICLE 82.

[Article 3, Appendix B to law of January 17, 1897, No. 9.]

Revoking article 8, paragraph 9, of the law (Text) of February 22, 1885, No. 2922, governing realty credits, the bonds of the realty credit department of the Bank of Naples are accepted for the redemption of loans at a valuation determined for each quarter, based upon the average value of the bonds for the preceding quarter in the principal exchanges of the Kingdom, increased by 50 lire. If the average value determined and applicable shall exceed 450 lire, the bonds are accepted at par value.

^a The table of amortization has been approved by ministerial decree of Apr. 30, 1898, published in the Official Gazette of July 6, 1898, No. 150.

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ARTICLE 83.

[Article 14 of law of July 7, 1905, No. 350.]

All bonds of the department of realty credits in liquidation of the Bank of Naples which originated either from investments on capital account or from investments of profits from annual savings in management constitute a fund the interest from which forms part of the ordinary balance, and is at the free disposal of the department of realty credits.

ARTICLE 84

[Article 15, law of July 7, 1905, No. 350.]

All amounts obtained on capital account during every six months over and above the obligatory half-yearly amortizations of bonds, and all those resulting from the savings in management at the end of each fiscal year, must be invested in government bonds or bonds guaranteed by the State to be included in the said fund, as per preceding article, on capital account and on account of annual savings in management, respectively.

ARTICLE 85.

[Article 16, law of July 7, 1905, No. 350.]

When the investment and reinvestment in bonds prescribed in the preceding article, in view of their circulation, their net return, and the annual burdens arising from the realty bonds in circulation, result in a loss to the crédit foncier, they shall be suspended, with the previous authorization of the minister of the treasury, and the deficit shall be made up by the retirement from the circulation and the cancellation of the said realty bonds.

The withdrawal of the realty bonds from circulation shall be effected by means of direct purchase if quoted

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below par, or by redemption of same by lot, in addition to the half-yearly obligatory amortization, if quoted at or above par.

ARTICLE 86.

[Article 17, law of July 7, 1905, No. 350.]

When it appears that even in the case of bonds already forming part of the said fund (see article 83), in view of the burdens arising from the realty bonds in circulation, it would prove profitable for the realty credit department to anticipate their redemption by proportionately hastening the withdrawal of the realty bonds, such bonds may, with authorization of the minister of the treasury, be gradually redeemed, and their income be applied either to increase the direct purchase of realty bonds or to increase the drawings, as per the preceding article.

ARTICLE 87.

[Article 12, law of July 7, 1905, No. 350.]

The Bank of Naples shall provide for the increment of the fund of 15,000,000 lire (for which see article 12 of the law of July 7, 1905, No. 350) by semi-annual and quarterly reinvestments at compound interest, in order to reimburse itself for the amount of the account current of its realty credit department, closed December 31, 1896.

ARTICLE 88.

[Article 8, law of January 17, 1897, No. 9. Article 13, law of July 7, 1905, No. 350.]

The tax on movable property and the circulation tax on bonds of the *crédit foncier* in liquidation of the Bank of Naples are, respectively, 15 lire per centum and 1.80

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lire per thousand, and are subscribed by the State to the said realty credit department. To the latter will be transferred also all such amounts as are included in the annual dues of the borrowers for tax subscriptions.

ARTICLE 89.

[Article 5, Appendix b to law of January 17, 1897, No. 9.]

The Bank of Naples acts as cashier for its realty credit department. Therefore, in case of need, the bank may make advances on Italian Government bonds or bonds guaranteed by the State in possession of the realty credit department, at a favorable rate of interest, provided it be not less than 3.50 per cent per annum. For such internal operations of advances the bank is not liable to a tax.

ARTICLE 90.

[Article 18, law of July 7, 1905, No. 350.]

Any annual deficits of the liquidation shall be charged to the realty credit department.

When all the assets in bonds, immovable property, and ordinary credits of the realty credit department have been exhausted, the said deficits shall be charged to the balance of the corresponding fiscal year of the bank.

The assets, of any kind, of the realty credit department which may remain available after the extinction of the realty bonds shall become the property of the bank.

ARTICLE 91.

[Article 20, law of July 7, 1905, No. 350.]

The rules for the execution of the law of July 7, 1905, No. 350, are fixed by regulation approved by royal decree.^a

^a Royal decree of Nov. 19, 1905, No. 553.

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SECTION III.—*Regulations common to the realty credit administrations of the three banks.*

ARTICLE 92.

[Article 3, law of July 7, 1905, No. 349. Article 2, law of July 7, 1905, No. 350.]

Neither unpaid semi-annual dues nor interest on deferred payments, nor legal and other incidental expenses, shall constitute an obstacle to the conversion of actual loans in accordance with the provisions contained in the two preceding sections.

The realty credit administrations shall take measures to systematize and secure payment of such debt and of the sum advanced according to article 71, and they are further authorized to require second mortgages.

The second mortgage, agreed upon by the borrower, shall rank immediately after the first mortgage, or at least in a way satisfactory in the judgment of the realty credit department.

ARTICLE 93.

[Article 4, law of July 7, 1905, No. 349. Article 3, law of July 7, 1905, No. 350.]

The amount of the debt consisting of the unpaid semi-annual dues, of the interest on deferred payments, of legal expenses and other incidentals, of sums advanced in conformity with article 71, and of taxes on movable property on account of the realty credit department of the Bank of Naples, shall constitute a separate capital sum which must be extinguished in a period of time not exceeding that of the amortization of the converted loan added to the corresponding tax on movable property.

