

Notes

Preface

1. Groenewegen P., Political Economy, in Durlauf S.N., Blume L.E. (eds), *New Palgrave Dictionary of Economics*, Palgrave Macmillan, 2008, vol. 6, pp. 476–480.

1. Some Introductory Remarks about Banks, Financial Structures, Crises and Their Cost

1. Goldsmith, R., Lipsey, R., *Studies in the National Balance Sheet of the United States*, Princeton University Press, 1963. p. 32.
2. Grady, J., Weale, M., *British Banking 1960–85*, Macmillan, 1986, pp. 22–23.
3. Capie, F., Wood, G., A European Lender of Last Resort?, in Reis J. (ed.), *International Monetary Systems in Historical Perspective*, Macmillan, 1995, p. 210.
4. Collins, M., *Money and Banking in the UK. A History*, Croom Helm, 1988, p. 353.
5. Adrian, T., Shin, H.S., The Changing Nature of Financial Intermediation and the Financial Crisis of 2007–09, in Federal Reserve Bank of New York, Staff Reports, no. 439, April 2010.
6. Goldsmith, R., *The Determinants of the Financial Structure*, OECD, 1964, p 1.
7. *Ibid.*, pp. 1–3.
8. Capie, F., The political economy of British financial stability and regulation over the long run, lecture given at the Stockholm School of Economics, May 2003, p. 5.
9. Goldsmith, R., *Financial Structure and Development*, Yale University Press, 1969, pp. 44–45.
10. *Ibid.*, pp. x–xi.

2. Financial Depth in Three Economies: The UK, the US, Italy

1. As shown in Part III of this study, these institutions, from 1994, are classified as “banks”. See Bonci R., Coletta M., Italy’s Financial Accounts since 1950, in *Banca d’Italia, Financial Accounts, History, Methods, the Case of Italy and International Comparisons*, 2008.
2. In Italy there was a plurality of banks of issue until 1926: Bank of Italy, Banco di Napoli, Banco di Sicilia.
3. The UK public debt has been defined as the “prototype example of high debt sustainability” (Ritschl A., Sustainability of high public debt. What the historical record shows, CEPR Discussion paper 1357, 1996).
4. Goldsmith, Lipsey, *Studies in the National Balance Sheet of the United States*, vol. II, pp. 78–81.
5. See Table 5.1.

3. The Great Depression and Britain

1. Maddison, A., *The World Economy: Historical Statistics*, OECD, 2003, pp. 50–51.

2. Crafts, N., *Britain's Relative Economic Performance, 1870–1999*, The Institute of Economic Affairs, 2002, pp. 70–71.
3. In the long period 1913–1938, the average annual growth rate of UK exports, in volume, was negative (–2.3 per cent), the worst performance in the group of main industrial countries. See Feinstein, C.H., Temin, P., Toniolo, G., *L'economia europea tra le due guerre*, Laterza, 1998, p. 8.
4. Kennedy, W.P., Historical Patterns of Finance in Great Britain: A Long-Run View, in Zamagni, V. (ed.), *Finance and the Enterprise*, Academic Press, 1992, p. 149.
5. Mitchell, B.R., *European Historical Statistics*, Macmillan, 1981, p. 867.
6. *Ibid.*, pp. 176–179.
7. “Tackling supply side rigidities and inefficiencies was never a priority for the Keynesian establishment”, Skidelsky, R., *Keynes: The Return of the Master*, Allen Lane, 2009, p. 129.
8. Mitchell, *European Historical Statistics* p. 826.
9. Mitchell, *British Historical Statistics*, Cambridge University Press, 1988, p. 823.
10. This doctrine, which we shall also see resurfacing in American banking experience (see Chapter 4), had its origin in the Banking School versus Currency School debate, going back to the early nineteenth century, and was at the root of the Peel Act (Bank Charter Act) of 1844, which reformed the Bank of England. The debate focused on the question “what is money?”, and was prompted by a series of crises occurring in the 1820s and 1830s. The Currency School held that money consists of coins and notes. The other held that it consists just of coins, but this was just the surface of the debate. Indeed, the Banking School added that credit bubbles must be seen in the context of an undue expansion not so much of “money” (notes) as of credit (because of the bank deposit multiplier, we would now say). The Act represented the temporary triumph of the Currency School which intended to introduce rigid limits to the amount of notes to be issued. The Banking School lost, but its merit was to recognize the importance of looking in general at the state of credit rather than just at banknote issue (see Harrod, R.F., *Money*, Macmillan, 1969, pp. 38–41). The real bills doctrine can be seen as a development of the Banking School.
11. Fodor, G., *Ascesa e declino della banca di emissione. Il caso della Banca d'Inghilterra 1694–1913*, in *Banca d'Italia: Ricerche per la storia della Banca d'Italia*, vol. VI, Laterza, 1995, p. 402.
12. Kennedy, Historical Patterns of Finance in Great Britain: A Long-Run View, pp. 133–140.
13. They were ten in 1920: Barclays Bank, Coutts & Co., Lloyds Bank, Midland Bank, Glynn Mills & Co., Martins Bank, National Bank, National Provincial Bank, Westminster Bank, Williams Deacon's Bank. Later, District Bank was added to the list.
14. As in Sayers, R.S., *Modern Banking*, Oxford University Press, 1967, see p. 18.
15. Harrod, *Money*, p. 49.
16. Capie, F., The political economy of British financial stability and regulation over the long run, lecture given at the Stockholm School of Economics, May 2003, p. 11.
17. Sayers, *Modern Banking*, pp. 103–104.
18. When banks had mostly a local basis – before branch banking – these intermediaries worked as bill brokers between banks in surplus and banks in need of money. Then, they changed from middlemen to buyers and re-sellers of bills for their own account, for which they came to need their own capital

