Ruling the market: the “institutional archaeology” of the decline of the Italian stock exchange at the dawn of the XX century.

“In France it can be said that everything centres on Paris… so it is easy for the government to oversee, helped immensely by the huge interests created around a very restricted group of people… In Italy each of the stock exchanges wants to be directed and regulated to meet local interests and customs; this, out of a spirit that may be defined as *regional*, but has underlying historical reasons allude to the particular conditions in Italy before unification. It will be indeed difficult, if not impossible, to achieve a complete unification.”

Carlo Vimercati, President of the Stock Exchange Commission of Milan, 1908.

1. Introduction

The wavering, uncertain evolution of the Italian stock exchange, the period, the way it came about and the reasons for its peculiar weaknesses have seldom been the subject of historical attention with only a few systematic studies and considerable differences in interpretation.

The orientation towards the banking system that characterize the Italian financial system is often interpreted as a consequence of “forced” conditions which, operating from outside the “stock market”, has limited its functional take-off. Some of these are described below as dependent from:

- regulations; in particular relating to the backwardness of the laws on accounting standards and financial statements of joint-stock companies, which touch a range of issues, from minority shareholder protection (Siciliano 2001) to taxation issues associated with the use of debt instead of other sources of finance (Barbiellini-Amidei-Impenna (1999), Pagano-Panetta-Zingales (1998)),
- political economy; as stressed by the well known thesis regarding the Italian economy being dependent on the international cycle that since 1913 has driven regulators and operators to favour a bank-oriented system [Goldsmith (1969), Biscaini-Cotula-Ciocca (1989)], and by the theory set out by Aganin and Volpin (2003) who see government intervention after 1930 (and continued through the boom years), as the reason for the missing role of the Italian stock exchange;
- governance; such as the resilience of the major family-run Italian firms, and the tolerance of governance solutions incompatible with the expansion of the shareholder base and its power;
- industrial evolution: related to the relatively small overall size of the Italian industrial complex and the structural relationship with the banking system that provides easier access to bank credit. Traù (1999).

Without denying the importance of these macro-factors that, according to all evidence, shaped the Italian financial development over the entire century, the case of the Italian stock exchange remains a puzzling issue. What is in need of more accurate explanation is not the minor role of the stock exchanges compared to the action of large universal banks, but rather the specific, peculiar trajectory of the stock market as an institution, as an economic function and as a reference point inside the financial culture of the nation.
No other industrialized country, not Germany, nor Holland, Belgium, France, or even those characterized by a growing and remarkable prevalence of the banking sector, has shown in fact, the conditions of rigidity, functional sclerosis and marginality that characterized the Italian stock market until the mid 1980s.

Between the end of the 1800s and the beginning of the 1900s, thanks to their peculiar flexibility, the Italian the stock markets heavily participated in the building of the national financial system. But in the following years their development was brought to a complete standstill that swept them from national financial development and sent them into a limbo that enabled them to survive for fifty years, but denied them any kind of effective modernization.

This particular situation defined the essence of the “case” of the Italian stock market in the 20th century.

In order to understand the reasons for this specific institutional “lock in” it is not enough to refer to the combination of major turmoils that hit the Italian financial system. The fact is that their impact was boosted by a specific cluster of regulations and stakeholders interests that shaped the governance, the capabilities and the entire history of the stock exchange for most of the 20th century. It is this cluster that should be studied in order to understand the vacuum in the Italian market.

The history of the formation and consolidation of this cluster of regulations and interests and the reconstruction of the consequences of its establishing in the system is hence the subject of this study.

The story did not unfold exactly “inside” the market. Rather, it unravelled on its edge, where stock market governance overlapped with wider (or at times more “nitty gritty”) issues concerning national politics and finance.

It is not a story that can be illustrated by simply studying the system of regulations, rather, it is a question of tracing the interaction between stakeholder coalitions caused by specific operational interests and the regulatory process; of studying the institutional, organizational and social enforcements that shaped market governance, fixing its limits in the long run.