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ARTICLE 94.

[Article 5, law of July 7, 1905, No. 349. Article 4, law of July 7, 1905, No. 350.]

No tax will be due to the treasury for acts and contracts of conversion of actual loans, for requisite mortgage entries for acts and contracts in systematization of the loan, or for the second mortgages mentioned in the two foregoing articles.

The realty credit departments of the banks of issue shall in no case partake of the compensations mentioned in article 3 of the law of July 4, 1896, No. 183,^a arising from the conversion of the old loan.

Likewise, in application of article 3, last paragraph, of the same law of June 4, 1896, no tax shall be due to the treasury.

ARTICLE 95.

[Article 6, law of July 7, 1905, No. 349. Article 5, law of July 7, 1905, No. 350.]

For the loans which shall be converted under the terms of the two preceding sections the borrowers shall pay to the realty credit department for dues to the state treasury (except in the case of the realty credit department of the Bank of Naples, for which see provision of article 88) certain annual contributions as imposts on movable property, as subscription to taxes of whatever kind which may be payable to the finances of the State for the contract of the loan, for the issue and circulation of the mortgage bonds, and for all the acts and formalities mentioned in article 1 of the law of June 4, 1896, No. 183.

^a Modified from article 4, law of Dec. 22, 1905, No. 592.

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The contribution to the impost on movable property shall consist of an assessment of 10 lire on every 100 lire interest on loans not exceeding 10,000 lire, and 12 lire in the same proportion on loans greater than such sum.

The subscription to the taxes as above shall be 8 centesimi per 100 lire of loans not exceeding 10,000 lire and 10 centesimi per 100 lire for others.

The second of these contributions shall be turned over by the realty credit administrations of the former Banca Nazionale nel Regno and the Bank of Sicily to the proper registration offices, and the other to the state treasury, according to article 22 of the abovementioned law.

When, by amortization or advance payments, the loan shall be reduced to one-half, the rate of the taxes shall be successively reduced to one-half and calculated on the capital amount still due.

ARTICLE 96.

[Article 7, law of July 7, 1905, No. 349. Article 6, law of July 7, 1905, No. 350.]

Modifying article 3 (second paragraph) of the law of June 4, 1896, No. 183,^a in the case of advance payment in whole or in part of the debt arising out of the loan, the realty credit branches of the banks of issue shall be entitled, under special uniform conditions, to collect a commission fee up to 5 per cent of the sum refunded before the date fixed by the new contract.

^a Modified by article 4 of the law of Dec. 22, 1905, No. 592.

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ARTICLE 97.

[Article 8, law of July 7, 1905, No. 349. Article 7, law of July 7, 1905, No. 350.]

For loans to be converted not exceeding 20,000 lire, the subscription under article 95 of the present text shall cover all the stamp taxes due for the certificates of the entry and transcription of mortgages and all such payments, and in general for all the acts and documents which, upon direct requisition of the realty credit branches, may, in accordance with the regulations and precautions established by statute, be issued by the proper public officers or notaries with the object of legalizing the demands for the conversion of the said loans.

ARTICLE 98.

[Article 9, law of July 7, 1905, No. 349. Article 8, law of July 7, 1905, No. 350.]

The use of the 50-centesimi stamp for procedures under article 21 of the law of June 4, 1896, No. 183, is hereby further extended to all proceedings instituted by the realty credit branches, including incidental judgments, even when they relate to questions of merit, in all the degrees of jurisdiction, and to judgments both of apportionment and liquidation and all incidental proceedings, as also to proceedings for taking possession of real property adjudged to the said realty credit branches following sale at auction instituted either by the realty credit branches or others.

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ARTICLE 99.

[Article 10, law of July 7, 1905, No. 349. Article 9, law of July 7, 1905, No. 350.]

A reduction of one-half is hereby made in the fees fixed by the notary tariff now in force for the stipulation of contracts of conversion of loans, as per the provisions of the following sections.

ARTICLE 100.

[Article 11, law of July 7, 1905, No. 349. Article 10, law of July 7, 1905, No. 350.]

Representatives of the realty credit branches of the banks of issue, upon the presentation of tax valuation records referring to specified properties, may search the tax registers and obtain, without charge, such memoranda and notes as are necessary for performing their appointed duties.

ARTICLE 101.

[Article 12, law of July 7, 1905, No. 349. Article 10, law of July 7, 1905, No. 350.]

The reduction under article 31 of the law of June 4, 1896, No. 183, to one-fourth of the registration taxes for acts of transfer and conveyance therein specified, arising from loans arranged up to December 31, 1895, shall be extended, in favor of the realty credit branches, to December 31, 1916.

ARTICLE 102.

[Article 2, Appendix S to law of August 8, 1895, No. 486.]

The realty credit branches of the banks of issue have the right to surrender their own credits to other institutions of realty credit, ordinary or private, on such conditions as they may deem convenient, wholly extinguishing their respective credit, as the law provides.

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ARTICLE 103.

[Article 3, Appendix S to law of August 8, 1895, No. 486.]

No payment or compensation is due to the treasury in case of anticipated redemption of a realty loan made through the contraction of a new mortgage loan with other institutions, provided that the amount and the time of the new loan be not less than the amount still due and the time still to run.

ARTICLE 104.

[Article 4, Appendix S to the law of August 8, 1895, No. 486.]

