Dissertation Impact Statement Form

Programme / Tripos	Historical Tripos
Year/Part	Part II
Coursework / Dissertation title	‘The Effects of Political Systems on Financial Legislative & Regulatory Responses to the Great Depression’

Impact Statement:

After establishing the importance of long-term economic issues and politics in the build-up to, duration of, and aftermath of, the Great Depression in Italy and America, this dissertation seeks to utilise a new framework, which analyses the effects of constitutional structures and norms on the relevant legislative and regulatory responses; as such, it required holistic study of a wide range of primary sources.

Fortunately, it was possible to find many of these sources online. However, there were repositories which this dissertation’s author wished to visit once travel was permitted and archives opened, but, in the end, could not, since restrictions were not lifted in time (the collection of Mussolini’s personal files in the UK National Archives would have been particularly useful). It was also hoped that scans of certain documents might be provided by a number of organizations abroad, including the Herbert Hoover Presidential Library, the Historical Archives of the Bank of Italy, the UniCredit (previously Credito Italiano) Archives and the Briscoe Centre for American History (where John Nance Garner’s papers reside), which was not possible, when the archives at hand were closed during the pandemic.

Nonetheless, this paper’s author is optimistic, and hopes that the work has not suffered for these inconveniences.

The Effects of Political Systems on Financial Legislative & Regulatory Responses to the Great Depression

Contents

Word Count: 14,988 Words

Introduction

In 1994, Ben Bernanke argued that ‘to understand the Great Depression is the Holy Grail of macroeconomics’, and although ‘we do not have our hands on the Grail by any means’, agglomerating unique perspectives to create a clearer picture, is a worthwhile cause[1]. This dissertation wishes to provide such a new perspective, by analysing the Depression in Italy and America through the lens of political economy, and focusing in on the effects of constitutional structures and norms, on the eventual forms of financial regulatory and legislative outcomes.

To do this, the dissertation will be split into two sections. The first will argue that major problems were ingrained in both nations’ banking sectors, and were unsolved, since regulators lacked the political capacity (or perhaps motivation) to remedy them; it will go on to suggest that these problems directly caused financial instability during the Depression, and that when regulators and legislators finally came to address them, the forms which their various solutions took were affected by politics. With the widespread, continuous importance of the politics of regulation in this era, established, the second section will suggest that, while there exists a historiography that examines the minutiae of political interactions in regard to specific bills, the field lacks a study of larger scope, which comparatively analyses how constitutional factors affected solutions to banking’s long-term problems. It will go on to fill this gap in the literature, by using dedicated, holistic research on 101 newspaper articles, 15 collections of personal papers/speeches, 8 reports from central financial institutions, 2 political memoirs, several pieces of legislation, and more, to detail how Italian dictatorship’s controlled press, one-party system, and culture of secrecy, all facilitated the government’s

[1] B. Bernanke, ‘The macroeconomics of the Great Depression: A comparative approach’, National Bureau of Economic Research., 1994, p.1-2.

regulatory regime, while American democracy's free press, term limits, and culture of transparency made legislators' lives more difficult in the short-term, while perhaps ultimately improving the quality of regulation which came to pass.

Section I – Banks, Regulators & Legislators in Context

The American Banking Sector and its Regulators Prior to the Depression

The US financial sector had three major problems during the 1920s, one based on structural weakness, and two on popular perceptions. Firstly, as 'widespread' historiographical consensus has confirmed, there was a fundamental vulnerability at the heart of the commercial banking system (which, as of 1929, held 50.4% of all assets[2]). In the 1920s, banks failed at just under ten times the rate they had in the 1910s, with 5,712 closing[3]. Of all the banks that failed, 80% were situated in towns with populations of 2,500 or fewer, and 60% had a capital stock of less than $25,000[4]; the banks which tended to fail were unit banks, often located in the American South, Midwest and 'Mountain States'[5]. Unit banks were weaker than others, for a number of reasons. Firstly, because of their small, local catchment areas, and lesser ability to effectively scrutinize credit allocation, 'one-office'[6] banks often had undiversified portfolios, concentrated in sectors which were prone to local and/or seasonal fluctuations, such as agriculture[7] (the sudden rise in the farm foreclosure rate in 1926 produced 976 bank failures alone[8]), or business cycle fluctuations, like real estate.

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[2] E.N. White, 'Banking and Finance in the Twentieth Century', in, S.L. Engerman, and R.E. Gallman (eds.), The Cambridge Economic History of the United States, Cambridge University Press, 2000, p.747-8
[3] E. Wicker, The Banking Panics of the Great Depression, Cambridge University Press, 2009, p.1
[4] Ibid., p.7
[5] White, Banking and Finance in the Twentieth Century, p. 750
[6] C.W. Calomiris, 'The political lessons of Depression-era banking reform', Oxford Review of Economic Policy, 26(3), 2010, p.545
[7] Ibid., p.544
[8] White, Banking and Finance in the Twentieth Century, p.750

Secondly, in areas where branching was not allowed, unit banks often saw little competition from more efficient firms[9], and therefore proliferated disproportionately to their profitability, in a phenomenon called 'overbanking'[10]; this saw weak banks survive favourable financial conditions, only to be swept away in harsher ones. Thirdly, unit banks did not have the capacity to survive periods of illiquidity that branched banks did. For a branched bank, one office's illiquidity could be rectified by moving funds from another[11], and it was unlikely that all branches would be in trouble, because they would all likely have different portfolios, both in terms of types of lending, and in terms of specific clients[12]; unit banks did not have this flexibility. All in all, the prevalence of unit banks kept significant numbers of American deposits in overwhelmingly fragile institutions.

Nonetheless, at the time, there was little desire to get rid of unit banks, for two reasons. Firstly, there were no panics or runs during the 1920s (although they cumulatively caused instability, unit bank failures were, by definition, seemingly isolated incidents), and therefore nothing sparked regulatory action. Secondly, there was serious aversion to branching in key states. Indeed, while economic historians often put small-town hostility to big banks down to 'populism'[13][14][15] and Bankers Associations' lobbying[16], the Office of the Comptroller understood opposition more forgivingly: people disliked "nonresidents" and "absentees"

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9 Calomiris, The Political Lessons of Depression-Era Banking Reform, p. 544
10 Wicker, The Banking Panics of the Great Depression, p.5
11 Calomiris, The Political Lessons of Depression-Era Banking Reform, p. 544
12 E. Rauchway, The Great Depression and the New Deal: A Very Short Introduction, Oxford University Press 2008, p.30
13 C.W. Calomiris & E.N. White, 'The Origins of Federal Deposit Insurance', in, C. Goldin & G. Libecap, (eds.), The Regulated Economy: A Historical Approach to Political Economy, University of Chicago Press, 1994, p.148
14 Calomiris, The Political Lessons of Depression-Era Banking Reform, p.546
15 E.N. White, 'The Political Economy of Banking Regulation, 1864–1933', The Journal of Economic History. Cambridge University Press, 42(1), 1982, p. 38
16 E.N. White, 'Voting for costly regulation: Evidence from banking referenda in Illinois, 1924', Southern Economic Journal, 1985, p.1088

controlling their livelihoods and thought that branching was “inconsistent with the American idea of local self-government”[17]. As such, far from overriding a few ‘populists’ in small towns, eliminating unit banks would be genuinely politically unwise.

The second major problem faced by America’s banking system was the popular perception of rampant and, crucially, well-publicised, securities speculation. Observers easily constructed a narrative of Wall Street greed, from January and February 1928, when the already high-riding stock market escalated in sharp bursts, to March when the Industrial Average increased by almost 25 points, to 12 June when 5,052,790 shares were traded in a day (beating the high-water mark set on 12 March by over a million shares), to 7 November 1928 when stock market leaders climbed by between 5 and 15 points, all the way through to October 1929, when the infamous crash occurred[18]. Although it had little effect during the decade, this perception was an issue, because it meant that during and after the Depression, the public’s eyes were (unjustly) on Wall Street.

The final problem was that despite these significant issues, there was a general perception amongst economists and depositors alike, that the financial sector was thriving. Over the decade, the industry saw an increase in total assets of over 50%, a rise in net earnings of 34%, and a growth in net profits of 90%[19]. These changes came in the context of a stable economy that was growing by 5-6% each year, steadily increasing incomes, and higher industrial output, all of which generated more savings to be channelled through the system[20]. The

[17] United States Office of the Comptroller of the Currency, Annual Report of the Comptroller of the Currency (1924), https://fraser.stlouisfed.org/title/56/item/19145, pp.3-4
[18] J.K. Galbraith, The Great Crash, 1929, London: Hamish Hamilton, 1955, pp.40-5
[19] Wicker, The Banking Panics of the Great Depression, p.8
[20] White, Banking and Finance in the Twentieth Century, p. 747-8

apparent health of the sector as a whole, hid the ills which unit banks in particular caused, and created a false sense of security.

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The American regulatory system had two major, interrelated problems in the 1920s. The first was the way the system was structured. While modern economics understands regulation to be "supplied by a monopoly producer" and "demanded by a competing public"[21], this was not the case in pre-Depression America, where a 'dual banking system' operated. As part of this system, although banks operating at a national scale had to be Federal Reserve members, those which did not, could either opt-in, or take out state charters, and be state-regulated. This set-up effectively meant that the Federal Reserve's reach was limited, with their main focus being on national banks, and the 12 cities they operated in (which admittedly, were important – especially New York, where all previous panics had manifested). The associated issues that came with a restricted reach were well-known; indeed, in 1914, when the institution was founded, the Fed's NYC president remarked: 'no reform of the banking methods in this country will be complete and satisfactory until [Fed membership] includes all banks'[22].

The second problem with US regulation in the 1920s, was a by-product of the first: the prevalence of 'regulatory competition'. Indeed, the Fed and state regulators were in a constant battle to try and win banks to their regulatory regimes, both for the sake of ensuring that firms which they thought were under their jurisdiction were operating by their rules, and potentially to maintain political sway over the sector[23].

[21] White, The Political Economy of Banking Regulation, p. 36-7
[22] E.N. White, The Regulation and Reform of the American Banking System, 1900-1929, Princeton University Press, 2014, p.130
[23] White, The Political Economy of Banking Regulation, p.35

As a consequence of regulatory competition in particular, the Fed's actions in the 1920s did little to fix the banking sector; this was, importantly, the case regarding the policy-area which could have eliminated unit banking – branching. Indeed, although the Fed was undoubtedly influenced by the lack of economic consensus on the topic (as the OCC's 1924 report put it, 'no subject in connection with banking' was 'more bitterly disputed'[24]), their desire to pull power away from the states, as White details[25], likely influenced their approach, putting them on the wrong side of the debate on various occasions. For example, in November 1923, the Federal Reserve Board took up a resolution which stated that "state banks and trust companies could only open new branches with the express permission of the Board and that no more branches outside a bank's home city would be permitted" [26], which seems meaningless, apart from its disincentivising of state charters. Even with Congress's efforts in 1927, with the McFadden Act, which allowed state banks to join the Fed while keeping branches which they already had, and allowed national banks to obtain new branches under the National Bank Consolidation Act[27], "restrictions on branch banking remained virtually unchanged"[28] in the 1920s. It is often noted in the historiography that in Canada, where ten banks were branched across around 3,000 offices, there were no failures during the Depression[29]; legislators could not have brought about this kind of system, but they could have tried to move in that direction. It is also noted by Bernanke and James, that nations which had problems with their banking systems in the 1920s, but fixed them, like the

[24] 1924 Annual Report of the Comptroller of the Currency, p.3
[25] White, The Political Economy of Banking Regulation, p.35
[26] White, The Regulation and Reform of the American Banking System, 1900-1929, p.163
[27] Ibid., p.164
[28] White, The Political Economy of Banking Regulation, 1984-1933, p.36-7
[29] M. Friedman & A. J. Schwartz, A Monetary History of the United States, 1867-1960, Princeton University Press, 2008, p.386

Netherlands, Sweden and Japan, fared better in the 1930s[30]; regulatory competition certainly played a part in keeping the US off that list.

The Fed's lack of reach also affected regulatory outcomes in this period. For instance, to overcome its limitations and alleviate its 'membership problem', the Fed focused resources and attention on larger banks (as White, Gambs & Rasche, and Gilbert argue), which of course was not where the issues lay[31]. Moreover, federal concern with larger banks led to a second element of the McFadden Act, which expanded national banks' ability to buy real estate bonds; consequently, from 1927-32, loan exposure to real estate increased in national banks by half[32]. During the Depression, real estate's decline would be a major cause of the illiquidity of national banks[33], and even if these were not the ones which failed most often, their struggle drained liquidity away from other sources; as such, this deregulation came at a very bad time.

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Some historians have argued that America's vulnerable financial sector was actively created by politicians in the 1920s; this interpretation misses a key element of the story. Indeed, the problem was not the construction of a bad system, but the failure to correct it, and overturn the wishes of "federalism" and "early judicial and legislative precedents"[34].