- (De Cecco, M., *The International Gold Standard. Money and Empire*, Frances Pintner, 1984, pp. 79–80).
19. *Ibid.*, pp. 157–159.
 20. *Ibid.*, p. 166.
 21. Reid, J., *The Role of the Merchant Banks Today*, The Institute of Bankers, 1963.
 22. Higgins B.H., *Lombard Street in War and Reconstruction*, NBER Occasional Paper no. 28, June 1949, p. 8.
 23. Ross, D.M., Commercial Banking in a Market-Oriented System: Britain Between the Wars, in Michie, R.C. (ed.), *The Development of London as a Financial Centre*, vol. 3, I.B.Tauris, 2000, p. 88.
 24. *Ibid.*, p. 89.
 25. Crafts, *Britain's Relative Economic Performance, 1870–1999*, pp. 74–75.
 26. Crafts, N., Forging Ahead and Falling Behind: The Rise and Relative Decline of the First Industrial Nation, *Journal of Economic Perspectives*, vol. 12, no. 2, 1998, pp. 205–206.
 27. Prices (cost of living) declined by 12.9 per cent between 1928 and 1932: see Mitchell, *European Historical Statistics*, p. 782.
 28. Mitchell, *British Historical Statistics*, 1988, p. 685.
 29. Collins, M., *Money and Banking in the UK. A History*, Croom Helm 1988, p. 202.
 30. *Ibid.*, p. 664.
 31. Macmillan Report (Committee on Finance and Industry report), HMSO, 1931, p. 1.
 32. Macmillan Report, Minutes of evidence, vol. I (2203), p. 130.
 33. Macmillan Report, *op. cit.*, pp. 173–174.
 34. Capie, F., Collins M., *Have the Banks Failed British Industry?*, The Institute of Economic Affairs, 1992, p. 65.
 35. Sayers, *Modern Banking*, p. 24.
 36. Capie, The political economy of British financial stability and regulation over the long run, p. 14.
 37. I owe these considerations to Forrest Capie.
 38. Sheppard, D.K., *The Growth and Role of UK Financial Institutions, 1880–1962*, Methuen & Co, p. 3.
 39. Garside, W.R., Greaves, J.I., The Bank of England and Industrial Intervention in Interwar Britain, *Financial History Review*, vol. 3, part I, 1996, p. 86.
 40. Capie, Collins, *Have the Banks Failed British Industry?*, pp. 55–56.
 41. *Ibid.*, pp. 46–50.
 42. The Corporation “did not herald a new era for industrial finance”: Garside, Greaves, The Bank of England and Industrial Intervention in Interwar Britain, p. 72.
 43. Macmillan Report, Minutes of evidence, vol. II (9076–9084), p. 291.
 44. Garside, Greaves, The Bank of England and Industrial Intervention in Interwar Britain, p. 70.
 45. Sayers, R., *The Bank of England 1891–1944*, Cambridge University Press, 1976, vol. I, p. 253.
 46. *Ibid.*, pp. 254–255.
 47. Kynaston D., *The City of London, vol. III, Illusions of Gold 1914–1945*, Chatto & Windus, 1999, p. 191.
 48. Garside, Greaves, The Bank of England and Industrial Intervention in Interwar Britain, p. 75.