When the realty credit department of a bank of issue becomes the receiver of mortgaged real property, the redemption of the remaining debt may be deferred with the proviso that the half-yearly amortization be continued for the time of the original loan.

In case of sale, the price must be invested in the extinction of the remaining debt and the redemption of the corresponding number of realty bonds. When such price is not sufficient, the institution must supply the difference. The provisions of this present article are not applicable to the realty credit department of the Bank of Naples, the realty-bond business of which is regulated by articles 80, 81, 82, 85, and 86.

ARTICLE 105.

[Article 5, Appendix S to law of August 8, 1895, No. 486.]

The power granted to the receiver by article 36 of the law of July 17, 1890, No. 6955, may be also exercised by the buyer of immovable property under a judgment granted to the realty credit department of a bank of issue.

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The term of fifteen days, as specified in said article 36, is extended to thirty days in favor of the receiver who intends to profit by the realty loan granted to the dispossessed debtor.

ARTICLE 106.

[Article 6, Appendix S to the law of August 8, 1895, No. 486.]

After the third attempt at sale by auction the realty credit branches of the banks of issue may request from the Civil Tribunal the authority to sell by private agreement properties subject to expropriation and to foreclosure for a sum not less than that bid at the last auction.

This provision can not be impugned except for nullity of form, and such impugnation shall not suspend the sale.

The price shall be paid to the bank, which shall deduct what is due to it, in conformity with article 23 (F) of the text of the law governing realty credit, approved by royal decree of February 22, 1895, No. 2922, holding the remainder in trust to await apportionment.

ARTICLE 107.

[Article 7, Appendix S to the law of August 8, 1895, No. 486.]

For the appointment, the recall, and the surrogation of the sequestrator (for which see (B), article 23, of the said text of the law governing realty credits), and for the bond which may be required from him, the president of the tribunal must conform to the proposals of the realty credit branches of the banks of issue.

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TITLE VIII.—SUPERVISION OF CIRCULATION AND BANKS OF ISSUE.

SECTION I.—*General regulations.*

ARTICLE 108.

[Article 15, law of August 10, 1893, No. 449. Articles 26 and 27, law of August 8, 1895, No. 486. Article 1, Appendix P to the law of August 8, 1895, No. 486. Article 12, Appendix T to the aforesaid law.]

The supervision of banks of issue, realty credit branches, the saving branch of the Bank of Naples, and the liquidation of the Roman Bank is vested in the treasury.

ARTICLE 109.

[Article 4, Appendix P to the law of August 8, 1895, No. 486.]

The necessary expenses of the supervision of the banks of issue shall be borne by the banks themselves.

SECTION II.—*Permanent commission.*

ARTICLE 110.

[Article 3, Appendix P to the law of August 8, 1895, No. 486. Law of December 31, 1907, No. 804, Appendix A. Law of June 30, 1908, No. 304.]

A permanent commission is appointed for the supervision of the banks of issue and of the state and banking circulation, under the presidency of the minister of the treasury.

The said commission is composed of four senators and four deputies elected by the respective chambers, with the proviso that in case of the dissolution of the Chamber of Deputies, the deputies shall remain in office until a new election; also of five members appointed by royal decree,

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upon the recommendation of the minister of the treasury and with consent of the council of ministers.

The members appointed by the Government are a president or councillor of the state council, a president or councillor of the court of accounts, the director-general of the treasury, the inspector-general for the supervision of the banks of issue, the treasury services, and the board of sanitation of the city of Naples, the director-general of credit and estimate in the ministry of agriculture, industry, and commerce.

The commission shall elect a vice-president from its own number.

ARTICLE III.

[Article 26, law of April 7, 1881, No. 133. Article 27, law of August 8, 1895, No. 486. Article 5, Appendix P to the same law.]

The permanent commission for the supervision of circulation and the banks of issue shall, upon the request of the minister of the treasury, give its advice:

1. On all provisions and regulations concerning methods and guarantees:

(a) For exchange operations, withdrawal and cancellation of government notes, and the substitution of new notes, which must be passed upon by the court of accounts.

(b) For the custody of state notes intended for the working fund.

(c) For the acceptance of bank notes by the state treasury when they shall have ceased to have legal circulation, as per article 10.

2. On the rules to be established in regard to the exchange of bills when the new regulations contained in article 8 shall have been issued.

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3. On the form of the decennial reports of the condition of each bank, which shall show separately the various kinds of assets and liabilities which form the free capital of the concern.

4. On the special agreement to be entered into among the banks, subject to the approval of the Government, for the getting rid of notes of other institutions.

Moreover, the commission may be invited to give its advice on all measures regulating the manufacture, supply, custody, withdrawal, and cancellation of bank notes, and determining the quantity and use of notes in the working fund as per article 4.

ARTICLE 112.

[Article 6, Appendix P to the law of August 8, 1895, No. 486. Article 4, law of February 1, 1901, No. 24.]

The permanent commission shall, upon the request of the minister of the treasury, extend its examination to include the following:

(a) The proposed amendments of the charter of the Bank of Italy within the limits of the laws.

(b) Amendments that may be deemed necessary to the statutes and by-laws of the banks of Naples and Sicily.

(c) And, in general, all the provisions necessary for the execution of the present law.

The report, as per article 44 of the present text, shall be referred to the commission for its opinion.

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SECTION III.—*Permanent supervision.*

ARTICLE 113.