[30] B. Bernanke & H. James, 'The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison', in, B. Bernanke, Essays on the Great Depression, Princeton University Press, 2000, p.96
[31] White, The Regulation and Reform of the American Banking System, 1900-1929, p.182
[32] Wicker, The Banking Panics of the Great Depression, p.16
[33] Ibid., p.16
[34] Calomiris and White, The Origins of Federal Deposit Insurance, p.148

The American Banking Sector and its Regulators During and After the Depression

The Great Depression was the most devastating economic contraction in US history. At its worst, the unemployment rate was 25%. GNP declined by 30% in the three years after 1929, and the price level fell by 23% in the same period[35]. The NY stock market declined in value by 89% from 1929 to its trough in 1932[36]. Even after the recovery, the Depression's effects were severely felt[37]; indeed, in 1938, real GDP was still below its 1929 level[38].

For the first time in America's history, this contraction involved multiple banking panics[39]; their effects are debated by economists, with the most sceptical suggesting that they simply exacerbated the depth and length of the Depression, and others suggesting that they actively caused it working alongside other factors like the deflationary effects of the gold standard[40]. Regardless of interpretation, however, the panics were severely detrimental for the economy. Depositor confidence increasingly deteriorated with each wave, worsening the currency-deposit ratio[41]; bank suspensions rose (with the ever-rising corporate and individual default rate adding further pressure) [42]; and expectations of a riskier economic environment lifted the cost of credit intermediation, leading banks to make fewer loans and investments[43]. As a consequence of the period's financial instability, 9,096 banks (1/3 of those in operation)

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[35] Wicker, The Banking Panics of the Great Depression, p.4
[36] Y. Cassis, 'Regulatory Responses to the Financial Crises of the Great Depression: Britain, France and the United States', in, E. Balleisen, L. Bennear, K. Krawiec, & J. Wiener, (eds.), Policy Shock: Recalibrating Risk and Regulation after Oil Spills, Nuclear Accidents and Financial Crises, Cambridge University Press, 2017, p.357
[37] B.T. da Rocha & S. Solomou, The Effects of Systemic Banking Crises in the Inter-War Period, Journal of International Money and Finance, 54, 2015, p.47
[38] J. Bolt & J.L. van Zanden, The Maddison Project Database, 2014
[39] Wicker, The Banking Panics of the Great Depression, p.4
[40] K.J. Mitchener, 'Supervision, Regulation, and Financial Instability: The Political Economy of Banking during the Great Depression', The Journal of Economic History, 63(2), 2003, p.153
[41] Wicker, The Banking Panics of the Great Depression, p.23
[42] L. Laeven & F. Valencia, 'Systemic Banking Crises Database', IMF Economic Review, 61.2, 2013, p.250
[43] B. Bernanke, 'Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression', The American Economic Review 73.3, 1983, p.263

closed down[44], $2.5bn of losses hit banks' creditors, depositors and stockholders directly[45], $7bn was trapped in suspended banks[46], and significant knock-on effects hit the economy[47].

Importantly, the manifestation of financial instability during the Depression traces back to the sector's problems during the 1920s. As one might expect from unit banking's prevalence and fragility, 75% of all suspensions were of state-chartered institutions[48]. Moreover, as Mitchener's cross-sectional OLS regressions "based on 2,315 county-level observations" [49], show, states where individual supervisors had longer terms, more discretionary power and the ability to grant charters alone, were more prone to bank failures. Furthermore, suspension rates were 8% greater in "*counties* located in states that prohibited branching", and were lower in states where the economic base was more diversified, and where minimum capital requirements were higher[50]. Mitchener further observes that failures were concentrated in certain regions, often in the nation's interior, and there was significant variation in failure rates by area (indeed, while the Northeast's suspension rate from 1929-33 was 4%, the Midwest's was 12.4%)[51]. These observations align effectively with the rest of the historiography, including Wicker's suggestion that 68% of failures from 1930-2, occurred in towns with populations less than 2,500[52], and Bernanke's argument that the 1920s agricultural debt boom set smaller rural banks up for failure, as shown by the high default rate on farm mortgage debts in the 1930s[53]. All of this is not to say that urban and member banks were unscathed (as Wicker points out, they suffered, with urban real estate lenders and

44 Wicker, The Banking Panics of the Great Depression, p.1
45 Friedman & Schwartz, A Monetary History of the United States, p.385
46 Ibid., p.385
47 Bernanke & James, The Gold Standard, Deflation and Financial Crisis, p.71
48 Mitchener, Supervision, Regulation, p.153
49 Ibid., p.170-4
50 Ibid., p.170-4
51 Ibid., p.155
52 Wicker, The Banking Panics of the Great Depression, p. 7
53 Bernanke, Nonmonetary Effects, p.260

national banks' investment portfolios bearing major losses[54]); it is simply to say that the element of the sector which was most fragile prior to the Depression, suffered the most.

Another feature of the Depression which one might anticipate from the 1920s, is the fact that unclear Fed messaging (which one might expect from an organization with a limited but ever-changing jurisdiction) affected banks' policies, and feasibly facilitated runs. During the Depression, banks were loath to suspend convertibility, which had, in pre-1914 panics, been standard practice[55]. This was because in pre-1914 panics, clearinghouses (institutions which checked and confirmed transactions between different financial entities) would set this process in motion by preventing mass liquidity movements to pay depositors[56], thus buying the banks time, and providing depositors with a rational explanation for the bank's closed doors. However, with the establishment of the Fed, clearinghouses stopped fulfilling this role. Bernanke argues that the Fed's existence led clearinghouses to think they no longer had this duty[57], while others, like Gorton & Metrick, Friedman & Schwartz, and Wheelock, suggest that it was well-known that the Fed was supposed to prevent suspensions of convertibility, using discount window lending (something which banks did not take the Fed up on, during the Depression, to a concerning extent)[58], and thus clearinghouses were rendered (seemingly) unnecessary. Either way, unclear Fed policy had tangible effects.

Finally, in line with the fact that one of the Fed's only clear jurisdictions was over large banks in reserve cities, one should note that due to the NY Fed's injections of liquidity into

[54] Wicker, The Banking Panics of the Great Depression, p.7
[55] Bernanke, Nonmonetary Effects, p.259-260
[56] Ibid., p.259-60
[57] Ibid., p.259-60
[58] G.B. Gorton & A. Metrick, The Federal Reserve and Financial Regulation: The First Hundred Years, No. w19292, National Bureau of Economic Research, 2013, p.12

the central money market, there were no runs in New York (bar the isolated incident following the Bank of United States' NY's closure), despite the stock market crash.

All in all, it seems that the crippling financial instability of the Depression, followed directly from long-term economic problems, hitherto unsolved by regulatory institutions.

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Policy responses to the long-term problems and short-term crises of the Depression were heavily shaped by the broad policy dogmas of the two administrations which oversaw them (alongside, of course, the minutiae of politics within them). This is both evident from the legislation and regulation itself, and from the macroeconomy's responses: when Roosevelt took office, "all indicators" (commodity prices, investment, wholesale/consumer price indexes, industrial production, GDP) "rebounded strongly"[59].

Hoover's tenure was characterised, as Eggertsson argues, by three key institutionally-pervasive politico-economic stances: commitment to the gold standard (which precluded any vast expansion of the money supply), desire to maintain a balanced budget (which precluded significant government expenditure) and commitment to small government (which precluded large increases in government oversight, or large new institutions to handle the financial sector)[60].

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[59] G. B. Eggertsson, 'Great Expectations and the End of the Depression', American Economic Review, 98.4, 2008, p.1477

[60] Ibid., p.1477

In a 2002 speech honouring Milton Friedman, Ben Bernanke said, ‘Regarding the Great Depression, … we [(The Fed)] did it. We're very sorry. … We won't do it again’[61]; this reflects a historiographical tradition, which suggests that Fed policy under Hoover exacerbated the Depression, in a number of ways. All of these ways align with Hoover's three policy dogmas. Firstly, as one might expect from a ‘balanced-budget’ economically orthodox administration, the Fed did not protect failing small banks; this was a consequence of the view held by some Fed officials, that poor management or inaccessibility was getting to these institutions, and their elimination was simply a market clearing after overbanking. Governor of the NY Fed, George Harrison, for instance, testified in the Senate in 1931 that: ‘with the automobile and improved roads, the smaller banks. . . with nominal capital, out in the small rural communities, no longer had any reason really to exist’[62]. Secondly, as one might expect from a government committed against expanding the money supply, the Fed's open market operations (i.e. buying bonds and securities) during the Depression were lacklustre; there was no ‘easy money’ policy[63]. The Fed's only major attempt (which, admittedly, was the largest in US history at the time), came in February 1932, when they bought $1.1bn of government securities, leading to a $194m increase in member bank reserves[64]; this campaign was ended in July 1932, on the basis that key Fed members thought it was not helping (which it probably was)[65]. Thirdly, as one might again expect of a ‘balanced-budget’ administration (and one with the old problem of unclear messaging), during the Depression the Fed did not lend to member banks at a high enough rate. According to Gorton & Metrick, this occurred because there was a shift in discount window policy

[61] G. Richardson, ‘The Great Depression, by Gary Richardson, Federal Reserve Bank of Richmond’, Federal Reserve History Website, https://www.federalreservehistory.org/essays/great-depression
[62] D.C. Wheelock, ‘Monetary policy in the Great Depression: What the Fed did, and why’, Federal Reserve Bank of St. Louis Review, 74(2), 1992, p.26
[63] Ibid., p.11
[64] Ibid., p.19
[65] Ibid., p.20

which many banks were either unaware of, or did not take to heart[66]; during the 20s, borrowing from the Fed was portrayed as a truly last resort enterprise, and a very short-term one – this was eased in the 30s, but the old stigma remained. Low discount window use had another adverse effect: that of skewing how the Fed perceived the Depression; they assumed that since there was little demand for credit, the banking sector was doing better than it actually was[67]. This contextualised their uninspiring response.

With this said, the Fed's response under Hoover can be absolved in two areas. Firstly, it cannot be blamed for not having knowledge that was totally inaccessible to it. Indeed, while modern economists may besmirch Fed policy, their actions conformed to contemporary economic orthodoxy: as Epstein & Ferguson argue, many Fed officials were, like Hoover, 'liquidationists' who believed that depressions were a key part of the business cycle, which allowed for the economic chaff to be sorted from the wheat. Moreover, one might more glaringly point out that some historians critique the Fed's lack of open market operations to increase the money supply, because the currency-deposit ratio was worsening in this period; however, this concept itself was only put forward in 1933/4 with ground-breaking works by Angell & Ficek, and Meade[68]. Secondly, as previously mentioned, the Fed's actions in New York (where all pre-1914 crises had hit hardest, and thus where their attention was most focused), were admirable. Indeed, despite the 1929 stock market crash, the Fed was able to supply enough credit to the central NYC money market, and inspire enough confidence about its competence there, to prevent any panics[69]; indeed, as Wicker details, "there were no spikes in the call money rate nor other short-term interest rates, and the monetary base

[66] Gorton & Metrick, The Federal Reserve and Financial Regulation: The First Hundred Years, p.12
[67] Wheelock, Monetary Policy in the Great Depression, p.9
[68] Wicker, The Banking Panics of the Great Depression, p.23
[69] Ibid., p.22

increased"[70], and the one bank failure which did occur, that of B.U.S.N.Y., was a very specific case which did not lead to other runs[71]. As such, it is clear that Fed policy under Hoover was more of a mixed bag than Bernanke's speech implies.

To supplement the Fed's response, Hoover created two new institutions, both of which started to violate the administration's policy dogmas (to Hoover's credit), but neither of which went far enough. The first was the National Credit Corporation; created on October 4th, 1931, and led by Fed president Meyer[72], this was a voluntarist-inspired organisation, designed to enable bankers to pool resources for mutual aid[73]; its impact was insignificant – the corporation only made $155m of short-term loans to 575 banks in the first three months that it was open[74]. Its replacement, the Reconstruction Finance Corporation, was created on January 22nd, 1932; led, again, by Meyer, this institution made loans to solvent (but struggling) banks, regardless of whether they were part of the Fed or not[75]. The RFC's creation was flawed. Most significantly, it was not clear to bankers, or the institutions' staff themselves, whether the RFC or the Fed was the true lender-of-last-resort (Meyer headed both institutions, but seemingly never clarified this), leading to serious confusions – for instance, when the RFC was asked to supply credit to two large Detroit banks, it was seen as out of RFC jurisdiction, and consequently, Michigan's Governor declared a bank holiday to save them[76]. Nonetheless, the RFC contributed beneficially to the financial sector; it made $810m of loans to banks in 1932 alone[77]. The RFC also smoothened the closure of banks; it

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[70] Wicker, The Banking Panics of the Great Depression, p.23
[71] Ibid., p. 30
[72] Ibid., p.158
[73] A.J. Badger, FDR: The First Hundred Days, 1st Ed., New York: Hill & Wang, 2008, p.29-30
[74] Calomiris & White, The Origins of Federal Deposit Insurance, p.165
[75] Wicker, The Banking Panics of the Great Depression, p.158
[76] Ibid., p.22-3
[77] Calomiris & White, The Origins of Federal Deposit Insurance, p.165

lent $42m to shut banks in 1932[78], to pay off depositors and wind down. The organisation was a step in the right direction, but operated at too small a scale. Not enough firms sought their help, and their supply of credit was insufficient; bank failures continued despite their efforts.