It is a story of steadiness, yet not linear. In the long-term, it is almost impossible to find a clear direction in it; rather, a lack of direction, a lack of rule is detectable. It is the story of the difficulties met by a “weak” state in providing a counterweight against the speculative imbalance created by the prospect of rapid financial gain. It is the technical story of a premature ethical failure, dealt with using charters drafted for the emergency which later became permanent, compounded by indifference, and above-all misunderstanding. Finally it is the story of a waste of resources, and capabilities, probably inevitable, but certainly enough to reduce to a minimum not only the economic function, but also the educational and moral function of the market in Italy.

Thus, the aim of this study is to interpret the case of the Italian stock market by focusing on:

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1 This study summarizes the results of a group of research projects specifically dedicated to the subject of the development of the Italian stock market institution (Da Pozzo – Felloni (1964), Baia Curioni (1995) and (2000), De Luca (2000), Riva (2005) for the stock exchanges of Genoa and Milan; Schisani (2001), for the stock exchange of in Naples; Strangio (2006) for the one in Rome. See also Balletta (1997) and De Ianni (1995).
• the specific contribution from the choices of governance and management of the institution;
• their relation with the functioning and stability of the markets;
• their contribution in establishing the interlocking web of stakeholders and regulations that framed the Italian financial system for most of the 20th century.

The multi-polar system of the Italian stock market, formed by the integration of traditional markets dating back to pre-unification, came under considerably intense operational tension from the mid 1890s to the crisis of 1907. In this period, the contribution of Italian stock exchanges in financing the economy and funding securities of listed companies was much higher, in proportion to the whole of the financial system, than that offered until the end of the 20th century.

At the end of the 19th Century, underneath a single umbrella of national regulations, two main stock exchanges grew – one in Milan and the other in Genoa – very different from one another in terms of structure and stability, in a division that only in appearance may remind one of the classic friction between Bourse in Paris, Berlin and Hamburg in Germany, NYSE and Courbe or NASDAQ in New York. Milan and Genoa did not share the market. Officially they kept the same operational capacity and the same rules, however, they did not compete for the same securities in a system that was effectively integrated.

Rather, they developed while maintaining their own historical identity at an institutional and operational level, building this identity and reaching, eventually, an even spread in their modes of operating. They operated as a system, with specialization of complementary roles (thanks also to innovations such as telegraphy); actually, their spheres of influence were defined and they gained autonomy also based on the fact that they were complementary to some of the big international stock exchanges.

However, they grew and modernized as distinct entities, independent, almost as if they were from two different countries, unable to picture themselves as being part of a common, national financial environment. This came about without anyone in the national executive able to conceive, strengthen and protect this environment, considering the stock market system as part of the wealth of the nation.

The disruptive effects of the 1907 crisis were increased by the inconsistency of the operating and governance models of the two stock exchanges, whose differences were exploited by bank speculators and amplified by Genovese operators.

The charter act which followed (1913), unable to distinguish the differences and specifics, the strengths and weaknesses of different settings, also hit healthy sectors in the market, above all in Milan, and resulted in putting off the “stock market project”, which had its effects felt for over half a century, contributing to the definition of the morphology of Italian finance in the crucial phases of its history.

The seriousness of the crisis of 1907 and the outcome of the regulatory process to clean it up thus determined the formation of a system of rules, players, interests and privileges, which resulted in a substantial and long-lasting weakening of the market from the beginning of first post-war Italy on.
It is possible to indicate here the premise of the “renunciation” of the market as an institution for primary gathering and secondary allocation that was consolidated in later decades.

Our research focused on the stock exchanges in Genoa and Milan after Unification with particular attention to the take off in the Giolitti period (1894-1914). It was conducted by first-hand reviewing of archives; annals were systematically consulted from the Ministry of Agriculture, Industry and Commerce; as well as the archives of the Chambers of Commerce of Milan and Genoa, archives from the stock market union of Genoa and the official tickers of the stock exchanges in Milan and Genoa which meant a collective effort in recuperating and sorting out that resulted in the reconstruction of:

- debates and activities to regulate the stock exchanges in question under a compared perspective
- the stock market index and trading activities in Milan and Genoa in their dealings with international markets
- social systems and professional environments in the two Italian stock exchanges and their relationship with buying and selling processes recorded in an institutional setting.

The tests based on quantity are aimed at showing the progressive specialization of the stock exchanges in Milan and Genoa, and the relationship between legislation, micro-regulation and behaviour specific to the markets.