[Law of December 31, 1907, No. 804.]

The permanent supervision of the banks of issue and their branch managements is undertaken by the minister of the treasury through the inspectorate-general.

ARTICLE 114.

[Article 8, Appendix P to the law of August 8, 1895, No. 486.]

The board of directors of the Bank of Italy shall, from time to time, and with sufficient notice, advise the minister of the treasury of the date and hour fixed for the general meetings of shareholders, for the meetings of the superior council, and of the liquidation committee of the Banca Romana, inclosing a programme of the subjects to be discussed at such meetings.

Similar communications must be made by the banks of Naples and Sicily in regard to the meetings of the general council and central council of administration.

At the sessions of the above-mentioned councils and commissions there shall be present a government inspector or, in his stead, an official delegated by the minister of the treasury with power to suspend the execution of decisions that may in his opinion be contrary to the laws, regulations, and statutes.

Immediate notice of such suspensions must be given to the minister of the treasury, who will either approve or revoke the same, giving due notice to the banks interested, within five days from the date of suspension. If the suspension meets with the minister's approval, he shall have the power to annul the decision when the same

National Monetary Commission

is recognized as contrary to the laws, regulations, and statutes.

ARTICLE 115.

[Article 9, Appendix P to the law of August 8, 1895, No. 486.]

When an inspector or a delegate, as in the preceding article, shall have failed to suspend a decision which the minister of the treasury deems to be contrary to the laws, regulations, and statutes, the minister may directly suspend the same within five days from the date of the meeting, basing such action upon the report communicated by the inspector and giving notice thereof to the bank interested.

After the suspension the minister shall have the power to annul the said decision if the same be found contrary to the laws, regulations, and statutes.

ARTICLE 116.

[Article 10, Appendix P to the law of August 8, 1895, No. 586.]

The inspector or delegate (see the foregoing article) must transmit, within two days, to the minister of the treasury a report on the matters discussed and on the decisions taken at the meeting at which he has been present.

Within the same time the board of directors of the bank shall transmit an abstract of the matters discussed, as well as a copy of the minutes of the meeting duly verified.

ARTICLE 117.

[Article 11, Appendix P to the law of August 8, 1895, No. 486.]

The inspectorate-general shall examine the annual balances of the banks of issue and, where deemed necessary, verify the correspondence of said balances with the records of the institutions.

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For this purpose the banks must promptly transmit to the inspectorate their balances and profit and loss accounts, and they must furnish all such information as may be required of them except in the case of the Bank of Naples and its realty credit department as per article 135.

ARTICLE 118.

[Article 12, Appendix P to the law of August 8, 1895, No. 486.]

Reports on the operations of each bank, compiled in accordance with the forms approved by special royal decree, shall be handed in on the 10th, 20th, and the last day of each month.

They shall be transmitted to the treasury at the latest within eight days after date and must be signed by the director-general and by the chief of the general accounting division of the bank.

The banks are obliged to furnish to the inspectorate-general all required information in connection with the reports received.

The inspectorate shall verify from time to time the correspondence between the reports and the records of the bank.

The condition of each bank shall be published by the inspectorate-general in the Official Gazette of the Kingdom.

ARTICLE 119.

[Article 13, Appendix P to the law of August 8, 1895, No. 486.]

The bills of exchange on foreign countries, included in the reserve of the banks of issue, in conformity with article 11, must be verified at short intervals by the inspectorate-general in order to ascertain their value

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and to make sure that the requirements as set forth in the royal decree of October 10, 1895, No. 627, have been complied with.

The said decree establishes the rules for the balancing of deposits in accounts current abroad, reckoned as reserve, as per the terms of said article 11.

ARTICLE 120.

[Article 14, Appendix P to the law of August 8, 1895, No. 486.]

The inspectorate-general shall, at short intervals, see that the regulations regarding the movement of the bills are strictly observed.

The said inspectorate shall make not less than twice each year, and even in the interval between two decades, a complete verification, without notice and simultaneously, of the cash on hand in all the branches, subbranches, and agencies of the bank.

Such proceedings can not, for any cause, be postponed to any other day than that fixed beforehand. If more than one day is required for their completion they shall be continued without interruption taking such precautions as may be deemed necessary for their satisfactory performance.

The reports on these verifications, with a recapitulation, shall be transmitted promptly to the inspectorate-general for possible remarks to the banks.

For the purpose of these verifications the minister of the treasury may secure information, besides that furnished by the intendants of finance, from all the members of their staff.

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ARTICLE 121.

[Article 15, Appendix P to the law of August 8, 1895, No. 486.]

The inspectorate-general must make certain special verifications in the branches and sub-branches of the banks, according to such rules as shall be ordained by ministerial decree.

The purpose of such verifications shall be principally to ascertain the nature (1) of the metallic and paper currency; (2) of public effects on deposit, being the property of third parties, or representing the direct investments of the banks; (3) of the portfolios; and further to see that all the operations are conducted in accordance with the law.

The directors of the above-mentioned branches and sub-branches must submit to the inspectors the registers and documents necessary for their discharge of the duties with which they are intrusted.

ARTICLE 122.

[Article 16, Appendix P to law of August 8, 1895, No. 486.]

Besides the powers conferred by the foregoing articles, the inspectorate-general possesses also all those specified in the special statute as per article 4.

SECTION IV.—*Periodical and extraordinary inspections.*

ARTICLE 123.