49. Collins M., *Banks and Industrial Finance in Britain, 1800–1939*, Cambridge University Press, 1995, p. 74.
50. Eichengreen B., *Globalizing Capital. A History of the International Monetary System*, Princeton University Press, 1996, p. 77.
51. Macmillan Report, op. cit. (255–257), p. 110.
52. *Ibid.*, p. 210.
53. *Ibid.*, p. 191.
54. Collins, *Money and Banking in the UK. A History*, p. 81.
55. Macmillan Report, op. cit. p. 200
56. *Ibid.*, pp. 190–210.
57. Crafts, *Britain's Relative Economic Performance, 1870–1999*, p. 75.
58. Mitchell, *British Historical Statistics*, pp. 584 , 590.
59. *Ibid.*, p. 739.
60. *Ibid.*, pp. 678, 682, 683.
61. Sheppard, *The Growth and Role of UK Financial Institutions, 1880–1962*.

4. The United States: Boom and Depression

1. Capie, F., Goodhart, C., Schnadt, N., The Development of Central Banking, in Capie F., Goodhart C., Schnadt N. (eds), *The Future of Central Banking. The Tercentenary Symposium of the Bank of England*, Cambridge University Press, 1994, p. 71.
2. Maddison, *The World Economy: Historical Statistics*, p. 85.
3. HSUS, vol. 5, p. 455.
4. Ahamed, L., *Lords of Finance*, William Heinemann, 2009, p. 163.
5. Goldsmith, Lipsey, *Studies in the National Balance Sheet of the United States*, vol. II, pp. 77–79 (the reference year is 1922).
6. Calomiris, C.W., The Political Lessons of Depression-era Banking Reforms, *Oxford Review of Economic Policy*, vol. 26, no. 3, Autumn 2010, pp. 540–560.
7. Federal Reserve Archival System for Economic Research (FRASER): [fraser.stlouisfed.org/publications/banking and monetary statistics](http://fraser.stlouisfed.org/publications/banking_and_monetary_statistics), Section 12.
8. Chandler, L.V., *America's Greatest Depression 1929–1941*, Harper and Row, 1970, p. 70.
9. Mitchener, K.J., Bank Supervision, Regulation and Instability During the Great Depression, *Journal of Economic History*, vol. 65, no. 1, March 2005, pp. 152–185.
10. Kelly, E.J., Legislative History of the Glass Steagall Act, in Walter, I. (ed.), *Deregulating Wall Street*, John Wiley and Sons, 1985, p. 42; see also Calomiris, The Political Lessons of Depression-era Banking Reforms.
11. At the end of the nineteenth century and early twentieth century, these bond departments were challenged by the judiciary. See Kroszner, R., Rajan, R.G., Is the Glass-Steagall Act Justified? A Study of the US Experience and Universal Banking Reform Before 1933, in Battacharia, S., Boot, A.W., Thakor, A.V. (eds), *Credit, Intermediation and the Macroeconomy*, Oxford University Press, 2004, pp. 374–404.
12. Kelly, *Deregulating Wall Street*, pp. 42–43; Flannery, M.J., An Economic Evaluation of Bank Securities Activities Before 1933, in Walter, I. (ed.), *Deregulating Wall Street*, John Wiley and Sons, 1985, pp. 67–69.
13. Goldsmith, Lipsey, *Studies in the National Balance Sheet of the United States*, vol. II, pp. 76–79.
14. HSUS, vol. 3, pp. 32–34.
15. Calomiris, The Political Lessons of Depression-era Banking Reforms.