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As Eggertsson details, Roosevelt's regime was characterized by the jettisoning of Hoover's three key policy dogmas; willingness to expand the government, spend, and lapse membership of the gold standard in the name of recovery[79], allowed more thorough policy responses.

FDR's first challenge came directly after his inauguration. This was because the final wave of banking panics (the only wave which swept the entire nation), built up just before he took office. Triggered by the declaration of a state-wide banking holiday in Nevada on October 31st 1932, concern regarding future suspensions mounted over the coming months, leading to holidays in Iowa on January 20th 1933, Louisiana on February 3rd and Michigan on the 14th; by March 3rd, half of all states had declared bank holidays, and on the 4th, Illinois, Massachusetts, New Jersey and New York all did the same[80]. Across this wave, 447 banks were merged, suspended or closed[81]. FDR's first move, once he was formally president, was declaring a national bank holiday, on March 6th, which was supposed to end on the 9th, but was extended until the 13th. The intervening seven days saw a frenzy of legislation; the administration worked tirelessly against a ticking clock, as depositor confidence waned and

78 Calomiris & White, The Origins of Federal Deposit Insurance, p.165
79 Eggertsson, Great Expectations and the End of Depression, p.1478
80 Calomiris & White, The Origins of Federal Deposit Insurance, p.167
81 Ibid., p.168

the economy, with “the strangulation of banking facilities”[82], stalled[83]. The holiday was declared on Monday, and the Emergency Banking Bill passed on Thursday[84]; the House passed it in 40 minutes, and by 20:30 the Senate sent it through as well[85]. Over the weekend, the Treasury worked out which banks could open soonest, and FDR broadcast a ‘fireside chat’ to the nation[86], asking “the people” to “renew their confidence in banks”[87]. On Monday 13th, banks reopened in the 12 Fed cities[88]. No new runs manifested.

After the holiday ended, banks were only allowed to reopen once their accounts had been examined either by the Fed or by their state supervisors[89], and were licensed to operate; 11,878 banks, holding 86% of deposits were allowed to open almost immediately, while 3,400 banks never passed inspection[90]. Alongside the licensing program, FDR facilitated the restoration of the banking sector with a large RFC campaign, which invested more than $1bn in capital in 6,139 banks, and made a further $900m in loans to closed banks[91]. In the short-term, the response abated the crisis, and showed depositors that the federal government was on their side by subjecting the sector to thorough scrutiny; in the long-term it removed some of the seriously weak banks from the system without panics or shocks to the economy. There is an argument that FDR managed in just a few months, by committing government resources, reassuring people that their money was safe, indicating to markets that he would

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[82] Franklin D. Roosevelt Message to Congress re The Banking Situation (speech file 616), March 9, 1933 in, Franklin D. Roosevelt, Master Speech File, 1898-1945, http://www.fdrlibrary.marist.edu/archives/collections/franklin
[83] Badger, FDR: The First Hundred Days, p.26
[84] Ibid., p.26
[85] Ibid., p.26
[86] Ibid., p.26
[87] Franklin D. Roosevelt, Address at Bankers' Convention, Constitution Hall, Washington DC, October 24, 1934, in The Grace Tully Collection, http://www.fdrlibrary.marist.edu/archives/collections/franklin/
[88] Badger, FDR: The First Hundred Days, p.26
[89] Calomiris & White, The Origins of Federal Deposit Insurance, p. 168
[90] Wicker, The Banking Panics of the Great, p.3
[91] M. Friedman & A.J. Schwartz, From New Deal Banking Reform to World War II Inflation, Princeton University Press, 2014, p.10-11

take large steps towards ending the Depression, and acting quickly and vigorously, what Hoover had not in four years.

With the crisis over, FDR's aim was to 'restore the temple', which the 'money changers' had 'fled', by imposing structural change on the financial sector[92]. The first major legislation on this front was the 1933 Banking Act, popularly known as 'Glass-Steagall'. Derived of separate and originally conflicting bills from the two eponymous politicians submitted in March, the bill, as it stood when it passed on June 16th[93], separated the operations of commercial and investment banks (particularly by banning deposit-taking institutions from touching securities underwriting[94]), increased the Fed's powers, and, crucially, provided deposit insurance across the US[95]. Though Glass's half of the bill gained wider approval, including amongst bankers, (like Chase National's chairman Aldrich, who wanted to restore confidence in the sector[96]), and popular support from people angry at Wall Street, Steagall's was controversial in business-oriented and political circles; indeed, even FDR was against deposit insurance, and threatened to veto a more extreme version of Steagall's proposal[97]. However, Senators Steagall and Long, alongside other representatives from states with many unit banks requiring protection[98], guided the bills through the system, agreeing to back Glass if Glass backed them, and consistently putting the policy in terms of 'protecting the depositor' (a rhetoric which was difficult to argue against)[99]. Steagall in particular had wanted deposit insurance for a long time (he had introduced bills on the subject in 1925, 1926

[92] Edsforth, The New Deal: America's Response to the Great Depression, Wiley-Blackwell, 2000, p.191-2
[93] Badger, FDR: The First Hundred Days, p.43
[94] Calomiris, The political lessons of Depression-era banking reform, p.150-1
[95] Edsforth, The New Deal, p.191
[96] Ibid., p.191-2
[97] Ibid., p.191-2
[98] Calomiris & White, The Origins of Federal Deposit Insurance, p.176-7
[99] Ibid., p.173

and 1928[100]), and he took the opportunity in 1933 to enact his vision. As such, the failures of unit banks, were prevented not by eliminating them, but by using insurance schemes funded disproportionately by larger banks, to protect them.

Influenced by popular narratives which blamed the Wall Street crash for the Depression, FDR's administration also implemented securities regulation. First, there was the 'Truth-in-Securities' act; aiming to tackle white-collar fraud, this bill required all firms to register securities issues and purchases with the Federal Trade Commission within thirty days of their occurrence (which the FTC could then investigate at their leisure), and implemented wide-reaching liability for providing fraudulent accounts[101]. Securities regulation came back into the fold in 1934, when the Securities Exchange Act, which separated dealers from brokers, brought about regulations on margin requirements, and forced more information disclosure[102], was passed on June 6th (despite overwhelming opposition from leading businessmen, like Richard Whitney, NYSE president)[103]. The Securities and Exchange Commission was set up within this act, to enforce it[104], and would later expand its remit, to investigating firms, imposing uniform accounting norms and creating regulations[105]. Although it was seen as excessive at the time, FDR's regime developed politically expedient ways of displaying toughness on Wall Street, and preventing fraudulent or unethical activity in financial firms (which, while not a major cause of the Depression, was still non-ideal).

[100] Calomiris & White, The Origins of Federal Deposit Insurance, p.164
[101] Badger, FDR: The First Hundred Days, p.130
[102] Edsforth, The New Deal, p.195
[103] Ibid., p.195
[104] Ibid., p.195
[105] Ibid., p.198

Finally, the New Deal's last major banking legislation came in 1935. The Banking Act restructured the Federal Reserve, swinging control away from regional reserve banks and towards the centre (specifically, to the seven members of the new governing board in DC[106], and the new Federal Open Market Committee)[107], and giving the Fed new powers, such as the ability to set interest rates across the nation, change discounting reserve requirements, and conduct sweeping open market operations[108]. While the old Fed was based on a clearinghouse structure, the new Fed was a true central bank. 1935's changes formed an appropriate response to the regulatory competition of the 1920s, and Fed inaction and unclear messaging during the Depression; it also represented acknowledgement of the institutions' founders, that the organization could only work if it had genuine control over the financial system. It should finally be noted that the act made the FDIC permanent as well, and enshrined the system of strong banks subsidizing weak ones, by making premiums entirely dependent on deposits[109].

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Overall, then, Roosevelt's regime effectively ended the financial instability of the Depression, and enacted legislation which, while not always directly addressing the economic roots of the system's problems, fixed the banking sector, while fulfilling the administration's political aims.

[106] Cassis, Regulatory Responses to the Financial Crises, p.356
[107] Gorton & Metrick, The Federal Reserve and Financial Regulation, p.15
[108] Edsforth, The New Deal, p.193
[109] Calomiris & White, The Origins of Federal Deposit Insurance, p.176-7

The Italian Banking Sector and its Regulators Prior to the Depression

Ingrained structural problems within the Italian banking system were mostly found in large 'German-style' universal banks, and were mostly derived from ties between financial and industrial firms. Indeed, in the 1920s there was significant overlap in the ownership structures of corporations, banks and holding companies[110], creating a maze of special interests, fraught with moral hazard[111]; a tendency for banks to hold vast, irresponsibly-selected and high-risk portfolios containing stakes in failing industrial firms[112]; and a lack of serious intra-bank governance which could have noticed fraud, unethical practices, or overextension of resources[113]. All three of these issues were present at the start of the 1920s, and developed together over the decade; their intricate inter-dependency means that they ought to be examined collectively, in this essay.

To emphasise these three problems, and their effects, one might observe the case of the 1917-1921 struggles of Banca di Sconto, the third largest bank in Italy. As Pierro Sraffa noted in 1922, Sconto's fate was "indissolubly united" to that of the Ansaldo Company (a metalworking, aviation, naval engineering, mining, shipping and manufacturing corporation)[114]; both entities were owned by the Perrone brothers, who used the bank to prop up their firm[115]. After the Perrone's realisation that wartime demand for Ansaldo's heavy

[110] G. Gigliobianco, C. Giordano & G. Toniolo, 'Innovation and Regulation in the Wake of Financial Crises in Italy (1880s-1930s)', in, G. Giglibianco & G. Toniolo, 'Financial market regulation in the wake of financial crises: the historical experience', Workshop and Conferences, No. 1, Bank of Italy, Economic Research and International Relations Area, 2009, p. 55-9

[111] S. Battilossi, 'Did governance fail universal banks? Moral hazard, risk taking, and banking crises in interwar Italy', The Economic History Review 62, 2009, p. 111

[112] G. Toniolo, 'Italian Banking, 1919 – 1936', in, C. H. Feinstein (ed.), Banking, currency, and finance in Europe between the wars, Clarendon Press, 1995, p.303

[113] Battilossi, Did governance fail universal banks?, p. 106

[114] P. Sraffa, 'The bank crisis in Italy', The Economic Journal 32.126, 1922, p. 179

[115] R. Sarti, 'Fascism and the Industrial Leadership in Italy Before the March on Rome', ILR Review, Vol. 21, No. 3, 1968, p. 403

industrial wares would disappear during peacetime[116], the firm continuously used Sconto to survive. Across four years, the Perrones used Sconto's funds to reorient Ansaldo's output; attempted a hostile takeover of the largest bank in Italy, Banca Commerciale (henceforth BC), to acquire more capital, only to be thwarted by another interest group (the Marsaglia Group), in a financial battle that eventually required a government-backed settlement[117]; issued shares, raising their capital fivefold (which still was not enough); drained Sconto's capital again; asked the government for help with paying their staff and buying coal (which, fearing unemployment in politically volatile Genoa, the regime provided) [118]; and eventually were forced to close the bank's doors after two separate waves of runs in 1921[119]. As such, overlapping concerns and industrial lending damned Sconto (and at no point during this process, did systems of internal-governance work, to prohibit the Perrone's unethical decisions).

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During the 1920s, the ownership structures and portfolios of many universal banks were similar to Sconto's in 1921 (albeit with larger equities holdings, from the firms they supported). The problems associated with these structures and portfolios only worsened in the 1920s, as two key changes rocked the sector.

The first of these changes took place from 1922-5. For the most part, these years were characterized by a boom in banking (and stock prices), with deposits growing at 14.4%/annum and lending to private firms rising at 23.7%/annum[120]. This was, in the short-

[116] Toniolo, Italian Banking, p.299
[117] Sraffa, The Bank Crisis, p. 180
[118] Toniolo, Italian Banking, p. 299
[119] Sraffa, The Bank Crisis, p.185
[120] Toniolo, Italian Banking, p. 301

term, beneficial for the sector. However, with the boom came high inflation, which led many banks to shift from nominal to real assets, to avoid the devaluation of their holdings; unfortunately, the real assets they chose were often industrial stakes, thus tightening bonds between the two sectors, which was deeply detrimental in the long-term. Moreover, this error compounded when, in 1925, the stock market turned. Having realised how far they had overextended themselves, the banks received a billion lira[121] from the Bank of Italy, to buy blue-chip stocks on the Milan exchange, and thus keep it artificially buoyant[122]; however, this was not enough, and as such markets fell, leaving banks with enormously devalued equity portfolios.