[Article 15, law of August 10, 1893, No. 449. Article 17, Appendix P to the law of August 8, 1895, No. 486. Article 36, same law.]

At the end of every three years the minister of treasury shall order an extraordinary inspection of the banks of issue, through state officials who have not participated in previous inspections of the respective banks.

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The reports of such inspections shall be presented to Parliament within three months.

ARTICLE 124.

[Article 18, Appendix P to the law of August 8, 1895, No. 486.]

These inspections have as their object:

(a) To ascertain the quantity and quality of metallic currency, of bills of exchange, and of accounts current on foreign countries, included in reserve according to the law.

(b) To verify the actual quantity of notes in circulation and of those on hand, according to their different classes, taking separate account of notes serving as working fund and those withdrawn as worn out, and canceled but not yet destroyed, in conformity with the regulations in the before-mentioned article 4.

(c) To ascertain whether, in the exchange of notes with the public and among the banks themselves, the latter have followed the rules established by the laws and regulations in force.

(d) To certify the exact correspondence of the records contained in the books of the banks with the reports and statements transmitted to the Government.

(e) To verify the nature of the operations of the banks as regards the provisions contained in Title IV.

(f) To certify the observance, on the part of the Bank of Italy, of the prescriptions of the Commercial Code, and particularly of those contained in articles 146 and 181, and the actual existence of the respective free capital of the banks of Naples and Sicily.

(g) To ascertain whether within the two years, as prescribed by article 60, the bonds, securities, and various

Law Relating to Banks of Issue

movable properties specified therein which became property of the banks after August 25, 1893,^a as a result of their credits have been liquidated; and whether within three years, as specified by the same article, the liquidation has been effected of the operations relative to overdue credits guaranteed by mortgage or by transfer of movable properties.

(h) To examine all other conditions intended to assure the exact and complete fulfillment of the law.

(i) To make a general examination of the conduct of the banks and of the functions which they perform affecting either the public interest or the treasury.

ARTICLE 125.

[Article 20, Appendix P to the law of August 8, 1895, No. 486.]

The director of the bank, or whoever acts in his stead, and his subordinates must furnish all the explanations and exhibit all the books and documents required by the state officials charged with the inspection. The director or his substitute may cause to be present at the inspection the head of the department under inspection or verification.

ARTICLE 126.

[Article 21, Appendix P to the law of August 8, 1895, No. 486.]

The public officials charged with the extraordinary inspections, as per article 123, must submit, within one month from the completion of the inspection, a detailed account of the results of the said inspection.

In case the conditions revealed by the inspection are serious, notice thereof must be given immediately to the minister himself.

^a Date of the enforcement of the law of Aug. 10, 1893, No. 449.

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ARTICLE 127.

[Article 22, Appendix P to the law of August 8, 1895, No. 486.]

The minister of the treasury may at any time order extraordinary inspections, either general or special, of the banks of issue.

ARTICLE 128.

[Article 23, Appendix P to the law of August 8, 1895, No. 486.]

When ordinary or extraordinary inspections and special verifications reveal infractions specified in articles 21, 62, and 137, the officials charged with such inspections and verifications must make out a proper report and transmit the same immediately to the minister of the treasury, who will take action as provided in said articles.

Whenever acts are revealed of a criminal character the officials must report same to the judicial authorities and give immediate notice thereof to the aforesaid minister.

ARTICLE 129.

[Article 24, Appendix P to the law of August 8, 1895, No. 486.]

Having ascertained the facts as per articles 138, 139, and 140, the minister of the treasury shall make regular report to the judicial authorities for infliction of the punishments specified by those articles.

ARTICLE 130.

[Article 25, Appendix P to the law of August 8, 1895, No. 486.]

Not later than the month of May of each year the minister of the treasury shall submit to Parliament a detailed account of the conduct of the banks of issue and of the state and bank circulations during the previous calendar year.

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ARTICLE 131.

[Article 26, Appendix P to the law of August 8, 1895, No. 486.]

Until the reestablishment of the fiduciary circulation of bank notes, the inspectorate-general shall see that the official rate of discount and that of interest on advances are constantly maintained by all the banks of issue, without any variations not sanctioned by the law.

TITLE IX.—GENERAL REGULATIONS.

ARTICLE 132.

[Article 17, law of August 10, 1893, No. 449.]

Members of Parliament can not hold any office in the banks of issue, whether with or without salary or compensation.

ARTICLE 133.

[Article 1, law of August 10, 1893, No. 449.]

The charter of the Bank of Italy is approved by royal decree.

This approval and the insertion of the said charter in the official collection of laws and decrees of the Kingdom shall take the place of the publications and transcriptions prescribed in the Code of Commerce for joint stock companies.

ARTICLE 134.

[Article 15, law of August 10, 1893, No. 449. Article 9, Appendix T to the law of August 8, 1895, No. 486.]

The appointment of the director-general of the Bank of Italy must be approved by the Government.

The directors-general of the Bank of Naples and the Bank of Sicily are appointed by royal decree upon the recommendation of the minister of the treasury with the consent of the council of ministers.

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ARTICLE 135.

[Article 18, Appendix B to the law of January 17, 1897, No. 9, and article 10 of the same law.]

The rules governing the enforcement of articles 12, 15, 80 to 82, 84, 87, and 89, guaranteeing the most rigorous administration of the Bank of Naples and its realty credit department, the proper balance of their ledgers, and the restriction of credits to those inscribed in the proper lists, called "Castelletti," and for sums not greater than those prescribed in the said lists, are established by regulations approved by royal decree.^a

The same decree also provides for a permanent treasury inspector to supervise the liquidation of the said realty credit and to see that all the safeguards ordered to guarantee the provisions relating to the said realty credit are vigorously enforced.