2. Raising the Italian stock exchange

2.1. Pre-unification

With national unification, the Italian financial system inherited several local stock exchanges in the main regional capitals. They were reciprocally independent markets, not organized in a system characterized by specialized functions; each with different listings and, in practice, with no overlap; they had ties, at times strong, with single international centres (Vienna, Paris, London), but they were also characterized by highly diversified regulations.

With the important exception of Genoa, the establishment of stock markets in the main cities in Italy, at the beginning of the 1800s, was the fruit of a common impulse spread by the Napoleonic government and driven by financial conflict with England.

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2 The ministry that protected the stock exchanges until 1913. These annals contain full-length debates held by commissions formed to draft Business Codes and bills related to stock exchanges.
3 The Chambers of Commerce were local stock market regulators.
4 The archives of the union in Milan up to 1913 were lost.
5 This differed from local English stock exchanges, which were dependent on London early on (Michie 1985), French exchanges, which were rather similar to each other as they were subject to regulations and operations of the central node in Paris (Strauss 1993) and Holland, concentrated in Amsterdam (Jonkers 1994). There were more similarities with Germany (still to be evaluated) with its two different nodes in Hamburg and Berlin (Weber 1894).
6 This is also seen by the fact that the dates of establishment of the various Italian public stock exchanges were relatively close to the French ones and their institutional statutes were very similar. Genoa was
The substantial inconsistency between the French regulation and financial practices, deeply-rooted for decades in the various cities, meant weakness in the institutional set-up of the exchanges and professions operating in them. So, the various official markets, in order to exist and acquire a role in relation to traditional financial circuits, accepted and incorporated the results of a complex sequence of compromises with local traditions, customs and systems of power acknowledged and layered, thus differentiating, at times profoundly, their set-ups. This widespread “award” for parochialism, matured over decades of compromise, led Italian stock exchanges, just before unification, to play a role that was:

- formally recognized: the price lists were drafted and brokers were recognized and authorized as such;
- stable, thanks to the structuring of exchange professions and control over their access; even if in this area, once again, the stock exchange in Genoa was an exception;
- diversified on an operational level dependant on the actual relationships between official stockbrokers and bankers-merchants working on each exchange.

In any case, the stock exchanges, during this early season, were not autonomous players in the financial markets, but facilities that depended on the conditions of bank brokerage; they were not set up in an inter-regional system; they did not show any systematic capability of matching speculation with the capital raising needs of private businesses. They were mainly useful in providing public clarity of public debt trading. Only the stock exchange in Genoa acquired a national dimension over time and it became the most important in Italy in the second half of the 19th century.

The basic reasons for this diversification in the institutional set-up, its strengths and weaknesses, are summarized below, starting with a comparative analysis of the main cases and regulatory debates.

2.1.1. Original autonomy

At the end of the 1700s and the beginning of the 1800s, bankers, merchants and brokers, with their merchant and banking practices, were the backbone of the autonomy that each Italian city was able to negotiate with central Ancien Regime governments. Every important city established a network of economic and financial relations structured in a specific manner and consistent with the needs of each territory and basically impervious to external intervention.

In Milan, for instance, the restructuring of the production system consolidated between the mid 1600s and mid 1700s – with the division between sharecropping in the

different as the official stock exchange was established in the mid 1800s. The stock exchange in Milan was officially established by decrees from the Viceroy Eugenio, dated 16 January 1808 and 6 February of the same year. The stock exchange of Naples, with decrees dated 1, 5 and 23 November 1808, the stock exchange of Rome with a decree from the French authority dated 24 December 1802 (3rd month of year XI), confirmed with a decree of September 1808. The stock exchange of Genoa was established with a decree from the King of Sardinia dated 18 August 1855, even if a local agreement, not made official by the government, between the city of Genoa and the chamber of commerce had (re)consecrated, after important renovations, the Loggia de Mercanti as the seat of the stock exchange in 1840.
northern irrigated plain, integrated with the silk industry, and the extensive land exploitation in the lower plains – brought about a financial network structured to meet the needs of liquidity generated by large seasonal harvests and the following campaigns to place products throughout the regions and internationally. It was a typical “private” market, centred on the activities of a class of merchant – bankers well-connected with aristocratic families still able to exercise control over the primary production resources and inserted in an institutional system that only in the last decades of the 1700s – and after strong resistance – was changed following the great reforms of Vienna.