After the 1922-5 boom and bust, in the interests of keeping the firms which they had shares in, afloat, banks often entered vicious cycles of repeatedly lending to industry on the collateral of extra shares[123]. This financial negative feedback loop continued to the Depression; consequently, BC and Credito Italiano (henceforth CI) owned more than half the equity on the Milan exchange, in 1931[124]. Moreover, post-1925, banks were struggling, and hence needed a way to maintain their own share prices; as such, many bought vast numbers of their own shares (indeed, Toniolo suggests that BC owned the 'overwhelming majority' of their stock by the Depression)[125]. Alongside being illegal, and deeply misleading to one's depositors, and other shareholders, this strategy also eliminated a layer of caution from banks' internal governance (banking theory suggests that having active shareholders to keep the firm in check can lead to safer decision-making)[126]. The removal of this extra oversight

[121] Gigliobianco, Giordano & Toniolo, Innovation and Regulation, p. 55-6
[122] Toniolo, Italian Banking, p. 303
[123] Gigliobianco, Giordano & Toniolo, Innovation and Regulation, p.55-6
[124] Ibid., p. 56
[125] Toniolo, Italian Banking, p. 304-5
[126] Battilossi, Did governance fail universal banks?, p. 105-6

came in the context of a system rife with pyramiding and cross-ownership[127]; as Battilossi details, many firms owned stakes in myriad different companies, and myriad different banks, many of which had competing interests[128]. When firms are set up in this kind of way, organizational theory would suggest that strong management, incentive-maintenance and accountability are distorted at best and non-existent at worst. As such, self-ownership made a bad situation, worse.

The second major change of the decade, took place in 1926; this was the implementation of ‘Quota Novanta’ by Mussolini, which pegged the lira to gold at an awkwardly high rate, and thus put industrial firms into a deflationary environment, just a few years after they had been in a highly inflationary one[129]. Deflation heightened the cost of credit, and saw declines in domestic consumption and investment, while the overvalued lira made Italian goods expensive abroad; as such, many industrial firms were, once again, “forced to resort to banks”[130], draining their resources further.

As a consequence of the financial turbulence, large firms began to fail in the later 1920s. In 1928, Banco di Roma and its affiliates started to struggle, and had to be restructured by the government in a project that ran into the 1930s; in 1929, Banca Agricola ran into difficulties (it had a major investment in industrial conglomerate Snia-Viscosa, which produced rayon, primarily for export, which became difficult after Quota Novanta), and thus received

[127] Battilossi, Did governance fail universal banks?, p.112
[128] Ibid., p.112
[129] M. Fratianni, and F. Spinelli, A Monetary History of Italy, Cambridge University Press, 1997, p. 157
[130] B. Mussolini, ‘Speech on the Law on Corporations’, in B. Mussolini, Four Speeches on the Corporate State, Laboremus, 1934, p.30

injections of liquidity from the Bank of Italy for two years, before being liquidated in 1931[131].

Overall, the banking sector in 1920s Italy was fragile; the boom and bust, inflation, the revaluation and deflation all exacerbated problems stemming from finance-industry ties which had existed since WW1. In the 1930s, government officials would comment that bankers' 'agnosticism' towards the sectors' problems likely caused a number of bank failures and crises[132]; in retrospect, this seems harsh. Although their behaviour was often irresponsible, and they could have planned for turbulence far better, banks in the 1920s were often unfortunate, and had few options for fixing the sector from within, without instigating sweeping (and unprofitable) change across multiple firms.

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In the face of the troubled and interdependent banking and industrial sectors, Italian regulators had no politically expedient options. To allow banks to fail would ruin depositors, to allow industry to fail would ruin workers and markets, and to bail both out every time would create moral hazard and make any moderately sized financial institution effectively 'too-big-to-fail'. Taking the politically least-worst short-term solution, Italian regulators allowed for the perpetuation of bank-industry ties (which Sraffa in 1922 referred to as "the greatest danger" to the Italian economy), and repeatedly opted to bail out large banks (they did so six times in the 1920s alone).

[131] Gigliobianco, Giordano & Toniolo, Innovation and Regulation, p. 56
[132] Battilossi, Did governance fail universal banks?, p. 118

Nonetheless, after several years of intervening in financial affairs, Mussolini's regime started to try and regulate the sector further, with the 1926 Banking Act. The relevant decree established the Bank of Italy as a lender-of-last-resort, while banning it from anything but short-term lending[133] (Mussolini evidently understood that the political objective of having an overvalued gold-pegged lira was incompatible with vast government lending), and theoretically gave it supervisory power over the banks (though lack of a dedicated bureaucracy made inspection and supervision on the needed scale, impossible)[134]. Moreover, under the new law, establishing and merging banks required authorization by the government, minimum capital requirements were instigated based on bank type and location, and limits were imposed on banking concentration[135]. However, with no powerful supervision (and the political weight of large banks like CI and BC looming over those who tried to control them[136]), the new rules became de facto guidelines.

Historiographical consensus suggests that the 1926 law was unsuccessful because it did not specifically account for banks effectively becoming industrial holding companies[137], with interlocking directorates and no internal governance; as such, the same factors that brought down Sconto and Roma before the law, brought down Agricola, CI and BC later on. The one element which did take effect, right up to the Depression, was that lending only occurred when a failure would be a genuine political emergency[138]; as such, some smaller banks did fail between 1926 and 1929, without assistance. However, with the larger banks being constantly saved, the signal that assistance was available, was constantly retransmitted.

[133] Toniolo, Italian Banking, p. 305-6
[134] Gigliobianco, Giordano & Toniolo, Innovation and Regulation, p. 57
[135] Toniolo, Italian Banking, p. 303
[136] Ibid., p. 303
[137] Gigliobianco, Giordano & Toniolo, Innovation and Regulation, p. 57
[138] Toniolo, Italian Banking, p.305-6

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Thus, just like the US, Italy's banking sector had a set of large economic problems, which regulators did not solve (in their case, due to the overwhelming economic difficulty of making the attempt, rather than federalist gridlock and complacency).

The Italian Banking Sector and Its Regulators During and After the Depression

Just as they did in the United States, Italy's perpetual problems came to a head during the Great Depression, wreaking havoc upon the system. From 1929-32, industrial output declined by 25.1%[139]. The weak industrial sector thus faced a sharp drop in domestic demand, and the evaporation of any residual foreign demand, for its wares. Consequently, banks saw their equities devalue, and repeatedly resuscitated their perpetually struggling clients, injecting liquidity to stave off bankruptcy. Although it had worked in the 1920s, this strategy failed in harsher climes, as the two largest banks in the country found out.

CI and BC were the two most important financial companies in Italy. Run by some of the nation's largest business families, the firms had nationwide branches taking deposits from ordinary people, and dominated investment banking. They were also pillars of Italy's 'insider system' of corporate governance; they acted as creditors and shareholders of important firms and their board members were on dozens of interlocking directorates[140].

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[139]Gigliobianco, Giordano & Toniolo, Innovation and Regulation, p. 56
[140] Battilossi, Did governance fail universal banks?, p. 108

CI failed first. The bank's management anticipated illiquidity from early 1930 onwards, and, although they attempted to mitigate damages in house (they created holding companies for all their industrial stakes to try and, as Gigliobianco, Giordano & Toniolo put it, make a 'firewall' between their short-term credit, and long-term industrial, activities[141]), it was eventually clear that they could not survive unaided. Consequently, a deal was agreed between CI, the Treasury and the Bank of Italy in February 1931. Under this deal, CI had to pass all its industrial stocks to the Societa Finanzaria Italiana, which would act as a holding company with directors selected by the Bank of Italy, and was forced to confine its operations to short-term 'ordinary' banking only[142]; in return, the Bank of Italy gave SFI 330m lira as a loan, to buy CI's industrial holdings at balance sheet value[143].

Made illiquid by the same factors (its portfolio was even larger, even less liquid, and even less diversified than CI's), as well as the withdrawal of foreign funds from America and the bank's London branch (the government had to lend them foreign exchange to pay depositors in summer 1931)[144], BC was the next to face serious difficulties. In mid-1931, it was evident that the firm could not survive without state intervention; an agreement between the government and BC was reached in October. The firm passed its industrial stakes to a holding company (this time, Sofindit) and promised to jettison its investment-banking activities[145]; in return, Sofindit received 1bn lira from the Instituto di Liquidazione (and therefore ultimately from the Bank of Italy) to buy the firm's industrial equity[146].

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[141] Gigliobianco, Giordano & Toniolo, Innovation and Regulation, p. 56
[142] Toniolo, Italian Banking, p. 308
[143] Ibid., p. 308
[144] Ibid., p. 308-9
[145] Ibid., p. 308
[146] Ibid., p. 309

On the banks' side, this story was the culmination of issues in the 1920s; big portfolios, poor internal governance, and overlapping interests had finally led to outright failure. However, on the government's side, the bailouts represented a break from the norm; indeed, although they did not allow big banks to fail (as had been policy for a long time), the government took its opportunity to impose the enormous change which was required to cut bank-industry ties. By limiting the banks to 'ordinary' commercial banking and hence forbidding them from dealing with, or speculating on, securities, the government reduced the likelihood of future disasters.

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The downside of the bailouts was that in their wake, the regime was faced with persistent economic problems. Firstly, in order to provide the banks with vast liquidity, the government had to expand the money supply and violate the gold standard (which, as modern economists like Eichengreen & Sachs or Temin have argued, was likely a positive move, but would not have been pleasing for the Fascist regime which took "the pride of a victor" [147] in Quota Novanta). As a consequence of this expansion, in 1932 54% of all circulating money was in advances to banks[148]. Secondly, since 50% of the assets they took on from BC and CI were illiquid[149], and since the deals had to be kept secret (both because they were illegal, and because any leaks could affect depositor confidence), the Bank of Italy was forced to take major losses, and had to 'window dress'[150] their balance sheet. Thirdly, since the Bank of Italy spent so much on CI and BC, Toniolo hypothesises that the institution likely rationed credit to other banks less generously during the Depression[151]; he argues that this likely contributed to the increase in the number of failing banks from 7% of the total in 1929, to

[147] Benito Mussolini, My Autobiography, 1928, Charles Scribner's Sons, p.271
[148] P. Ciocca & G. Toniolo, 'Industry and Finance in Italy, 1918-1940', Journal of European Economic History 13.2, 1984, p. 132-3
[149] Toniolo, Italian Banking, p. 309
[150] Ibid., p. 309
[151] Ibid., p. 310-11

12% in 1932, and the overall reduction in the number of commercial banks from 457 to 266 between 1932-3 (a time with large numbers of mergers, alongside failures)[152]. Finally, after BC and CI's failure, many industrial firms had no access to the credit that had kept them alive for so long. To solve this problem, the Italian government established the Instituo Mobilare Italiano later in 1931, to finance industry; however, as the IMI was given insufficient resources and staffed with conservative managers, it was unable to make a real difference[153]. As such, overall, there were a number of loose ends from the government's short-term interventions.

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In 1933, the government formed the Instituto di Riconstruzione (which absorbed the Instituto di Liquidazioni, and the two holding companies which had taken CI and BC's industrial stakes)[154]. Designed to restructure the financial sector, this institution would tie up loose ends which remained after the bailouts, and implement a new, long-term policy of control over the allocation of credit[155].

To solve the Bank of Italy's liquidity problems, the IRI's first move was issuing bonds; since the Italian public was understandably cautious about investments after the Depression, they had to be both secure and lucrative – as such, they were given all the protections and advantages of state bonds[156]. With money from the initial bond issues, the IRI made loans to

[152] Toniolo, Italian Banking, p. 310-11
[153] Ciocca & Toniolo, Industry and Finance, p. 132-3
[154] Gigliobianco, Giordano & Toniolo, Innovation and Regulation, p. 57
[155] P. Morgan, Fascism in Europe, 1919-1945, Taylor and Francis, 2003, p. 146
[156] Ciocca & Toniolo, Industry and Finance, p.133

the Bank of Italy; this allowed the bank to stop faking its balance sheets, and start showing liquid assets (as was required by law)[157].

Next, the IRI began to take on its long-term goals. The institution, government-owned, but privately-incorporated[158], reformed the (still technically private) firms under its control, choosing their managers and structures[159], and, using money from repeated successful bond issues, provided banks with 12bn lira in capital (much of which was then passed on to industry, under its discretion)[160]. Although it was originally set up to be temporary[161] the IRI was made a permanent fixture in 1937, in a move which Ciocca & Toniolo characterized as 'inevitable'[162].

It should be noted that the increased power over the financial sector which the IRI gave the government was augmented by the fact that private banks had failed during the Depression faster than the already public savings banks[163]; and the fact that the state could now help out the banks it owned, since it had a large influence over the credit business – Banca Nazionale del Lavoro grew significantly by managing government funds, for instance[164].