16. Flannery, *Deregulating Wall Street*, p. 68.
17. Kroszner, Rajan, *Credit, Intermediation and the Macroeconomics*, p. 73.
18. Flannery, *Deregulating Wall Street*, p. 73.
19. HSUS, vol. 3, p. 773.
20. From 71.95 to 300; the decline for 1929 (248.48) is due to the crash in October, which of course depresses the average for the whole year. See HSUS, vol. 3, p. 758.
21. White, E.N., A Reinterpretation of the Banking Crisis of 1930, *Journal of Economic History*, vol. 44, 1, 1984, pp. 119–138.
22. This is done following Wood, G., Was Tolstoy Right? The Banking Crisis of 2007–2010 in Historical Perspective, paper presented at the workshop *Perspectives on the Financial Crisis*, European University Institute and The Witherspoon Institute, 7 May 2010.
23. For “fractional reserve system”, see Chapter 1.
24. Wood, G., Stock Market Crashes, in Oliver M., Aldcroft D. (eds), *Economic Disasters of the 20th Century*, Edward Elgar, 2007, pp. 243–248.
25. McKenna, R., Monetary Policy, BBC, 1931, p. 5.
26. Ciocca, P., L’economia “fascista” nel contesto internazionale, in *L’instabilità dell’economia. Prospettive di analisi storica*, Einaudi, 1987.
27. Smiley, G., *Rethinking the Great Depression*, Ivan R. Dee, 2002, pp. 59–63.
28. Ciocca, P., Kindleberger e l’instabilità, *Moneta e Credito*, vol. 63, no. 251, 2010, pp. 209–226.
29. Kindleberger, C. (ed), Banking and Instability Between the Two Wars, *Keynesianism Versus Monetarism and Other Essays in Financial History*, Allen and Unwin, 1985, p. 301.
30. Bernanke, B.S., The Macroeconomics of the Great Depression, in *Essays on the Great Depression*, Princeton University Press, 2000, pp. 5–37, see p. 6;
31. *Ibid.*, pp. 6, 34.
32. Papadimitriou, D.B, Wray, R.L., Introductory essay to Minsky H., *Stabilizing an Unstable Economy*, McGraw Hill, 2008, p. XVIII (the first edition of Minsky’s book is 1986). See also p. 154.
33. White, A Reinterpretation of the Banking Crisis of 1930; Calomiris, The Political Lessons of Depression-era Banking Reforms.
34. White, A Reinterpretation of the Banking Crisis of 1930, pp. 131, 138.
35. Calomiris, The Political Lessons of Depression-era Banking Reforms.
36. *Ibid.*
37. *Ibid.*
38. Cleveland, van B.H., Huertas T.F., *Citibank 1812–1970*, Harvard University Press, 1985, p. 173.
39. Chandler, *America’s Greatest Depression 1929–1941*, pp. 69–70.
40. Flannery, *Deregulating Wall Street*, p. 84.
41. Shotland, A., *Abuse on Wall Street: Conflicts of Interest in the Security Market*, Quorum Books, 1980.
42. Saunders, A., Conflicts of Interest: An Economic View, in Walter, I. (ed.), *Deregulating Wall Street*, John Wiley and Sons, 1985, p. 213.
43. Kroszner, Rajan, *Credit, Intermediation and the Macroeconomics*, p. 401.
44. Cleveland, Huertas, *Citibank 1812–1970*.
45. *Ibid.*, pp. 128, 130–133, 140, 155.
46. Ahamed, *Lords of Finance*, p. 312.
47. Cleveland, Huertas, *Citibank 1812–1970*, p. 173.

48. *Ibid.*, pp. 204–205.
49. Barbiellini Amidei, F., Giordano, C., Regulatory responses to the “roots of all evils”: The re-shaping of the bank-industry-financial market interlock in the US Glass-Steagall Act and the Italian 1936 Banking Acts, Banca d’Italia, mimeo, 2010, p. 47. A shorter version is in Seemhn, V., Conference proceedings, Central Bank of Turkey, forthcoming.
50. Chandler, *America’s Greatest Depression 1929–1941*.
51. Kindleberger, C.P., Aliber, R.Z., *Manias, Panics and Crashes. A History of financial Crises*, Palgrave Macmillan, 2005, p. 73.
52. Entry date 14 April 1932. See Roth, B., *The Great Depression. A Diary*, edited by Ledbetter, J. and Roth, D.B., Public Affairs, 2009, p. 50. Roth was a lawyer in Youngstown, Ohio, and his diary is an astonishing testimony of the banking crisis. Elsewhere he writes: “People who have savings accounts in the Home Savings and Loan Co are willing to sell them at a discount. They are also being accepted as payments on real estate, autos and merchandise but the buyer always suffers a loss” (entry date 29 April 1931), p. 19.
53. HSUS, vol. 3, p. 651.
54. FDIC, A History of the FDIC, 1933–1983, 1984, chapter 3.
55. HSUS, vol. 3, p. 605.
56. Curiously, it is this first Glass-Steagall Act that is mainly considered in the histories of the Great Depression: a sign of the prevalence of the monetarist perspective in interpreting the crisis.
57. Friedman, M., Schwartz, A.J., *The Great Contraction 1929–1932*, Princeton University Press, 1965, pp. 25, 51–52.
58. HSUS, vol. 5, pp. 5–10.
59. Wallis, J.J., Government Finance and Employment, in HSUS, vol. 5, pp. 5–7.
60. Ely, B., The Big Burst: The 1930–33 Banking Collapse – its Causes, its Lessons, in England, C., Huertas, T. (eds), *The Financial Services Revolution. Policy Directions for the Future*, Kluwer, 1988, p. 58.
61. Smith, J.I., FDR, *Random House*, 2008, pp. 314–315.
62. Harrod, R., *The Life of John Maynard Keynes*, Palgrave Macmillan, 2003, p. 447 (first edition Macmillan, 1951).
63. Schwartz, J.A., *The New Dealers. Power Politics in the Age of Roosevelt*, Knopf, 1993, p. 70.
64. *Ibid.*
65. For banks’ equity, see the historical series of the Bureau of Economic Analysis; for the amount of recapitalizations, see Chandler, *America’s Greatest Depression 1929–1941*, p. 149.
66. Barbiellini, Giordano, Regulatory responses to the “roots of all evils”.
67. Phillips, R., *The Chicago Plan and New Deal Banking Reforms*, M.E. Sharpe, 1994, p. 60.
68. FDIC, A History of the FDIC 1933–1993.
69. Havrilesky, T., The Federal Reserve Chairman as Hero. Our Defence Against Monetary Excesses?, *Cato Journal*, vol. XI, no. 1, 1991, pp. 65–72. More recently: Calomiris, The Political Lessons of Depression-era Banking Reforms.
70. FRASER, Stock Exchange practices, Hearings before the committee on banking and commerce, US Senate, pursuant to S. Resolution 84, 56, 97, Nov–Dec 1933.
71. Chernow, R., *The House of Morgan*, Simon and Schuster, 1990, pp. 356, 360, 414.