Another royal decree ^b establishes the rules for agreement between the Bank of Naples and the other banks of issue for the reciprocal exchange of advices regarding the credits granted to any one house.

The regulations of the Bank of Naples,^c in the part concerning the personnel, shall determine the responsibility of officials of all grades and their respective duties, except in the cases considered in articles 138, 139, and 140.

^a Royal decree of Apr. 22, 1897, No. 141, modified by royal decree of Nov. 19, 1905, No. 553.

^b Royal decree of June 1, 1897, No. 172.

^c Approved by royal decree of Aug. 2, 1908, No. 529.

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ARTICLE 136.

[Article 22, law of April 7, 1881, No. 133. Article 4, law of August 10, 1893, No. 449. Article 10, Appendix D to the law of January 17, 1897, No. 9.]

Clearing houses established by virtue of the royal decree of March 19, 1881, No. 220, or which may be established thereafter, shall admit a representative of the State Treasury and one representative of the branches and sub-branches of the banks of issue, of the savings banks, of banks of discount and people's banks, and of the principal bankers, for the exchange of notes payable to bearer at sight and for the clearance of other bank paper

The conduct of clearing houses, where this is vested directly in the chambers of commerce, may by these be intrusted, with the consent of the Government, and at their own risks and perils, to a single bank of issue, if said bank already exercises such functions.

The clearing houses which may be established in cities where there are branches and subbranches of any of the banks of issue may be intrusted by the local chamber of commerce to such banks of issue, united in association, as may have branches or subbranches at said place.

TITLE X.—PENALTIES.

ARTICLE 137.

[Article 16, law of August 10, 1893, No. 449.]

By royal decree, upon the recommendation of the minister of the treasury, with the consent of the council of ministers, the power of issue may be suspended or revoked in the case of any bank which may violate the provisions of the law or of its own charter.

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The managers of the banks of issue, excepting as provided by article 149 of the Code of Commerce, are liable, collectively and individually, to the shareholders of the bank and all other parties for nonfulfillment of the provisions of the present law, statutes, and regulations, apart from the civil and criminal actions arising out of other laws.

An action against the management of the Bank of Italy may be instituted by one or more shareholders provided that such shareholder or shareholders have at least 1,000 shares.

ARTICLE 138.

[Article 20, law of August 10, 1893, No. 449.]

In case of transgression of the provisions of the present law any employee of the banks of issue who shall affirm what is false or conceal the truth, thereby misleading the officials of supervision or inspection with the object of concealing irregular conditions of said banks, forbidden operations, or actions that may involve the responsibility of another, shall be punished with from three months' to four years' imprisonment and with temporary interdiction from holding public office.

ARTICLE 139.

[Article 20, law of August 10, 1893, No. 449.]

Whoever, while acting as supervisor or inspector of the banks of issue, shall affirm what is false or conceal the truth, for purposes indicated in the foregoing article shall be punished with from one to five years' imprisonment and with temporary interdiction from holding public office.

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ARTICLE 140.

[Article 20, law of August 10, 1893, No. 449.]

Whoever shall effect the issue of bank notes that are not manufactured and issued according to the rules of article 4, or put in circulation bank notes which ought to have been cancelled or burned, shall be punished with from three to ten years' imprisonment and with temporary interdiction from holding public office.

ARTICLE 141.

[Article 30, law of April 30, 1874, No. 1920.]

Firms and associations not included in this law, and individuals, who shall issue notes or other equivalent paper payable to bearer at sight, shall be subject to a fine equal to the amount of the notes or other paper issued.

ARTICLE 142.

[Article 30, law of April 30, 1874, No. 1920. Law of July 5, 1908, No. 388.]

It is forbidden to manufacture, to issue, or to put in circulation, for any purpose, any kind of notes or printed forms imitating or resembling, wholly or partially, on the face or back, bank notes or any other bank paper, under a penalty of 50 to 500 lire against those who shall manufacture them or put them on sale.

The printed forms and the plates shall in every case be confiscated, regardless of ownership, and shall be destroyed.

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TITLE XI.—TEMPORARY REGULATIONS.

ARTICLE 143.

[Article 13, law of August 10, 1893, No. 449. Article 6, law of July 7, 1902, No. 290. Article 4, law of July 7, 1902, No. 318. Article 2, law of July 5, 1908, No. 351.]

The credits of the banks of issue already classed as "immobilizations," and which, under contracts previous to June 30, 1893, by their terms of currency or by provision of law, can not be liquidated till 31st of December, 1908, shall be liquidated as soon as they become collectible under their special contracts or by law.

ARTICLE 144.

[Article 5, law of July 7, 1902, No. 290.]

The Bank of Italy and the Bank of Naples are authorized to grant to the Society for the Sanitation of Naples temporary advances, guaranteed as prescribed by law, bearing interest at 3.50 per cent, up to a total sum not exceeding the actual value of the public works already executed, to form a contribution of 7 millions for the completion of the said works.

ARTICLE 145.

[Article 7, law of July 7, 1902, No. 290. Article 16, law of January 17, 1897, No. 9.]