At the beginning of the 1800s, French domination contributed to freeing important urban impetus, but it did not change the basic conditions of the economic and financial system, which continued without particular solutions of continuity from the Cisalpina republic to the later phase of the Restoration. During these years, a market culture was developed in the Lombard capital which, although competition was at its centre, set the necessity to have a higher authority attenuating its action in consideration of the general interest, thus laying the social and ideological foundations of what has been defined as “the Lombard way to credit”.

In Genoa, the early orientation of the city towards finance and international trade and the underlying political-social system resulted in a different approach to the market. The centuries-old history of finance in Liguria was led by the Bank of San Giorgio – “the Merchant Republic” or “the State in the State” – controlled by a group of aristocratic bankers who at the same time held all political and economic power. The long-lasting independence of the city enabled this social group to maintain considerable control over society. French domination shook political and economic institutions, but after the fall of Napoleon the Genovese made an attempt to regain their independence. At this point, the aristocratic bankers, weakened by losses from the French revolution and Napoleonic domination turned towards the middle-class who till then had been left on the outskirts of power. Despite the plans of the Genovese, the Congress of Vienna placed the city and its territory under the dominion of Piedmont thus creating the Kingdom of Sardinia. However, the new government left the city with broad powers that enabled a market culture to perpetuate which was founded on the free market and on refusing state intervention in private affairs.

Therefore when the French government provided incentives to establish numerous local public stock exchanges the institutional nature and consolidated procedures of finance and trade in Italian cities were considerably influenced by a combination of laws and judicial and social enforcements embedded in local traditions, refractory to any reform coming from outside and able to gain autonomy and privileges thanks to their ability to ensure the reproduction of the local economic system (and so its stability and ability to govern).

In this situation the initiative to found and develop a web of public stock exchanges was contrasted from the beginning. In the French judicial tradition they were

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7 Polsi (1993)
8 In Naples the creation of the stock exchange took place before French domination, however it kept the same characteristic of a “private” market in a dominant merchant system, strengthened by considerable income from positions guaranteed by legislation on annual harvest yields and the privileges related to dealing in grain M.C. (Schisani 2001), The stock exchange in Naples (1778-1860), Naples, 2001, pp. 18-23.
designed with the aim of generating public exposure and notarising trade, thereby publicly transforming the strictly private nature of local speculative environments. The official stock exchange was perceived as an undesirable tool for transparency, fostering the need of central powers for controlling the speculation on state bonds.

The Milan stock exchange, for instance, had difficulty surviving and remained on the outside of the banking and merchant system, at least until the 1850s. In Genoa, before 1854 the stock exchange was not official, even after the Savoy State prescribed the first regulations to organize stock exchanges with the Commerce Code in 1843, which closely reflected French tradition: the stock exchange was not officially recognized and stock brokers were not appointed. Again in 1854, the Parliament in Turin acknowledged that Genoa “has in this area [brokerage and the stock exchange] total freedom”.

For the entire period before unification the official Italian stock exchanges were, therefore, innovations that were not readily accepted and even refused. They survived only thanks to compromises: official operators (stock brokers), privileged brokers with state licenses, negotiated with bankers and merchants some minimum levels of publicity (recording a price list) accepting at the same time the traditional informality and shadiness of trading practices that characterized the different urban systems.

In other words, the stock exchanges, due to their “exogenous” origin in each context, existed since they negotiated an equilibrium, very diverse depending on the various places, with traditional trading systems. Even if they were similar from a statutory and formal standpoint, they represented a highly differentiated cluster of practices and customs, being rooted in local traditions and circuits that were hierarchical and socially controlled by merchants, bankers, and brasseurs d’affaires, presided over by the Chamber of Commerce, a local government authority and a place of mediation between state administrative issues and urban dominating classes.

2.1.2. The professional group of stock brokers

In such an adverse environment one of the most important drivers for innovation of the stock exchange depended on the professional, social and symbolic establishment of operators who, by privilege or profession, were called on to interpret the institutional mission of the stock exchange. Indeed, what every market basically is, its functioning, relevance and significance in the system of transactions as a whole, is reflected in the history of the professional group dedicated to its maintenance, its worth and its social prestige.