72. See Allen, M., A Lesson from History, Roosevelt to Obama. The Evolution of the Broker-dealers Regulation: From Self-regulation, arbitration and Suitability to Federal Regulation, Litigation and Fiduciary Duty, in www.work.bepress.com.
73. States approved similar laws, the so-called Blue Sky Laws.
74. FDIC, Historical banking statistics.
75. Homer, S., Sylla R., *Storia dei tassi d'interesse*, Cariplo-Laterza, 1995, pp. 494, 508 of the Italian edition (A History of Interest Rates, Rutgers University Press, 1991).
76. Reference is here to net demand deposits of reserve city banks. Similar changes occurred with other types of deposits and banks. See www.federalreserve.gov/ReserveRequirements:History,PracticeandPotentialReform.
77. In particular, of Lauchlin Currie, a top advisor of Eccles, FED chairman.
78. Phillips, R., The Chicago Plan and the Reserve Requirement Increase of 1936–37, *History of Economic Ideas*, vol. 5, no. 2, 1997, pp. 53–67.
79. Simonson, D.G., Hempel, G.H., Banking Lessons from the Past: The 1938 Regulatory Agreement Interpreted, *Journal of Financial Services Research*, 1993, pp. 249–267.
80. *Ibid.*, p. 261.
81. *Ibid.*
82. Wallis, J.J., The Political Economy of New Deal Spending Revisited Again: With and Without Nevada, *Explorations in Economic History*, vol. 35, no. 4/98, p. 163.
83. Temin, P., Socialism and Wages in the Recovery from the Great Depression in the United States and Germany, *Journal of Economic History*, vol. 50, no. 2, 1990, pp. 297–307.
84. The RFC intervened in support of operations in several other sectors, in particular in agricultural areas. Later, it financed war industries. The RFC ceased to operate in 1953.
85. See Smiley, G., *Rethinking the Great Depression*, Ivan R. Dee, 2002; Buchanan J.M., The Economic Constitution and the New Deal: Lessons for Late Learners, in Walton G.H. (ed.), *Regulatory Changes in an Atmosphere of Crisis. Current Implications of the Roosevelt Years*, Academic Press, 1979, pp. 13–26. More recently: Powell, J., *FDR's Folly. How Roosevelt and His New Deal Prolonged the Great Depression*, Crown Books, 2004.
86. Smiley, *Rethinking the Great Depression*, pp. 87–92.
87. Olson, J.S., *Saving Capitalism. The Reconstruction Finance Corporation and the New Deal, 1933–1940*, Princeton University Press, 1988, p. 157.
88. Maddison, *The World Economy: Historical Statistics*, p. 85.
89. Smiley, *Rethinking the Great Depression*, p. 116.
90. “Under the NRA wages were set to serve the interests of those already employed, not those who wanted to be employed”: Temin, Socialism and Wages in the Recovery from the Great Depression in the United States and Germany, p. 303.
91. Smiley, *Rethinking the Great Depression*, pp. 128–129.

5. Italy: Finance in a Fascist State

1. Mitchell, *European Historical Statistics*, p. 852.
2. Ciocca, L'economia “fascista” nel contesto internazionale, p 185; Ciocca, P., *Ricchi per sempre? Una storia economica d'Italia (1796–2005)*, Bollati Boringhieri, 2007, p. 195.
3. Maddison, *The World Economy: Historical Statistics*, p. 50.