The Bank of Italy and the Bank of Naples, for the purpose of the liquidation and reimbursement of their respective credits in connection with the Society for the Sanitation of Naples, shall, until the end of the year 1913, be entitled to a reduction of three-quarters of the tax for registration of sales, purchases of immovable property, or transference of credits and other fiscal proceedings as per

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article 2 of the law of December 26, 1901, No. 516, regardless of the dates of their respective mortgages.

Furthermore, the said institutions shall, until the same date, be entitled to a reduction of one-half of the registration stamps and taxes due for processes and judgments in the collection of their above-mentioned credits.

Witnessed by order of His Majesty:

(Signed) TEDESCO,

The Minister Secretary of State for the Treasury.

APPENDIX I.

ROYAL DECREE OF OCTOBER 10, 1895, No. 627, FIXING THE REQUIREMENTS FOR THE ADMISSION OF BILLS OF EXCHANGE ON FOREIGN COUNTRIES AND CREDITS IN CURRENT ACCOUNTS ABROAD AS PART OF THE RESERVE OF BANKS OF ISSUE.

[Published in the Official Gazette of the Kingdom October 24, 1895, No. 251.]

HUMBERT I, BY GRACE OF GOD AND BY WILL OF THE NATION KING OF ITALY.

In pursuance of article 6 and article 11 of the law of August 10, 1893, No. 449, for the reorganization of the banks of issue; and

In pursuance of article 31 of the law of August 8, 1895, No. 486, regarding finances and treasury; and

In pursuance of the text of the regulations for supervision of the banks of issue, constituting Appendix P, approved by article 26 of the aforementioned law of August 8, 1895; and

With the consent of the banks of issue;

Upon the proposal of our secretary of state for the treasury:

We have decreed, and do hereby decree:

ARTICLE I.^a

The bills of exchange on foreign countries which, according to the terms of, and within the limits specified

^a For articles 6 and 11 of the law of August 10, 1893, No. 449, must be substituted articles 11 and 19 of the new text of the law.

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in, articles 6 and 11 of the law of August 10, 1893, No. 449, may be included in the reserve covering the circulation, must be disposable abroad, on the day when such bills become due, in gold specie or in money at the full value of the Latin monetary union.

These bills of exchange, duly accepted by the agent abroad, must fall due not later than three months from the date when they begin to form part of the portfolio for the reserve of the banks of issue, and must be furnished with at least two first-class signatures.

ARTICLE 2.

Within fifteen days from the publication of the present decree, and successively at the end of every six months, the banks of issue shall transmit to the treasury a list of institutions and banking firms, not direct correspondents of the treasury, whose signatures they consider as being of first class, as per the foregoing article.

The minister of the treasury shall at all times have the right to order the elimination of one or more names of institutions or firms from the said list.

ARTICLE 3.

To form part of the quota of reserve, within the limits specified in article 1 of the present decree, are admitted the bonds of the British treasury, and, in general, treasury bonds of foreign states, the same being payable in gold or at the full value of the Latin monetary union, provided that not more than three months intervene between the date of acquisition by the banks of issue and the date when the said bonds fall due.

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ARTICLE 4.

As part of the reserve covering the circulation of the banks of issue, within the limits specified in article 1, are admitted the credits in current account, perfectly disposable in gold or at the full value of the Latin union, at sight or for a term not exceeding fifteen days, which the banks of issue may have abroad with the large banks of issue and bankers in direct correspondence with the treasury.

The banks of issue availing themselves of this provision must transmit to the treasury detailed certificates proving the actual existence of the said credits, issued by the institutions or by the debtor bankers, at the close of business on the 10th, 20th, and the last day of each month.

ARTICLE 5.

The said certificates must bear a statement of the actual credit of the Italian bank of issue at the close of business on the 10th, 20th, and the last day of each month; the kinds of money in which the credit is payable; the declaration that the said credit is payable entirely at sight or not later than fifteen days from the date when notice for repayment has been given; the signature of the person legally authorized to represent the institution or firm issuing the certificate.

The banks of issue that shall, by means of assignments or in any other manner, have disposed of a credit in account current abroad, when their respective correspondents shall have been unable to receive notice of it at the time the certificate was issued, must make special

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note of the fact upon the said certificate, for the precise determination of the amounts in account current perfectly disposable as per the terms of the preceding article.

ARTICLE 6.

The relation between foreign moneys and gold and silver specie at the full value of Italian coin shall be established by agreement between the minister of the treasury and the banks of issue.

ARTICLE 7.^a

The central office of inspection for the supervision of the circulation of the banks of issue shall ascertain, at short intervals, whether the provisions contained in the foregoing articles have been strictly observed, and it may examine the records and correspondence of the institutions in order to certify the real existence of the active deposits abroad represented by the certificates as per articles 4 and 5.

We command that the present decree, sealed with the state seal, be placed in the official compendium of the laws and decrees of the Kingdom of Italy, binding upon all persons whose duty it is to observe it and to enforce the observance thereof.

Given at Monza on this 10th day of October, 1895.

HUMBERT.

SIDNEY SONNINO.

Witness the keeper of the seals:

V. CALENDA DI TAVANI.

^a In article 113, of the new Text of law, the words "inspectorate-general" must be substituted for the words "central office of inspection."

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APPENDIX II.

ROYAL DECREE OF OCTOBER 25, 1895, NO. 639, AUTHORIZING THE BANKS OF ISSUE TO DISCOUNT BILLS OF EXCHANGE BEARING FIRST CLASS SIGNATURES AT LESS THAN THE NORMAL RATE.