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10 For instance, in Milan stock brokers went to bankers in person to draft tickers in order to take up at least a few negotiations and their prices. In Genoa, the exchange tickers, published regularly, were drafted by a mixed commission of bankers and brokers based on their knowledge of dealings carried out, but for a long time, like in Milan, brokers would go to the offices of bankers to do their business.
It is exactly on this point that pre-unification development marked certain important differences that later influenced the history of the national stock market system.

The first general difficulty was in the contradiction between the privileges and limitations set by French-originated legislation on stock exchange operations on the one hand and on the other, the structure of local economic authorities which converged on the Chambers of Commerce, the bodies that controlled and oversaw the stock exchanges themselves.

The stockbrokers, in Italian legislation and trans-alpine tradition, were a separate professional “body”, selected and distinct from the profession of dealer, which had spread, free and without any institutional appointment. Their nature as notaries, which prohibited any transactions of their own, left them without the entrepreneurial or merchant statute necessary to access forms of representation at the Chambers of Commerce, which oversaw local stock exchanges.

On the other hand, bankers and merchants, i.e. the parties who in theory were placed under the public surveillance of stock brokers, not only participated in chamber representation, but due to objective professional reasoning, managed to have considerable influence on the decisions made by the Chambers of Commerce.

It is rather clear that these cross checks and balances imposed a completely precarious and variable equilibrium for the stock exchange as an institution. Not only this however, it also worked up stream to the economic consolidation of the players who were supposed to oversee the public market.
In the case of Milan, after several periods of confrontations and precariousness, a sort of equilibrium was reached between the dominating merchant bank class and the professional body of brokers who were de facto dependent on the former. The group of stockbrokers operating from the 1830s to 1860s was, in fact, formed by:

- a relatively stable group of people officially belonging to the role and bound to a long-lasting professional tenure (from 15 to 25 years);

- people coming from professional backgrounds in 60% of cases from long periods of experience in the local banking institutions, which then supported their appointment and provided the financing necessary for the security deposit required by law.

The set up of a group of professionals that associated their professional life with the existence of the public exchange, having the incentive to protect it and foster it in daily practice, developed in the frame of a substantial professional dependence of brokers on bankers. Through them, in Milan, the stock exchange organization, finally, grew steadily.

In Genoa, instead, the instability of the professional group of stockbrokers was the norm associated to the stock exchange throughout the XIX century. The dominating group of bankers had the strength and legitimacy to keep the market “private” and impose their will both on a local and national level. As a result, at first, they refused the appointment of a group of stock brokers. Later, they formed a group of them to meet their own ends. Indeed, in Genoa, the history of stock brokers and of the official stock exchange starts only after the Savoy law of 1854 abolished the numerus clausus of brokers and eased the admission criteria into the profession and above-all (no longer assigned the selection of candidates and checking prerequisites to the government, but to the Chambers of Commerce, which was controlled by the bankers). Prior to this date, through certain administrative provisions, the government had appointed a small number of stockbrokers to provide for the certification of income transfers and registered securities. In 1854, their number went from 10 to 140.

The breadth of broker admissions impeded the formation of a stable and reliable group on the public stock market, while it made it easier for weak and opportunistic operators who played the game dictated by bankers. As a result, unlike Milan, Genoese brokers were unable to develop a group of ethical and technical rules as well as formal and above-all informal rules that would oversee trading.

The operational difference between the two stock exchanges, which the interpretation of the Italian case as a whole is based on, can therefore already be fully determined looking at the various routes followed by the professional groups of stockbrokers, their development and their social relevance. In Milan this group placed their roots, whereas in Genoa these roots were denied.
2.2. Post-unification up to the great crisis

The commercial charters promulgated after unification, perhaps without entirely realizing it, struck the developing, fragile and already contradictory structure of local stock exchanges, thereby provoking cases of organizational destruction whose intensity depended on the gaps between the practices of various stock exchanges and new legislation principles.

The entire sequence of regulatory interventions revolved around two main hubs: the first was defined in 1865 by the issue of the new Commerce Code, which in practice extended the regulatory principles of the Kingdom of Sardinia to the entire peninsula, the second was the Commerce Code of 1882 which turned the system of controls upside down by passing from control of operators to control of operations.