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The final stage of banking reform in Italy came with the Banking Act of 1936; with the goals of protecting depositors, firmly establishing credit as a matter of public interest[165], regulating

[157] Toniolo, Italian Banking, p.312
[158] Ibid., p. 311
[159] Morgan, Fascism in Europe, p. 146
[160] Ciocca & Toniolo, Industry and Finance, p.133-4
[161] Morgan, Fascism in Europe, p.146-7
[162] Ciocca & Toniolo, Industry and Finance, p. 135
[163] Toniolo, Italian Banking, p.312
[164] Ibid., p.312
[165] Ciocca & Toniolo, Industry and Finance, p. 134

banking activity, and eliminating moral hazard, this legislation made previous reforms permanent, and added some anew[166]. The culmination of a 14-year learning curve for the Fascists, the act made the Bank of Italy into a public institution, with its shares owned by public savings banks; and granted the newly formed 'Ispettorato' sweeping supervisory powers over the sector (including discretion over banks' interest rates, fees they charged, geographical location of their services, whether they collected bad debts, the allocation of credit to different parts of the economy, etc.)[167]. Critically, the act also required banks not to hold industrial shares greater than 10% of their capital, unless the government had specifically authorized them to do so; forbade banks from making loans to their shareholders; and introduced separation between short-term and long-term credit[168].

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Overall, the Fascists handled the failures of the two largest banks in the country extremely effectively (there were no runs, panics, or holidays involved), and successfully implemented a larger regulatory regime which was designed as Fratianni & Spinelli put it, "not only to safeguard the stability of the banking system, but also to subjugate it to political will"[169].

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[166] Fratianni & Spinelli, A Monetary History of Italy, p. 156
[167] Ibid., p. 156
[168] Gigliobianco, Giordano & Toniolo, Innovation and Regulation, p.59
[169] Fratianni & Spinelli, A Monetary History of Italy, p. 156

Section II - The Effects of Political Systems on Legislative & Regulatory Outcomes

As section one has established, the long-term, continuous economic problems which built up in the Italian and American banking sectors (and arguably their regulators) in the 1920s, came to fruition in the 1930s, and caused major damage; as such, politicians in both countries set about solving them with new regulations and legislation, the forms of which were heavily affected by the politics of the day.

Now, given the importance of politics to this subject, it is unsurprising that several historians have analysed the political economy of specific bills and specific issues, in specific countries at specific times. However, what might be more surprising, especially given the broad long-term similarities in the cases of the two nations studied here, is the fact that there has been no study which takes a wider view, and analyses how constitutional structures and norms affected the financial policy regimes as a whole. This essay seeks to fill this gap, by looking at three constitutional structures/norms, and how they affected the relevant outcomes.

The Free Press & The Fascist-Controlled Press

The American free press, and the highly-controlled Italian press, both significantly affected their respective nations' regulatory responses; to understand this, one must first understand how the press operated in both countries.

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As Mussolini remarked in a 1928 speech to an assembly of journalists, the Italian press under the Fascists had a "mission" of "great importance and delicacy", to "inform" and "sensitize" "the masses" for the sake of the regime[1]. Between 1922 and the Depression, Mussolini created an environment in which that mission, and only that mission, could be fulfilled. From 1906-22, press laws in Italy were as liberal as they had ever been[2], and even in 1925, big issues could reach the front pages; for instance, editor of Corriere della Sera, Luigi Albertini, delivered a speech in the Senate on May 7th 1925 attacking Fascist censorship itself, saying 'today the press is reduced to saying only what the government and prefects allow it to say', which was printed in Corriere the next day[3]. However, after the 1925 press legislation (which gave Mussolini sweeping new powers, including the prerogative to appoint all editors-in-chief across Italy, and to sequester papers at will, which could ruin them financially), and the campaign to 'fascistize' existing liberal publications like Corriere and La Stampa, the press was almost entirely under Fascist control[4]. In addition to active legislation, there was strong pressure on individual journalists and editors not to hurt the Fascist party, derived from the police state (the Divizione Polizia Politica engaged in phone tapping and had a wide network of informers, allowing it to keep tabs on any 'suspect' individuals)[5] and the threat of potential imprisonment[6]; this led to a high level of self-censorship.

Alongside censorship measures, were other elements which neutered the press's ability to speak out on financial matters. Firstly, there was no culture of a 'watchdog press' in Italy (indeed, even upon Mussolini's first decree on July 15th, 1923 limiting the press's capabilities, no notable level of public concern was registered[7]). Secondly, industrial interests had major stakes in the news; for instance, Toeplitz, BC's director, and Ansaldo, the

[1] Talbot, Censorship in Fascist Italy, p.77-8
[2] Ibid., p.24-5
[3] Ibid., p.32-3
[4] Ibid., p.42-3
[5] Ibid., p.5-6
[6] Ibid., p.91
[7] Ibid., p.23

company that brought down Sconto, both funded Mussolini's paper Il Popolo d'Italia as early on as 1918 (and provided it with indirect revenue by advertising in it incessantly)[8]. Moreover, in the interwar years, 14 newspapers were owned by steel companies alone[9]. As such, reporting on industrial failures may have been counter-productive. Finally, the press had a limited reach; newspaper culture in Italy was relatively undeveloped outside the "urban wealthy"[10], large elements of the Italian South had high illiteracy rates, and the only truly national newspapers in the country were Corriere and La Stampa[11].

Finally, it should be noted that in addition to their ability to *silence* it, the Fascists were also skilled at *using* the press. Indeed, the Ministries of the Interior, Popular Culture, Foreign Affairs, Posts & Telegraphs, and Finance, all had a say on which stories were planted and presented, alongside local prefects, who had some control over smaller newspapers in their area[12]. Talbot even argues that "different policy lines could be promoted by different ministries"[13], to create a discourse entirely composed of options the Fascist regime supported.

During and after the Depression, therefore, Mussolini's grasp on the press was comprehensive (it only increased during the 1930s, with Galezzo Ciano's reforms tightening control in 1933 in particular[14]), and any negative reporting on financial woes was vanishingly unlikely.

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[8] Talbot, Censorship in Fascist Italy, p.39-40
[9] M. Forno. Informazione e potere: storia del giornalismo italiano. Gius. Laterza & Figli Spa., 2012, p.81
[10] Talbot, Censorship in Fascist Italy, p.23
[11] Ibid., p.23
[12] Ibid., p.18
[13] Ibid., p.18
[14] Forno, Informazione e Potere, p.121

The United States, before, during, and after the Depression, had a free press; newspapers printed as they pleased, and attempts to stop them from doing so were met with immediate outrage (including from within the government – Steve Early, FDR's press secretary, riled against it[15]). However, this did not stop administrations from trying to manipulate the press. While Hoover, with his monotonous tone, continual repetition of his basic economic thought[16], and refusal to give the press much information[17] (in 1931 Paul Anderson remarked that his press relations had 'reached a state of unpleasantness without parallel in the present century'[18]), hardly made this sort of attempt, FDR absolutely did. Moreover, with millions of newspapers in circulation (27,791,000 in 1920, which rose to 39,589,000 by 1938[19]), and a public which was deeply invested in his actions (as journalist Leo Rosten wrote in 1937, 'the public's demand for news in the dramatic days of 1933 was literally insatiable'[20]), his actions mattered.

'The best newspaperman who has ever been president of the United States'[21], had a meticulously thought-out press strategy. His publicity agent Louis Howe, ensured that every letter sent to FDR received a personal reply; that national news sources which were planning to run politically 'dangerous' headlines would receive an explanation and a potential adjustment; that Sunday radio was full of the president's policies; that every government official received a bulletin ('Howe's Daily Bugle') on what was happening in the press (he had a team of 25 researchers who sifted through hundreds of papers, and letters to the president from citizens, and summarized opinion into the document, which sometimes ran as

[15] B.H. Winfield, FDR and the News Media, Columbia University Press, 1990, p.83
[16] Victor Bondi (ed.), American Decades 1930-1939, (vol 4.), Gale, 1996, p.341
[17] Winfield, FDR and the News Media, p.4
[18] Badger, FDR: The First Hundred Days, p.39-40
[19] Bondi, American Decades 1930-1939, p.340
[20] Winfield, FDR and the News Media, p.79
[21] Graham J White, FDR and the Press, University of Chicago Press, 1979, p.7

long as 125 pages); and that the news never lacked the administration's voice (he even wrote for American Magazine, Liberty, Cosmopolitan and the Saturday Evening Post himself)[22].

Working alongside Howe was the first US Press Secretary in history, Steve Early, who ran the President's press conferences[23]. In these conferences, Early and FDR did everything they could, to keep the press on the administration's side. Roosevelt treated the press with respect (he famously welcomed journalists into his first press conference with friendly greetings and handshakes[24]), and provided reporters with dramatized and personalised news stories (in 1934, John Gunther noted FDR's affectations of 'amazement, curiosity, mock alarm, genuine interest, worry, rhetorical playing for suspense, sympathy, decision, playfulness, dignity and surpassing charm'[25]). He also maintained continuous contact with the working press (meeting members, off the record, every day), and set regular, recurring press conferences; this allowed him to set the agenda (i.e. what the press should cover) continuously, respond to events almost as they happened, help stories he wanted published, and hold back on those he did not[26]. FDR and Early also constantly planted questions (often working with Durno and Godwin of the International News Service, among others), allowing them to further control key narratives. In addition, FDR had strict rules on the release of information: off the record material was strictly secret, background details could not be attributed to the administration, and quotes were off-limits without direct approval[27]. These rules ensured that reporters understood rationales behind policies, but could not always report on them; as such, journalists had to operate in a vague grey area, which took away some of their bite. The

[22] Winfield, FDR and the News Media, p.80-1
[23] Ibid., p.83
[24] Ibid., p.28
[25] Ibid., p.38
[26] Ibid., p.19
[27] Ibid., p.18-9

penalty for breaking these rules was a reprimand from Steve Early, and the loss of the president's respect[28]. Finally, the press conferences were aided by FDR's own quick thinking; having abolished the 'written questions' rule[29], FDR dodged questions by saying he had not seen certain documents, critiqued hypotheticals as 'iffy', and sometimes directly criticised stories as poor journalism.

The administration never had overt control (although certain congressmen questioned FDR's technique – Carter Glass for instance, once remarked 'there are more newspapermen now employed in the various bureaus of government than are employed on the newspapers themselves', and wanted inquiries into the 'house organs', i.e. newspapers which particularly liked Roosevelt[30]); nonetheless, FDR's manipulation of the press was skilled.

However, the best press management system in US history could not avert the democratic 'watchdog' press, and FDR thus faced opposition. In a 1935 poll by 'Editor and Publisher', the industry's most prestigious trade journal, 29.28% of the press aligned themselves with Republicans or independent-Republicans, and 26.72% with Roosevelt's Democrats or independent-Democrats, with 44% being independent[31]. Moreover, in an analysis of 167 editorial comments on key events in his term, White found that around 33% of comments were favourable, 36.5% unfavourable, and 30.5% near-neutral[32]. White notes that this favourability and opposition changed over time. Most importantly, he argues that editorial opinion was broadly enthusiastic during the New Deal, but support fell away after May 1935,

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[28] Winfield, FDR and the News Media, p.37
[29] Badger, FDR: The First Hundred Days, p.39-40
[30] Winfield, FDR and the News Media, p.94
[31] White, FDR and the Press, p.71-2
[32] Ibid., p.75

only recovering in 1937[33]. White's timeline of support is corroborated by reports from FDR's own Division of Press Intelligence[34], and his observation of New Deal-era sympathy from the press is widely supported in the historiography. For instance, Gary Dean Best notes that even notorious FDR critic Mark Sullivan once said it would be 'almost unpatriotic' to object to the president lifting the US out of the Depression during the first hundred days in particular[35].

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With the background information in mind, this paper will now examine the effects of the press on regulatory outcomes, using an adjusted version of Graham White's framework; while White observed 167 articles from key events in Roosevelt's presidencies to detect the prevailing winds of opinion within the press[36], this paper observes 101 articles from a far shorter list of key financial events, from 1929-36, in both nations. The articles in question come from the New York Times and the Washington Post, and Corriere della Sera and La Stampa (the two largest newspapers in Italy); the key events are the build-up to Glass-Steagall and the 1935 Banking Act in the US, and the bailouts and operation of the IRI in Italy.

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The behaviour of the press aided the passage of Glass-Steagall in two ways. Firstly, their constant coverage of the Pecora inquiry eliminated the credibility of sympathy for Wall Street amongst voters and politicians.