[Published in the Official Gazette of the Kingdom November 6, 1895, No. 261.]

HUMBERT I, BY GRACE OF GOD AND BY WILL OF THE NATION KING OF ITALY.

In pursuance of article 4 of the law of August 10, 1893, No. 449, for the reorganization of the banks of issue; and

In pursuance of article 35 of the law of August 8, 1895, No. 486, providing for the finances and the treasury; and

In pursuance of article 26, Appendix P, approved by article 26 of the said law of August 8, 1895; and

Upon the proposal of the minister of the treasury;

We have decreed and do hereby decree:

ARTICLE 1.^a

The banks of issue, with due consideration of the funds at their disposal and the condition of the market, and provided the amount in circulation of their respective notes does not exceed the normal limits laid down in article 2 of the law of August 10, 1893, No. 449, are hereby authorized to discount at a rate less than the normal rate—to be determined every three months by ministerial decree, in agreement with the banks of issue, but which can be in no case less than $3\frac{1}{2}$ per cent—bills of exchange presented

^a For article 2 of the law of August 10, 1893, No. 449, must be substituted article 6 of the new Text.

For the determination of the reduced rate see article 8 of the aforesaid Text.

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and guaranteed by commercial and banking signatures of the first class, which shall fall due not later than three months from the date when the discount is made.

ARTICLE 2.

Absolutely excluded from this concession, foregoing article, are bills of exchange totally or partially, extending payment of the debt, resulting from the

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operation
recorded in sep
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the said *committee*.

The director of the branch
(*cursale*) may suspend such a de
without delay to the Board of Direct.

ARTICLE 4.^a

The portfolio of bills of exchange discount
formity with article 1 must be kept separate a
tinct both from the ordinary portfolio and from th
the discount operations as per the third paragra
article 4 of the law of August 10, 1893, No. 449.

^a For the words "third paragraph of article 4 of the law of August 1893, No. 449" must be substituted "article 28 (3d and 4th paragraphs) the text."

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ARTICLE 5.^a

The portfolio of the bills of exchange discounted in accordance with the terms of the present decree shall be subject to verifications by the central inspection bureau of the Treasury. The officials charged with the verification shall have the liberty to examine the special records of the discounting committee with a view to comparing them with

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new text the words "inspectorate-general" must be replaced by "central inspection bureau."

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APPENDIX III.

ROYAL DECREE OF FEBRUARY 9, 1908, NO. 62, REGULATING THE DISCOUNT BY BANKS OF ISSUE OF BILLS ISSUED BY THE OBLIGATORY ASSOCIATION FOR THE SICILIAN SULPHUR INDUSTRY TO THE AUTONOMOUS BANK OF MINING CREDIT FOR SICILY.

[Published in the Official Gazette of the Kingdom February 29, 1908, No. 50.]

VICTOR EMMANUEL III, BY GRACE OF GOD AND BY THE WILL OF THE NATION KING OF ITALY.

In pursuance of the article 13 of the law of December 31, 1907, No. 804; and

With the consent of the council of ministers; and

Upon the proposal of our secretaries of state for agriculture, industry, commerce, and the treasury, and in agreement with the minister of finance;

We have decreed and do hereby decree:

ARTICLE 1.

The obligatory Sulphur Association of Sicily may issue, in favor of the Autonomous Bank of Mining Credit, bills of exchange to an amount not exceeding three-fourths of sums for which it may by regular contract be creditor to any party for sales of sulphur.

Upon such bills of exchange there must be indicated the date and the terms of the contracts and the quantity of the sulphur sold.

ARTICLE 2.

The amount of such bills of exchange shall be turned over by the Autonomous Bank of Mining Credit to the Bank of Sicily, which is the cashier of the sulphur association, and entered by the said bank in the account

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current as per article 12, second paragraph, of the royal decree of July 22, 1906, No. 378, to be distributed among the producers in the association and among other interested parties according to the rules in force.

ARTICLE 3.

The banks of issue are authorized to discount at a preferential rate such bills of exchange for a term not longer than four months.

On the price which, by the terms of the contract, shall be paid by the buyer upon delivery of the mineral, the institution holding the bills has the right of preference up to the amount of the credit due on the said bills.

In pursuance of the preference, the part of the price equal to that advanced to the association by the institutions must be placed in a special account current which the Bank of Sicily, as cashier of the association, shall hold at the disposition of the contributing institutions, after regular notification of their credit has been made to the said bank in the aforesaid capacity.

ARTICLE 4.

The banks of issue are likewise authorized to discount at preferential rates of interest bills at not more than four months, issued by the Autonomous Bank of Mining Credit, on receipt of certificates of deposits and warrants on sulphur, in amount equal to the value of bills to be discounted.

The Bank of Mining Credit and the Bank of Sicily in its capacity as cashier of the sulphur association, shall fix by agreement the rules for the eventual replacement

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of any certificates of deposit and warrants which may become void before the discounted bills fall due, and for insuring the payment of the said bills.

We command that the present decree, sealed with the state seal, be placed in the official compendium of the laws and decrees of the Kingdom of Italy, binding upon all persons whose duty it is to observe it and to enforce the observance thereof.

Given at Rome on this 9th day of February, 1908.

VICTOR EMMANUEL.

GIOLITTI.

CARCANO.

F. COCCO-ORTU.

LACOVA.

Witness the keeper of the seal:

ORLANDO.