The code of 1882 was the result of the government’s inability to make the stock exchange in Genoa adhere to the 1865 regulatory provisions. The crisis of 1873, the revolt of Genoese official brokers after the following legislative measure of 1874, despite the fact that it gave brokers a fiscally endorsed monopoly, drove public powers to set forth in laws, the practices of that stock exchange: complete freedom of access to the exchange, dual capacity of stock brokers together with a considerable reduction in criteria to be admitted into the profession and full competition between all classes of brokers.

In spite of this, the legislature did not abandon the French principle of a market founded on an official price list drafted by authorized brokers, which attributed, though ambiguously, a monopoly of brokerage in the stock exchange, without providing any means to protect it. A debate arose between the two big reforms which involved, almost in continuity, the various stock exchanges and Chambers of Commerce in Italy, resounded in the work of the commission presided over by Ellena in 1877\(^1\).

The problem was clear and it was soon raised by the commissions appointed by the various Chambers of Commerce of the kingdom: freedom of brokerage and access to the stock exchange, one of the dominating principles of the entire program, granted by law starting from the commerce code of 1865 and later reinforced in 1882\(^2\), produced unexpected and counterproductive effects on the structured stock markets such as the one in Milan where a tough conflict arose between brokers and bankers that lasted for over ten years, whereas in Genoa it became a competitive advantage. This new configuration deeply contradicted, in fact, the spirit of

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\(^1\) The new Commercial Code in 1865; the Pisani report to the Milan Chamber of Commerce in 1867; the new Milan Stock Exchange rule in 1867 and in 1870; the Villapernice Report to the Minister of Commerce in 1872; the legalisation of future contracts and the taxation of spot and future contracts by the 1874 law that gives a fiscally enforced monopoly to official stock brokers; the reduction of stock exchange contract tax by the 1876 law that effaces the fiscal enforcement for official stock brokers’ monopoly because of their tax refusal; in 1878, the supreme court judgement refusing protection to differential future contracts avoiding tax payment; the project of new Commercial Code based on a fully stock exchanges’ self-regulation in 1881; the new Commercial Code in 1882 based on new compromise.

\(^2\) The code of 1882 set some weak criteria for admission into the profession of stock brokers, after the code of 1865 had suppressed throughout Italy the *numerus clausus* even if it had kept the admission criteria relatively high. According to the code of 1882, the Chambers of Commerce could increase these criteria. They maintained the power to select brokers, as set forth in the code of 1865, which was based on the Savoy law of 1854.
public markets, overseen by the “notary” figure for authorized stock brokers, weakening their role and making it almost useless to try to regulate the floors by the newly formed stock exchange Syndicates.

In the past the huge halls of the exchanges were rather empty but then they filled up with new unauthorized brokers, the *marrons*, attracted by the prospects of profit that were spread during the speculation at the beginning of the 1870s. The absence of any discipline in trading, which was conducted in whispers by direct contact without any form of public exposure, made it difficult for the authorities to register every contract and penalize opportunistic behaviour, whereas abusive brokerage was protected by the ambiguity of the law.

The difficulties and inevitable controversy which followed did not change legislation. Rather, the principle of delegating each Chamber of Commerce in dealing with the local regulations for the stock exchange was reinforced. However, also this solution brought about problems and raised questions: if before unification brokers, (i.e. intermediaries specialized and dedicated to stock markets), as simple mediators, had difficulties in being represented in the Chambers of Commerce. In this new difficult situation they found themselves impoverished in their statutory privileges, challenged by illicit brokers, which were authorized to carry out their same job without restrictions, while the primary bankers, governing the Chambers of Commerce, not only maintained their shady trading “off the market” but did not hesitate to perform the work of brokers as well, on or off the floor.

As a partial counterbalance to the disorder provoked by this series of interventions, the code of 1882 recognized for the brokers a statute of salesmen and so on the one hand it opened up the brokers to the opportunity to justify their presence in the Chambers of Commerce and on the other it enabled them to integrate their pure brokerage with trading managed on their own, taking position and so working as small investment banks. Both of these possibilities were very different from each other depending on various local contexts.