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[33] White, FDR and the Press, p.77
[34] Ibid., p.79
[35] D.A. Ritchie, 'The Critical Press and the New Deal: The Press versus Presidential Power, 1933-1938, by Gary Dean Best', Journal of American History, Vol. 81, 2, 1994, p.777
[36] White, FDR and the Press, p.75

Consistently phrasing his arguments in "populistic"[37] terms, and, since he was not fighting for the law, but the small depositor, continuously going after any unethical or spurious practice regardless of its technical legality, Ferdinand Pecora broke several scandals against the financial powers that be (some of which, he dramatically speculated, were "formidable rival[s] to government itself"[38]) prior to Glass-Steagall's passing. From February to March 1933, Pecora exposed National City Bank for selling stocks to retail investors under false pretences, using fraudulent documents which did not disclose their conflicts of interest, and doling out enormous bonuses in Depression years (including $667,000 for director Charles Mitchell)[39]. Next, Pecora showed that Jack Morgan and twenty of his partners paid no US income tax from 1930-1, even as the country suffered for their mistakes (this was because their tax liabilities were in England, but by the time this came to light, the public's attention had moved on)[40]. He also discovered that JP Morgan offered financial favours, including cut-price stock purchases[41], to a list of 'friends of the firm', which included Calvin Coolidge (former US president), William Woodin (Secretary of the Treasury), the CEOs of General Electric, US Steel, Standard Oil, and AT&T, the heads of the RNC and DNC, and many fellow Wall Street types (the now-disgraced Mitchell included). Finally, Pecora found that JP Morgan had unethically underwritten the stocks of United Corporation and Alleghany Corporation; both of these firms saw enormous stock price increases before the crash, based on nothing but JP Morgan's reputation, which brought the firm enormous profits. Both stocks crashed in 1929, staying down afterwards[42].

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[37] E. Morris, Wall Streeters, Columbia University Press, 2015, p.62
[38] A.E. Wilmarth, Taming the Megabanks: Why We Need a New Glass-Steagall Act, Oxford University Press USA, 2020, p.131
[39] Ibid., p.125
[40] Cassis, Regulatory Responses, p.358-60
[41] Wilmarth Jr., Taming the Megabanks, p.131
[42] Ibid., p.131-2

Pecora's investigations provided "first-rate entertainment"[43], and as such, the press was happy to deliver the "gorgeous thrills" to the public[44]. Indeed, from February 1933 onwards, the Times quoted Pecora on the 'recalcitrance' of those who "are attempting to obstruct the inquiry"[45]; noted every indiscretion he found, in dramatic language of "millions found"[46] and operations "exposed"[47]; adopted Pecora's rhetoric of how banks that "receive" "deposits from the public" should not gamble with their money[48]; focused in on denials by lying witnesses[49] and the personal failings of financiers[50]; and detailed Pecora's valiant[51] 'determination' in the face of colossal powers[52]. The Times ran enormous spreads on the Morgan investigations in the week when Glass-Steagall was being debated in particular; approximately 12 full broadsheet columns were devoted to Jack Morgan's testimony on the first day the Senate debated the bill (May 24th) [53].

The press understood that their coverage helped Glass-Steagall. On May 25th, the New York Times noted that "pressure for the bill was ascribed to the demand for Federal guarantee of deposits, following upon the March bank holiday, and to disclosures in the investigation of J.P. Morgan and Co"[54]; similarly, on the 26th, the Washington Post ran an article entitled

43 The New York Times, Senate's Banking Inquiry as Entertainment and as Basis for Legislation, May 28, 1933, page 60
44 Ibid., p. 60
45 The New York Times, Curtis Aids Pecora in Exchange Inquiry, February 3, 1933, page 9
46 The New York Times, Traces Millions in Paper Profits to Insull Bankers, February 18, 1933
47 The New York Times, Grand Jury Sifts Loan to Port Aide, March 16, 1933, page 31
48 The New York Times, Sharp Questions Put to Banker, May 24, 1933, page 6
49 The New York Times, Morgan Inquiry High Points, May 26, 1933, page 1
50 The Washington Post, 1933, Feb 16, Insull Paper Profits Bared in Senate Quiz: Fugitive's Son Tells of $25,000,000 Family Privilege; Owen D. Young and Gen. Dawes to Testify Today. Senators Hear Young Insull Tell of Vast Family Profits, The Washington Post (1923-1954), 1
51 The New York Times, Glass and Pecora Battle as to Goal of Morgan Inquiry, May 27, 1933, pages 1, 8
52 The Washington Post, 1933, Mar 31, Probing of Morgan Records is Sought: Senate Body Reports Firm Spurns Questionnaire; Authority Likely, The Washington Post (1923-1954), 1.
53 The New York Times, Sharp Questions Put to Banker, May 24, 1933, page 6
54 The New York Times, Glass's Bill Passed by the Senate, May 25, 1933, page 1

'Morgan Inquiry Spurs Congress: Banking Bill and Tax Reform Gain'[55]. It is also possible that their coverage influenced the public opinion which legislators (all of whom received Howe's daily bulletin, one should remember) blamed for the bill's success; one should note Carter Glass's remark that deposit insurance, a policy which he hated, was inevitable, because 'Washington does not remember any issue on which the sentiment of the country has been so undivided or so emphatically expressed as upon this'[56].

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The second aid to the bill's passing is seemingly unacknowledged within the historiography: this is the press's lack of evaluation of Glass-Steagall's contents, until after it had passed. In the Times, on May 20th, a few paragraphs were devoted to the Pennsylvania Bankers Association calling the bill 'most unwise'[57]; on the 21st, there was minor coverage of bankers having 'their arms up to their shoulders' against the bill, as Steagall put it[58]; on the 23rd, there was coverage of politicians arguing that the bill was debated too quickly[59], and brief coverage of the minority in the house fighting it[60]. Despite its obvious importance, the Times offered no critique before its passing. Intriguingly, however, this policy of silence evaporated the second the bill had passed; indeed, on the 25th of May, an editorial appeared in the Times, named 'The Banking Bill'. This article, written by the same editor who held the post the week before, ripped into Glass-Steagall. Most jarringly, it said:

[55] The Washington Post, 1933, May 26. Morgan Inquiry Spurs Congress; Banking Bill and Tax Reform Gain. The Washington Post (1923-1954), 1
[56] Calomiris & White, The Origins of Federal Deposit Insurance, p. 173-4
[57] The New York Times, Deposit Guarantee Scored by Bankers, May 20, 1933, page 19
[58] The New York Times, Bank Reform Bill Goes Before House, May 21, 1933, page 5
[59] The New York Times, Bank Reform Bill Brings 'Gag' Cries, May 23, 1933, page 27
[60] The New York Times, Minority Fights Bill, May 23, 1933, page 27

> "No insurance scheme, however carefully devised, can be an adequate substitute for a sound banking system. It is, in fact, merely evidence that such a system does not exist, and an invitation to bad banking".

> "The shocking record of failures over a long period, and particularly during the last three years, has shown the necessity of reform particularly at two important points: (1) requirement of compulsory membership in the Federal Reserve System and (2) permission for strong institutions to employ the methods of branch banking which have been used so successfully in Canada and England. The House bill contributes nothing toward the first reform. With respect to the second, it merely authorizes national banks to establish branches in the comparatively small number of cases in which state banks enjoy this privilege under local legislation"[61].

Importantly, an identical pattern manifested at the Washington Post. Before it passed, the Post published articles on deposit insurance "bearing tacit administration approval of its principle"[62]; the "thunderous chorus of ayes" that "put through the House the Glass-Steagall bank reform, designed to safeguard the deposits of money earners and give assurance that Federal Reserve member banking will be strictly separated from speculative operations"[63]; and the "steel-flanged banking bill designed to prevent a recurrence of such a financial emergency as rocked the country on March 4"[64]. However, once the bill was truly through, they ran a piece entitled 'Expediency Wins', arguing that passing the bill was an unprincipled "political expedient" and that "fundamental defects remain uncorrected because congressmen

[61] The New York Times, The Banking Bill, May 25, 1933, page 18
[62] The Washington Post, 1933, Apr 08. Bank Reform Bill Ready Next Week: Steagall's Deposit Guarantee Calls for Fund of $2,000,000,000. The Washington Post (1923-1954), 1
[63] The Washington Post, 1933, May 24. House Passes Bill to Insure Deposits: Bank Reform Plan's Fate in Senate Uncertain Despite Aid of Glass. The Washington Post (1923-1954), 3
[64] The Washington Post, 1933, May 26. Senate Enacts Plans to Prevent Finance Emergencies.: Provide Insurance of Deposits; Investing and Banks Split. Glass Banking Bill Passed by Senate. The Washington Post (1923-1954), 1

fail to support measures leading to a uniform banking system". Once more, one assumes that the paper did not develop this opinion overnight.

It is credible to believe that the New York Times and Washington Post could have been operating either out of a sense of general goodwill towards the government, or in fear of public outrage at their lack of support. Either way, their silence surely must have aided the bill's passage.

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It is worth noting at this point, that the press's coverage of the August 1935 banking legislation (the far more reasonable of the two bills) was entirely different. This time, criticism was forthcoming from the bill's inception, onwards. As early as February 4th, the Times reported on "much greater risks for the Government and for the more conservatively managed banks", and the "heavier burden on larger institutions"; they also questioned the proposal to alleviate Glass-Steagall just for "municipal securities", saying "why should the line be drawn there?"[65]. Over the coming months they analysed details of the bill[66], and were not hesitant to critique sweeping changes (outlining "a vast increase in the powers of the Federal Reserve Board over the nation's banking structure"[67], was part of this), especially in regard to Title II of the Bill (the responses to which, from senators[68] and banking associations[69], they published at length). While they kept their silence in 1933, in 1935 they were happy to publish arguments that suggested that the bill "contains many mischievous provisions"[70] or that the FDIC "would be used as a club to force every bank in the country to

[65] The New York Times, A New Banking Bill, February 4, 1935, page 14
[66] The New York Times, Summary of the Proposed Administration Banking Act, February 5, 1935, page 20
[67] The New York Times, Central Bank Powers Seen, February 5, 1935, page 20
[68] The New York Times, Major Battle Due Over Banking Bill, April 14, 1935, page 5
[69] The New York Times, Bankers Shifting Stand on Reforms, March 25, 1935, page 79
[70] The New York Times, The Banking Act of 1935, February 14, 1935, page 20

join the Federal Reserve System or stop business"[71]. The Times also argued that the act attempted to implement more political control over the banking system; they reported on criticisms regarding "the necessity for safeguarding the Federal Reserve System from political pressure", which had "general support among bankers, economists and businessmen"[72]. They furthered their concerns about excessive political motivations for the bill, with arguments regarding how it "enables the government to get money altogether too easily and removes a much needed brake upon extravagance", ripping away the credit structure of the US which was "the product of long experience", and implementing a system that is "operated to conform to changing political theories, primarily formulated to get votes"[73]. Overall, their coverage made it seems as if, as Winthrop Aldrich put it, the banking act was a "menace to the nation" and "an instrument of despotic authority"[74]. When the bill passed, it did so with the scepticism of the Times; the editorial line was hoping for amendments, but eventually saw the bill go through, "unaltered by even the transposition of a punctuation mark"[75].

Once again, Washington Post coverage was very similar, albeit with different sources for their parallel opinions; for instance, rather than report on senators, they reported instead on "Edwin W. Kemmerer, professor of international finance at Princeton University", who argued that the act "increased 'governmental and political control'" and "contained

[71] The New York Times, FDIC Hit as Curb on Small Banks, March 1, 1935, page 1, 20
[72] The New York Times, Bankers Shifting Stand on Reforms, March 25, 1935, page 79
[73] The New York Times, Cutler Hits 'Politics' in New Banking Bill, May 12, 1935, page 5
[74] The New York Times, Menace to Nation is Seen by Aldrich in the Banking Bill, May 16, 1935, page 1,40
[75] The New York Times, Senate Passes Bank Bill, Without A Single Change – Fight Due in Conference, May 16, 1935, page 1,6

provisions ‘likely to result in a levelling down of our bank assets and therefore in a weakening of the security of our bank deposits’”[76].

Ascertaining the impact the press had is difficult. However, it should be noted, that after hearings on the bill from April to June, the Senate did alter certain elements of the bill, to decrease the influence of political actors over monetary policy and increase the independence of the Federal Reserve board from the presidency (particularly by removing Treasury and OCC representation and implementing 14 year terms)[77]; these happened to address the criticisms of the press directly. As such, in 1935, unlike in 1933, the ‘watchdog press’ seemingly did its job; its criticisms were valid, and good changes were made.

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The press fulfilled two key roles for the Italian regime, during the Depression. The first was the management of key narratives. The most important of these narratives, was based on the premise that criminal activity and chance were causing bank failures, rather than economic issues (except when it suited the Fascist party line, in which case the relationship was reversed). To push this account, La Stampa blamed the “crash of the Garibaldi bank” on the “Pagliano” family and their “managing directors”, covering their trial in detail and emphasizing their embezzlement[78]; detailed “a clever fraud scheme to cover huge losses suffered in the stock market” at National City Bank[79]; described how the “Rean brothers” “squandered forty million in ruinous operations”, running their organization into the

[76] The Washington Post, by the Associated Press 1935, May 14. Dangers Seen in Banking Bill by Kemmerer: Princeton Professor Raps Extension of Reserve Board Powers, The Washington Post (1923-1954), 2
[77] G. Richardson, A. Komai & M. Gou, ‘Banking Act of 1935’, Federal Reserve History Website, https://www.federalreservehistory.org/essays/banking-act-of-1935
[78] La Stampa – Wednesday 18 April 1928, ‘La Stampa Archivio Storico dal 1867’, http://www.archiviolastampa.it
[79] La Stampa – Tuesday 2 April 1931, ‘La Stampa Archivio Storico dal 1867’

ground[80]; and argued that "the bankruptcy" of Banco di Milano in 1932 "has no relation to the economic crisis" as "it would have failed at any time in any country" [81]. Similar instances of fraud, greed and happenstance were blamed for the failures of Banca Cravario[82], Banca Andreis,[83] and Banca Bielesse[84]; at no point did the paper 'notice' a pattern. By repeatedly blaming individual errors, the press fought against any concern regarding the stability of Italy's financial system.