4. Mitchell, *European Historical Statistics*, p. 377. The level of 1929 would be regained in Italy only in 1937.
5. Zamagni, V., La dinamica dei salari nel settore industriale, in Ciocca, P., Toniolo G. (ed.), *l'economia italiana nel periodo fascista*, Il Mulino, 1976, p. 346.
6. Enciclopedia Treccani.
7. Clough, S.B., *The Economic History of Modern Italy*, Columbia University Press, 1964, pp. 231–232.
8. Cassese, S., *Lo Stato fascista*, Il Mulino, 2010, p. 140.
9. Clough, *The Economic History of Modern Italy*, p. 224.
10. Baffi, P., La rivalutazione del 1926–27, gli interventi sul mercato e l'opinione pubblica, in Baffi P., *Nuovi studi sulla moneta*, Giuffrè, 1973, pp. 101–122; see p. 122.
11. Cotula, F., Spaventa L. (eds), *La politica monetaria tra le due guerre, 1919–1935*, Laterza, 1993, pp. 826–827.
12. Ciocca, *Ricchi per sempre? Una storia economica d'Italia (1796–2005)*, p. 207.
13. Cotula, Spaventa (eds), *La politica monetaria tra le due guerre, 1919–1935*.
14. Ciocca, *Ricchi per sempre? Una storia economica d'Italia (1796–2005)*, p. 198; *ibid.*, p. 117.
15. Biscaini, A.M., Ciocca P., Le strutture finanziarie. Aspetti quantitativi di lungo periodo (1870–1970), in Vicarelli F. (ed.), *Capitale industriale e capitale finanziario: il caso Italiano*, Il Mulino, 1979, pp. 75, 115.
16. Advances by the Bank of Italy to its “vehicle” and to the mixed banks totalled in 1932 Lit 5.8 billion, against a circulation of Lit 13.7 billion. See Cotula, Spaventa, *La politica monetaria tra le due guerre, 1919–1935*, pp. 177, 813.
17. Ciocca, *Ricchi per sempre? Una storia economica d'Italia (1796–2005)*, p. 197.
18. Clough, *The Economic History of Modern Italy*, p. 250.
19. Carriero, G., Ciocca, P., Marcucci, M., Diritto e risultanze dell'economia nell'Italia unita, in Ciocca, P., Toniolo, G. (eds), *Storia economica d'Italia, 3. Industrie, mercati, istituzioni. 2. I vincoli e le opportunità*, Laterza, 2003, p. 505.
20. Toniolo, G., *L'economia dell'Italia fascista*, Laterza, 1980, p. xvii.
21. Ruta, G., *Lineamenti di legislazione bancaria*, Bancaria, 1965, pp. 197–198.
22. Cotula, Garofalo, Le aziende di credito nel sistema finanziario italiano, in Cotula F., Raganelli T., Sannucci V., Alieri S., Cerrito E. (eds), *I bilanci delle aziende di credito 1890–1936*, Laterza, 1996, p. 147.
23. Maddison, *The World Economy: Historical Statistics*, pp. 50, 51, 85.

6. Financial Deepening in the Three Economies

1. An expression used by Crafts, *Britain's Relative Economic Performance, 1870–1999*, p. 76.
2. Spero, J.E., *The Failure of the Franklin National Bank*, Columbia University Press, 1980, p. 3.
3. Federal Reserve Board, Flow of Funds, historical data.
4. Banca d'Italia, Financial Accounts: History, Methods, the Case of Italy and International Comparisons, 2008.
5. Goldsmith, *Comparative National Balance Sheets*, University of Chicago Press, 1985, pp. 46, 228.
6. Mitchell B.R., *International Historical Statistics. Europe 1750–2005*, Palgrave Macmillan, 2007, p. 959
7. Goldsmith, *Comparative National Balance Sheets*, p. 46.
8. HSUS, vol. 3, pp. 177–178.

9. www.ukpublicspending.co.uk.
10. On FIR and public debt in Britain, see Goldsmith, *Comparative National Balance Sheets*, p. 231.
11. *Ibid.*, pp. 316–317.