Basically, the difficulty in applying the principle of free access to the market and to the profession of stock broker in Stock exchanges organized on the French, together with the decision to confirm decentralized control over markets for the Chambers of Commerce, resulted in precarious and deregulated markets. The consequences of this de regulation were very different depending on the ability for self-regulation at each exchange in a context of growing complexity due not only to internal issues, but also to the combination of international financial instability in the 1880s and a wave of internal investments in property and large “strategic” industries.

Concerning the “inner industry” and the related “competition for the regulation”, the traditional front, which before unification saw a confrontation between brokers and bankers, was fragmented and complicated: a new line of conflict, as has been seen, separated authorized brokers from illicit brokers; a second one divided “pure” brokers, who performed simple brokerage accepting a role of semi-dependence on banking institutions of a certain size, from those who also performed banking services and who frequently took on the role of broker for additional income; a third one distinguished brokers and big banks which *de facto* controlled Chamber of Commerce decisions, a
fourth one saw the interests of major banks working in several exchanges and on a national scale separated from those that were more rooted in minor local speculation.

The most important effects of this situation were on the micro-structure of each market. If they maintained the prerogatives defined in general by their statutes, in fact they responded to development processes, which were considerably diversified.

In Milan the strength of the group formed by brokers is clearly operating. Despite the Code of 1882 provoked a heavy conflict between brokers and bankers - the “class dualism” according to an expression used by the exchange class in Milan at the time - the operational opportunities the Code provided to brokers laid the foundations for a peaceful solution.

The slow and progressive stabilisation of a group of brokers – small bankers (14 out of about 70), who working cautiously, assured credibility for the market and gathered the interests of the most important operators into an alliance around which were formed the bodies of governance and control over the market.

In addition the presence of a new generation of bankers such as Giulio Belinzaghi and Angelo Villapernice, open to reinforcing a positive alliance with stockbrokers, offered a counterbalance to the clashing impulse of liberalism. The point of change, for the exchange in Milan, was around 1886. The Marquis Francesco Luini became the president of the Syndicate and held this position for 10 years until the mid 1890s. Around him was a group of brokers formed by relatively young operators, recently appointed, who were closely linked by interests and profession to the world of Milanese private banking. Their credibility was such as to have the Chamber of Commerce extend their regulatory powers. The group of brokers – bankers, specialized intermediaries characterized by a spontaneous form of dual capacity, led the Milanese market towards a form of self-government that solved on a local scale many of the contradictions set down by post-unification legislation. The Milanese market found a form of equilibrium and reliability that enabled it to withstand the impact of the great crisis of the 90s.

The result was that the Milanese exchange reached the eve of the great crisis of the early 90s, having formed a group of merchants-bankers and stock brokers-bankers who were relatively close to one another and consciously participated in the destinies of a stock market that in later years showed that it could manage institutional consolidation.

In Genoa the absence of a steady cluster of official stock brokers left free space for elusive behaviour, boosting the most adventurous speculators and, naturally, reducing transparency, reliability and the role of the public market to the advantage of a “private” market of small and big bankers. Indeed, the big bankers in Genoa were at the same time bankers, company administrators with their shares freely circulating in the exchange, administrators of the stock exchange and majority shareholders of the only credit institutions in Italy. Through credit, they backed highly speculative and opportunistic small-medium operators to generate campaigns to raise valuations, thus facilitating the placement of securities of companies they established. So basically, they issued on the market a small amount of shares of companies they themselves founded thereby generating an artificial excess of demand. Lastly, they would sell the remaining shares and cash in the capital gains. Free access to the exchange and shady processes for price formation were essential conditions.

Despite this, also in Genoa a group of stockbrokers acted on the dual capacity to grow, however, the power and legitimacy of the bankers was too strong to challenge.
Therefore, these brokers preferred to work together with bankers who could support them with credit. Furthermore, the polarization of the group of Genoese brokers between pure brokers and brokers bound to the world of banking was much stronger than in Milan. In Genoa the relationship between the two sub-groups of brokers was much more hostile due to the extremely competitive market model and to the policy followed by the Chamber of Commerce for admitting members into the profession.

The trajectories of the two markets developed these differences.

3. The formation of an Italian stock market, 1894-1902

The end of the “great depression”, which went on until the mid 1890s, turned into a recovery of prices level and trading on a national scale.