Another Fascist narrative which papers successfully pushed, was one which blamed foreigners for Italy's financial woes, and argued that their economic situations were either worse or identical. Alongside arguments that "foreigners" were trying to "exploit" "unwary savers" by drawing them away from Italian banks[85], the papers were keen to report on "important" bank failures abroad which were attributed to "the very serious economic crisis"[86] which various countries were facing, and criminal activity overseas (for instance, when "3 bank directors" of "Communications Credit Bank" were "arrested in Berlin"[87]). Interestingly, in Italy, they would cover the trials of managers and deals made by banks, but in foreign affairs, they would cover the news more viscerally, detailing arrests, and the act of banks shutting their doors. Finally, papers pushed the narrative that the Bank of Italy's gold reserves were plentiful (which, after the bailouts, they absolutely were not); indeed, La Stampa ran a recurring section on 'The Situation of the Bank of Italy' which repeatedly detailed how "the reserve of gold currencies increased"[88], detailing rises up to "one and a half

[80] La Stampa – Thursday 1 October 1931, 'La Stampa Archivio Storico dal 1867'
[81] La Stampa – Friday 1 January 1932, 'La Stampa Archivio Storico dal 1867'
[82] La Stampa – Friday 12 April 1929, 'La Stampa Archivio Storico dal 1867'
[83] La Stampa – Thursday 13 June 1929, 'La Stampa Archivio Storico dal 1867'
[84] La Stampa – Monday 26 August 1929, 'La Stampa Archivio Storico dal 1867'
[85] La Stampa – Friday 1 January 1932, 'La Stampa Archivio Storico dal 1867'
[86] La Stampa – Tuesday 29 September 1931, 'La Stampa Archivio Storico dal 1867'
[87] La Stampa – Wednesday April 19, 1933, 'La Stampa Archivio Storico dal 1867'
[88] La Stampa – Tuesday 10 January 1933, 'La Stampa Archivio Storico dal 1867'

million”[89]. Once again, both of these narratives protected the government, and reassured readers.

Alongside narratives of crime, foreign failure, and government competence, were some ingenious partial truths. For example, when BC failed, La Stampa ran an article detailing the its agreement to “the complete amalgamation of its” “industrial shares”, in such a way that prevents “any danger of pressure”, and ensures a “lossless transfer”, “and placement of those shares” with “an industrial finance company whose capital is hired by an Italian industrial shareholder group”, financed in a “secure” fashion, “for a long period of time”[90]. This story maintains the positives of the deal (BC’s increased security), while hiding the downsides: the deal was made as a last resort, involved high losses, and was funded by the government. It should be noted, that this article was used to springboard into another later in the week, written by a Fascist politician, regarding ‘production and the bank’, which covered “the question of the relations” “between industrial activity and banking business”, which was, apparently “a problem that has arisen in all countries”, “in Austria as in the United States, in Germany as in England” (which, for two of the four, was not true)[91]. Covering a banking crisis in such a way that depositors are reassured, and then launching into an article that familiarises the public with what would later become actual fascist policy, perfectly displays the effectiveness of the regime’s press manipulation.

In addition to narrative management, this dissertation’s research would suggest that the press also fulfilled a secondary function: that of advertising the IRI. The historiography

[89] La Stampa – Sunday 6 May 1934, ‘La Stampa Archivio Storico dal 1867’
[90] La Stampa – Wednesday 4 November 1931, ‘La Stampa Archivio Storico dal 1867’
[91] La Stampa - Thursday 12 November 1931, ‘La Stampa Archivio Storico dal 1867’

understands that the press glorified the institution. Indeed, they emphasized how its efforts were "proceeding with fascist speed"[92]; how its enterprises exhibited "excellent behaviour on the market"[93]; and how its operations drew "deep admiration abroad"[94], in Bulgaria[95], France[96], America and England[97]. However, the press's role extended further than this. Indeed, given the newspapers' predominantly metropolitan and relatively wealthy readership, it is difficult to read articles about upcoming "public subscription"[98] IRI bond issues, as anything other than marketing. Articles touting IRI bonds appeared from early 1933[99] onwards; each time, they went into the "technical characteristics of the bond issues" [100], emphasizing the fact that they were "guaranteed by the state", and explaining how they bore "a minimum interest of 4.50 per cent", and were convertible "at any time" [101]. All of these articles were written from a consumer, rather than financial analysis, perspective. Moreover, it is worth noting that the advertising cycle was self-reinforcing; newspapers used the success of previous bond issues (which they had helped), to sell future ones. This is exactly what happened for the issue of IRI-FERRO (steel), which was sold by raving about the values of previous issues of IRI-STET (telecoms) and IRI-FINMARE (transport)[102]. All in all, it seems that by providing covert advertising, the press was actively aiding Fascist policy.

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With all of this in mind, it ought to be evident that the constitutional norm of a free press in the US had different effects at different times; in 1933, it amplified anti-Wall Street

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[92] La Stampa – Tuesday 29 December 1936, 'La Stampa Archivio Storico dal 1867'
[93] La Stampa - Thursday 1 July 1937, 'La Stampa Archivio Storico dal 1867'
[94] Corriere della Sera – Saturday 11 February 1933, 'Corriere Della Sera Archive', http://archivio.corriere.it/
[95] Corriere della Sera – Saturday 18 February 1933, 'Corriere Della Sera Archive'
[96] Corriere della Sera – Monday 06 February 1933, 'Corriere Della Sera Archive'
[97] Corriere della Sera – Wednesday 01 February 1933, 'Corriere Della Sera Archive'
[98] La Stampa – Tuesday 29 December 1936, 'La Stampa Archivio Storico dal 1867'
[99] Corriere della Sera – Wednesday 01 February 1933, 'Corriere Della Sera Archive'
[100] La Stampa – Tuesday 29 December 1936, 'La Stampa Archivio Storico dal 1867'
[101] La Stampa - Thursday 24 June 1937, 'La Stampa Archivio Storico dal 1867'
[102] La Stampa - Thursday 1 July 1937, 'La Stampa Archivio Storico dal 1867'

narratives and did not subject key legislation to scrutiny (potentially out of goodwill during the first hundred days), while in 1935, it made legislators lives more difficult, but ultimately aided the creation of better regulation through its criticism. Meanwhile in Italy, the press was a facilitator of Fascist narratives, and brought the government public money; their lack of resistance was likely useful in the short-term (although this meant they could not comment on the potential flaws of policy either).

Transparency & Secrecy

It can also be argued that the Fascist government's ability to strictly enforce confidentiality on key matters, and the culture of transparency in the US, both affected regulatory outcomes.

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Most importantly, the Fascists' ability to ensure utter secrecy regarding communications, meetings and eventual deals, was vital in their rescues of CI and BC. Indeed, given the nature of the bailouts, which involved the head managers of both firms (Feltrinelli at CI[103], and Toeplitz at BC[104]), and their teams, each meeting with the government over several months, negotiating liquidity injections for foreign exchange crises[105], Instituto di Liquidazioni loans[106], and eventually the divestment all of their industrial stakes to holding companies financed by billions of lira of public money, it is remarkable that complete non-disclosure was maintained.

[103] A. Roselli, Il governatore Vincenzo Azzolini: 1931-1944, Vol. 2, Laterza, 2001, p. 39
[104] Ibid., p. 47
[105] Ibid., p. 44
[106] Ibid., p. 39

Of course, the secrecy around the deals was no accident; the Italian government had strategies for maintaining confidentiality. On an individual level, just in case the implied threat within the police-state was not enough, the deals were written in such a way that signees swore themselves *first* to the secrecy of the deals, and *then* to the deals themselves[107]. Moreover, in signing, all parties had to confirm in writing ‘presi gli ordini dal duce’ (‘I took orders from the Duce [Mussolini]’)[108]; breaking such a contract could have serious political and extra-political consequences. This was enough to keep those involved (Finance Minister Mosconi, Bank of Italy head Azzolini, CI managers Feltrinelli, Pirelli and Orsi, [109] and BC managers Toeplitz, Conti and Barrachi[110]), quiet.

Perhaps more notably, institutions were sworn to secrecy as well; pillars of government had to lie to the people. As such, the orders which mandated the Convenzione were not published in the Gazetta Ufficiale, as was required by law[111] (the Ufficiale on the date of the deal’s ratification details the promotion of a previous law on ‘encouragement to beef, sheep and swine production’[112], but nothing about the bailing out of the country’s second largest bank). Moreover, the impact which the Convenzione had on the regime’s balance sheet was ignored in official accounts of the Bank of Italy[113]; if they had reported these, they would have been admitting to breaking the law, since legally this sort of lending had to be short-term, rather than indefinite, as was the case. Furthermore, the fact that the money supply had expanded, probably bringing the gold reserve coverage down below the legal 40% limit[114] (thus

[107] Roselli, Azzolini, p. 40
[108] Ibid., p. 40
[109] Ibid., p. 40
[110] Ibid., p. 48-9
[111] Toniolo, Italian Banking, p. 308
[112] Royal Decree, 15 January 1931, n. 118. Gazzetta Ufficiale, infoleges.it/service1/scheda.aspx?service=1&id=89606
[113] Toniolo, Italian Banking, p.309
[114] Toniolo, Italian Banking, p. 310

jeopardizing the gold standard), was not alluded to in any of the regime's documentation; indeed, lower level employees at the Bank of Italy must have been confused when Azzolini informed them that in calculating the circulation this year, they must not include anything received by or loaned by the Instituto di Liquidazione[115]. It is only through historical hindsight that one can see any changes in the government documents; though nothing explicit turns up, if one looks at the annual speeches of the Governor of the Bank of Italy, a shift in focus towards banking and financial supervision is noticeable, in the couple of years after 1931[116].

Gigliobianco, Giordano and Toniolo argue that the secrecy of the government's operations "spared Italy the consequences of a banking crisis similar to the Austrian and German ones"[117]; while the Credit-Anstalt's failure plunged Austria into 'the most serious banking crisis in the history of Central Europe'[118], and DANAT's failure had similarly adverse effects on Germany[119], when the *two* largest banks in Italy became illiquid, there were no runs, no holidays, no panics from depositors. The ability to keep major issues quiet, therefore, was an asset to the regime, allowing it to consider a wider range of policy options, and for bold strategies to work.

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From 1931-3 in America, meanwhile, a culture of transparency led to information on RFC lending becoming public. The RFC's loan records were originally supposed to be published

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115 Roselli, Azzolini, p. 50
116 Banca d'Italia, Abridged Translation of the Report of the Governor at the Annual Meeting of the Shareholders, 1929, 1930, 1931, 1932, 1933
117 Gigliobianco, Giordano & Toniolo, Innovation and Regulation, p. 57
118 Toniolo, Italian Banking, p.308
119 S. Lutz, Der Staat und die Globalisierung von Finanzmärkten: Regulative Politik in Deutschland, Großbritannien und den USA, Campus Verlag, 2002, p.120-1

‘quarterly’ and simply state ‘aggregate loans made to each of the classes of borrowers provided for and the number of borrowers by state in each class’, according to its founding act[120]. However, in May 1932, Hoover introduced a relief bill to provide funding for the RFC, which John Nance Garner managed to amend with a clause dictating that the RFC had to ‘submit monthly to the President and to the Senate and the House of Representatives ... a report of its activities and expenditures ... together with a statement showing the names of the borrowers to whom loans and advances were made, and the amount and rate of interest involved in each case’[121]. This meant that the names of banks receiving lending of last resort was in the hands of the President and Congress, and, banks feared, could soon be in the hands of the public[122]. This final advance came, in turn, in January 1933, when then Democratic Speaker of the House and future vice-President Garner, in the interests of preventing favouritism in future loans, instructed the clerk of the House to make the RFC’s report public[123].

These changes, made in the interest of transparency, had serious economic repercussions. Both when the publication of loan recipients was widened, and when the RFC list was made public, the number of banks willing to take RFC loans reduced considerably[124]; Gorton & Metrick, and others in the historiography, blame this reduction on a ‘stigma’ attached to receiving lending of last resort [125]. This stigma is of course, understandable: receiving public lending was an effective advertisement of weakness to one’s depositors, and since the RFC’s lending was totally discretionary, it was possible that a bank would apply for funding, be

[120] Reconstruction Finance Corporation Act, July 21, 1932, https://fraser.stlouisfed.org/title/752.
[121] Ibid.
[122] Calomiris & White, The Origins of Federal Deposit Insurance, p. 166
[123] Ibid., p. 166-7
[124] Gorton & Metrick, The Federal Reserve and Financial Regulation: The First Hundred Years, p.13
[125] Gorton & Metrick, The Federal Reserve and Financial Regulation: The First Hundred Years, p.13

rejected, and still have their name appear in RFC documentation. Though the availability of funds for borrowing stayed the same, loans to banks were fewer and farther between in the last quarter of 1932 than the previous three quarters[126], and the cumulative total of RFC lending plateaued after January 1933[127]. Friedman & Schwartz[128], and Gorton & Metrick have argued that this might even have been a causal factor in the 1933 banking panic; the drop in lending may have exacerbated state governors' fears about bank failures, and thus contributed to the snowballing wave of bank holidays[129].