7. The United Kingdom: Not So Stable

1. Wilson Report (Committee to Review the Functioning of Financial Institutions), HMSO, 1980, pp. 3–4.
2. Maddison, *The World Economy: Historical Statistics*, tables 1b–1c.
3. Wilson Report, HMSO, 1980, pp. 4–9.
4. Crafts, *Britain's Relative Economic Performance, 1870–1999*, pp. 76–77.
5. The UK joined the Community in 1973, under the Conservative government of Edward Heath.
6. See, for example, Kaldor, N., *The Economic Consequences of Mrs Thatcher*, Fabian Tract 486, Fabian Society, p. 3.
7. Capie, F., *The Bank of England 1950s to 1979*, Cambridge University Press, 2010, p. 587.
8. Grady, Weale, *British Banking 1960–85*, Macmillan, 1986, p. 35.
9. For UK and Italy: Mitchell, *European Historical Statistics*, pp. 178–179; for the US, Mitchell, B.R., *Historical Statistics. The Americas 1750–2005*, Palgrave Macmillan, 2007, p. 126.
10. Clause 4, which went back to 1918, called for the “common ownership of the means of production, distribution and exchange”, and the “control of each industry and service”.
11. Later, the Corporation turned to finance large firms, while a sibling institution, the Finance Corporation for Industry, took care of small business financing (Capie, Collins, *Have the Banks Failed British Industry?*, pp. 65–66).
12. Hannah, L., *The Rise of the Corporate Economy*, Methuen & Co, 1976, chapter 10.
13. Radcliffe Report (Committee on the Working of the Monetary System), HMSO, 1959.
14. *Ibid.*, pp. 273 (767–768).
15. *Ibid.*, pp. 22–23.
16. Capie, *The Bank of England 1950s to 1979*, p. 135.
17. Crafts, *Britain's Relative Economic Performance, 1870–1999*, p. 79.
18. Collins, *Money and Banking in the UK. A History*, pp. 374–378; Grady, Weale, *British Banking 1960–85*, pp. 130–135.
19. Friedman, M., The Euro-dollar Market: Some First Principles, Graduate School of Business, University of Chicago, Selected papers, no. 34, n. d., p. 5.
20. *Ibid.*, p. 3.
21. Spero, *The Failure of the Franklin National Bank*, p. 43.
22. Kane, D.R., *The Eurodollar Market and the Years of Crisis*, Croom Helm, 1982, p. 111.
23. See, recently, Schenk, C., The Regulation of International Financial Markets from the 1950s to the 1990s, in Battilossi, S., Reis, J. (eds), *State and Financial systems in Europe and the USA: Historical Perspectives on Regulation and Supervision in the Nineteenth and Twentieth Centuries*, Ashgate, 2010, pp. 149–166.
24. If the Eurodollar banks had zero prudential reserves, the potential multiplier would be infinite. If the dollars were lent by them to a bank located in the US, the multiplier would be just “one”. In practice, some authors believed that the former was effectively the case, creating potential huge instability in the international financial system. On the other side, a different opinion argued that “the

- Eurodollar markets can be regarded as increasing the ability of money to circulate by making markets more efficient, but not increasing the stock of money in the world economy". See: Grady, Weale, *British Banking 1960–1985*, p. 131. A discussion about the Eurodollar and London as its centre is on pp. 130–135.
25. Capie, *The Bank of England 1950s to 1979*, p. 425.
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 27. Capie, *The Bank of England 1950s to 1979*, p. 481.
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 31. Bank of England, Quarterly Bulletin, The secondary banking crisis and the Bank of England's support operation, paper presented to the Research Panel of the Wilson Committee, 18, 2, 1978, p. 230; Reid, M., *The Secondary Banking Crisis, 1973–1975. Its Causes and Course*, Macmillan, 1982, pp. 48–53.
 32. Grady, Weale, *British Banking 1960–1985*, pp. 36–39.
 33. Bank of England, Quarterly Bulletin, Supervision of banks and other deposit-taking institutions, 18, 3, 1978, p. 386.
 34. Norton, *Bank Regulation and Supervision in the 1990s*, p. 12.
 35. Capie, *The Bank of England 1950s to 1979*, p. 597.
 36. *Ibid.*, p. 598.
 37. Collins, *Money and Banking in the UK. A History*, pp. 432–434, 435–439; Cottrell P., Il sistema finanziario del Regno Unito, in De Rosa L. (ed.), *Sistemi bancari e finanziari internazionali*, Laterza, 2001, pp. 95–96.
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 39. *Ibid.*, p. 38.
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 41. Mason, S., *The Flow of Funds in Britain. An Introduction to Financial Markets*, Paul Elek, 1976; Revell, *The British Financial System*.
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 46. Sayers, R., *The Bank of England 1891–1944*, Cambridge University Press, 1976, vol. I, p. 235.
 47. Revell, *The British Financial System*, p. 340; Wilson Report, HMSO, 1980, pp. 393–421.
 48. Revell, *The British Financial System*, pp. 239–240, 269.
 49. Schenk, *State and Financial systems in Europe and the USA: Historical Perspectives on Regulation and Supervision in the Nineteenth and Twentieth Centuries*.
 50. Wadsworth, *The Banks and the Monetary System in the UK, 1959–1971*, p. 193.
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 54. Grady, Weale, *British Banking 1960–1985*, pp. 97–113.