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Since the Italian government successfully concealed the bailouts of the two largest banks in the country, while the US government made its lending to small-to-medium-sized banks, by an institution funded to fulfil that exact role, public, primarily at the behest of one Congressman, who was not even a member of the ruling party, to dire effect, it seems reasonable to argue that constitutional norms of transparency, while a long-term benefit to American democracy, had its short-term detriments in a crisis, and that the constitutional norm of secrecy in dictatorship, while having long-term detriments of unaccountability, was, in the short-term, a key feature of the administration's effective response.

[126] Calomiris & White, The Origins of Federal Deposit Insurance, p. 167
[127] Gorton & Metrick, The Federal Reserve and Financial Regulation: The First Hundred Years, p.13
[128] Friedman & Schwartz, A Monetary History of the United States, p.361
[129] Gorton & Metrick, The Federal Reserve and Financial Regulation: The First Hundred Years, p.14

Term Limits & The One-Party System

The effects of term limits on regulatory outcomes must have been complex and nuanced; however, for this dissertation's aim of clarifying our understanding of the Depression, picking out a couple of key impacts, of Italy's de facto permanent mandate, and America's four-year terms, is a worthwhile initiative.

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In the United States, four-year presidential term limits clearly had profound effects on the Depression response. Hoover and Roosevelt were starkly opposed in their economic beliefs, methods of reassuring the public, political strategies, and more; consequently, all indicators rebounded from their doldrums in March 1933, as Eggertsson details[130]. Once it was clear that Hoover, the anti-speculation candidate of 1929[131], was unable to tackle the Depression (which, as shown by headlines/comments from the Times such as January 1932's 'Increased Optimism Pervades Business'[132] or August 1932's 'Hoover measures lauded – creation of the Reconstruction Finance Corporation termed a stroke of genius'[133], was relatively late), the American people overwhelmingly voted for a change, and brought in the antithesis of Hoover-era policy – FDR – to their benefit. In this way, term limits worked extremely well for the United States.

However, one might have expected term limits to work less well, in the 'lame duck' period of November 1932 to March 1933, when the banking crisis was building up. Indeed, Roosevelt was not enormously pleased that "no action was forthcoming from Washington to stem [the]

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[130] Eggertsson, Great Expectations and the End of the Depression, p.1477
[131] Galbraith, The Great Crash 1929, p.44
[132] The New York Times, Increased Optimism Pervades Business; Passage of Reconstruction bill and move against deflation cheers leaders, January 17 1932, page 9
[133] The New York Times, Crop Valorisation Hit By Economists, August 7 1932, page 5

tide or to do anything to meet the impending disasters"[134]. However, given that the wave built to its real apex quickly in mid-February, and that there is no evidence that Hoover would have been more forthcoming with sweeping policy if he had not just lost an election, there is an extent to which blame for inaction cannot be placed on the institutional feature of term limits. Moreover, any inconvenience they caused, was dealt with masterfully by Roosevelt and his administration in early March. Indeed, Roosevelt's administration worked diligently and effectively, around the clock, to draft critical legislation[135]; and convince state governors and Congress to provide their "immediate and emergency"[136] "cooperation" [137] with policy. FDR also halted the decline of depositor confidence, with a reassuring press conference and 'fireside chat'[138]. Moreover, and perhaps more importantly for an assessment of the effects of term limits, the administration acknowledged its understandable unpreparedness (or, as drafter of the Emergency Banking Act Walter Wyatt put it, the fact that they had "no plans" [139]), and therefore worked with holdovers from Hoover's regime; indeed, alongside FDR, Woodin and Moley, outgoing Republicans like Treasury Secretary Mills and Undersecretary Ballantine and various members of Hoovers' Fed (including Wyatt and Awalt) [140], all used the expert knowledge they had accrued over the years, to help shape the administration's response.

Because of the skill and cooperation exhibited from the 6th to 15th of March, term limits ended up doing little harm in the changeover; moreover, since they facilitated the positive

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[134] F. D. Roosevelt, The public papers and addresses of Franklin D. Roosevelt. Volume two, The year of crisis, 1933: with a special introduction and explanatory notes by President Roosevelt, Random House: 1938, p.27
[135] Badger, FDR: The First Hundred Days, p.42
[136] Message to Congress re The Banking Situation (speech file 616), March 9, 1933 in, Franklin D. Roosevelt, Master Speech File, 1898-1945, http://www.fdrlibrary.marist.edu/archives/collections/franklin/
[137] Washington, D.C. - Address to the Governors' Conference (speech file 613), March 6, 1933, in, Franklin D. Roosevelt, Master Speech File, 1898-1945, http://www.fdrlibrary.marist.edu/archives/collections/franklin/
[138] Badger, FDR: The First Hundred Days, p.42
[139] Ibid., p.34-5
[140] Ibid., p.38

change in the first place, one can argue that, on balance, they had a positive influence on the American Depression response.

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The absence of term limits in Italy, meanwhile, meant that when the Fascists and Mussolini encountered the steep learning curve of financial regulation, they had time to overcome it. Indeed, the slow development of long-term, holistic, financial policy, from 1922 onwards, is evident from various sources.

Although Mussolini was not directly forthcoming about his journey with banking regulation (it involved some unwise policies in the 1920s, and large, secret, illegal operations in the 1930s, so perhaps this is unsurprising), he did speak on one of the regime's other policies: corporatism. In a speech on the Corporations Law, he detailed the long journey which the act had gone through, from "first" "attempts" after the March on Rome, to acts in 1926, 1927 and 1930, to discussions with the Central Corporative Committee, to the passing of his new law in 1934[141]; importantly, Mussolini said that "this law is not merely the result of a doctrine", "but it is also the result of twelve years of experience, living, practical daily experience, during which all the problems of national life viewed from the economic angle were laid before me; they were intricate and compound, but I had to face them all and solve some of them as well"[142].

[141] Benito Mussolini, Speech on the Law on Corporations, January 13th, 1934, in Benito Mussolini, Four Speeches on the Corporate State, Laboremus, 1934, p. 27-8
[142] Ibid., p. 28

Aligning well with Mussolini's self-observed ethos of iterative understanding and legislation, is the long-term development of Fascist thinking on banking, which one can derive from the regime's publications, speeches, and regulatory changes. Mussolini's earliest mention of the sector came in 1914, when he suggested that "the banking world is neutral" (i.e. not politically relevant)[143]. This premise seems to have been jettisoned by 1923, when the Fascists were actually in power and had experienced a year of dealing with the turbulent financial sector; in a June 1923 speech, Mussolini suggested that to "tremble" "before" "the banker" like "several Governments" prior, would be unacceptable[144]. While this was a step up from the notion of 'politically neutral' banking, the idea of not 'trembling' before the banker implicitly places blame on those involved in the sector for acting poorly, rather than suggesting that there were innate structural issues at play; this premise was seemingly translated into actual policy in 1926, with the new banking law, which aimed to change banks' behaviours (preventing excessive competition, for instance), without really attempting to cut finance-industry ties[145]. However, after 1926, with more bank failures, the government seemingly started to come to grips with instigating long-term change; this is both visible in the stringent deals made with CI and BC, and in Fascist-produced media – for instance, in November 1931, Fascist politician and journalist Gino Olivetti[146] argued that "relations that intercede" "between industrial activity and banking business" "in all countries" across the world, needed to be stopped before their effects on the economy became "more urgent and more acute"[147]. By 1933, the Fascists had evidently taken a sharp turn away from their 1920s policy; indeed, Mussolini provided an autopsy of the decade, saying that "the war" led to

[143] Benito Mussolini, For the Liberty of Humanity and the Future of Italy, Speech delivered at the Scuole Mazza, Parma, 13th December 1914. in, B.B.Q. di San Severino, Mussolini as revealed in his political speeches, Edizioni Savine, 2019

[144] Benito Mussolini, The Internal Policy, Speech delivered at the Senate on 8th June 1923, in B.B.Q. di San Severino, Mussolini as revealed in his political speeches, Edizioni Savine, 2019

[145] Gianni Toniolo, Italian Banking, 1919-1936, p.303

[146] P.V. Cannistraro, 'Gino Olivetti', in P.V. Cannistraro (ed.), The Historical Dictionary of Fascist Italy, Greenwood Press, 1982, p. 377

[147] La Stampa - Thursday 12 November 1931, 'La Stampa Archivio Storico dal 1867'

"capitalistic enterprise" being "inflated" to "monstrous" proportions that "[overstepped] the capacity of man", and thus made "state intervention" "increasingly necessary"[148]. This retrospection, alongside arguments that industry should be "sound" and mostly "small and medium-sized", and that "banks" should "not speculate"[149], was seemingly translated into the creation of the IRI to restructure the sector. By 1934, with the IRI's increasing control over the economy, an increasing nationalising tendency revealed itself, with Mussolini's suggestion that "when an enterprise appeals publicly for funds, it obviously loses its private character and becomes a public affair"[150]; his argument that "there does not exist an economic event of a private or individual interest[151]"; and his overall premise that "banking" "should be disciplined"[152]. Finally, one can see the culmination of the Fascist journey, in the stringent and firm reforms of the 1936 Banking Law, the spirit of which is summed up in its first article, which says that: "the acceptance of deposits from the public, in any form, and the granting of credit, are activities of public interest"[153], and thus should be government-supervised.

All in all, given the fact that the Fascist regime's policies and thought on banking developed with experience to be more nuanced and realistic over the years, resulting in an overall regulatory regime which saw no runs during the Depression and fixed the problems with the sector, it seems reasonable to suggest that the one-party state may have improved Italy's regulatory outcomes.

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[148] Benito Mussolini, On the Corporate State, in Benito Mussolini, Four Speeches on the Corporate State, Laboremus, 1934, p.15-16
[149] Ibid., p.19-20
[150] Benito Mussolini, Speech on the Law on Corporations, p.30
[151] Ibid., p.28
[152] Ibid., p.27-34
[153] 'The Banking Law, 1936', International Monetary Fund, Central Banking Legislation, Volume II, IMF, 2003

Conclusion

In concluding, it is useful to return to the premise mentioned in Bernanke’s 1994 paper: that using new frameworks to try and provide unique perspectives on one of the most important, and densely studied, subjects in economic history, is a worthwhile cause. This is the task which this dissertation has sought to achieve; it does not pretend to suggest that democracy and dictatorship always operate as they did in 1920s-30s America and Italy, nor that other democracies and dictatorships around the world handled the Depression, or were affected by constitutional structures, in the same way, nor that one system is always better than the other. This work simply argues, that by establishing long-term similarities between the two nations, and then taking a broad, comparative approach, which utilises a necessarily interdisciplinary methodology (encompassing economic, legal, political, journalistic and financial history), to examine constitutional structures and norms, genuinely novel insights can be derived.

These insights pertain to many regulatory and legislative events, as detailed in the second section of this dissertation; however, the broad dynamics created by political structures and norms, were as follows. Overall, it seems that there was a clear division between the effects of the constitutional systems on the relevant outcomes. Key features of Italy’s totalitarian state, such as the ability to manipulate the press and guarantee confidentiality on critical issues, consistently facilitated government actions, allowing the Fascists to both consider a wider range of policy options, and see them through effectively; as such, in the short-term, dictatorship had its regulatory benefits. Moreover, in the long-term, the regime reaped the rewards of the one-party state, by iteratively improving their financial policies and approaches, over 14 years. In the US, meanwhile, the political systems of democracy often obstructed policy in the short run (the publication of RFC loans, for instance, worked against Hoover’s own aims). Moreover, when they did facilitate policy, it was not always for the right reasons (as was the case with the press's approach to Glass-Steagall). However, in the long-term, American democracy had major benefits; the ability to change the administration, and the scrutinization of policy choices by the press (as occurred in 1935), both led to superior regulatory outcomes. Several of these observations, alongside those earlier in the paper relating to specific events, have not previously been made by studies which approach regulation more 'directly'; as such, these insights can add useful context to our understanding of the Depression.

In closing, it is worth noting that this paper has not come close to exhausting the list of constitutional structures and norms, which can be analysed, to aid our understanding of regulatory responses to the Depression; free and fair elections, the cult of personality, the police state, economic nationalism, freedom of assembly, different conceptions of rights, the rule of law, wider and narrower bases of legislators, and more, remain unstudied. It is hoped that this paper has produced enough evidence, to suggest that it would be profitable to examine these as well, in the future.

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