55. Capie, *The Bank of England 1950s to 1979*, p. 588.
56. *Ibid.*, p. 589.
57. Radcliffe Report, chapter VI.
58. *Ibid.*, p. 337 (981).
59. *Ibid.*, p. 337 (983).
60. *Ibid.*, pp. 337–338 (983–984).
61. Collins, *Money and Banking in the UK. A History*, chapter 13.
62. *Ibid.*, pp. 179 (504).
63. Grady, Weale, *British Banking 1960–85*, pp. 46, 72.
64. *Ibid.*, pp. 81–82.
65. *Ibid.*, p. 196.
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71. Capie, *The Bank of England 1950s to 1979*, p. 599.
72. *Ibid.*, pp. 127–128.
73. Collins, *Money and Banking in the UK. A History*, pp. 416–417.
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76. On the contrary, transactions on the money market served by discount houses needed collateral.
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83. Grady, Weale, *British Banking 1960–85*, pp. 150, 154.
84. *Ibid.*, pp. 152, 158–161; Reid, *The Secondary Banking Crisis, 1973–1975. Its Causes and Course*, pp. 46, 125, 190–191.
85. Capie, *The Bank of England 1950s to 1979*, pp. 581–583.
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8. The United States: Big Government and Big Bank

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4. Schlesinger, A.M. Jr, *The Cycles of American History*, Houghton Mifflin, 1986, pp. 27, 31, 32.
5. Papadimitriou, D., Wray, L.R., Minsky's Stabilizing an Unstable Economy: Two Decades Later, an introductory essay to: Minsky, H.P., *Stabilizing an Unstable Economy*, McGraw Hill, 2008.
6. HSUS, vol. 5, pp. 10–11, vol. 3, pp. 21–22.
7. For a description of these intermediaries' activities, see Section 4.
8. www.fdic.gov/historical/statistics on banking. The figure of 173 failures includes 16 managed not by the FDIC, but by the FSLIC, the insurance fund of the Savings and Loan institutions.
9. *Ibid.*
10. On the Act, see Klebaner, B., The Bank Holding Company Act of 1956, *Southern Economic Journal*, vol. 24, no. 3, January 1958, pp. 313–326.
11. House of Representatives, Committee on banking and currency, staff report, The Growth of Unregistered Bank Holding Companies. Problems and Prospects, US Government Printing Office, 1969, p. 1.
12. According to the Act, the holding company has control over a company or bank if the holding company controls or has power to vote 25 per cent or more of any class of voting shares of the company, controls in any manner the election of a majority of the directors or if the FED Board determines that there is a controlling influence over the management or policies of the company.
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9. Italy's Recovery

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2. [www.bancaditalia.it/statistiche storiche](http://www.bancaditalia.it/statistiche_storiche).
3. Ciocca, *Ricchi per sempre? Una storia economica d'Italia*, p. 235.
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11. Carli, *Intervista sul capitalismo italiano, a cura di Eugenio Scalfari*, Bollati Boringhieri, 2008, p. 29 (1st edition 1977).
12. *Ibid.*, p. 38.
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17. Mitchell, *European Historical Statistics*, p. 178.
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41. De Bonis, R., Italy's Financial Wealth and Indebtedness from 1950 to 2004, in Banca d'Italia, *Financial Accounts: History, Methods, the Case of Italy and International Comparisons*, 2008, p. 203.

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43. Carli, Speech at the Italian Bankers' Association, 27 April 1961, in Banca d'Italia, *Scritti e conferenze di Guido Carli*, vol. II, p. 103.
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10. The Broad Framework

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7. Schleifer, A., *Legal Foundations of Corporate Governance and Market Regulation*, Banca d'Italia, 2008.
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10. Padoa-Schioppa, T., *La veduta corta*, Il Mulino, 2009, p. 61.
11. I take this image from Padoa-Schioppa, *La veduta corta*.
12. Bordo, M.D., Wheelock, D.C., *When Do Stock Market Booms Occur? The macroeconomic and policy environment of twentieth century booms*, Federal Reserve Bank of St Louis Working paper 2006–051.
13. International Monetary Fund, *World Economic Outlook*, October 2010.
14. For the US, see Federal Reserve, *Flow of Funds*; for the UK, National Statistics.
15. De Bonis, R., *Italy's Financial Wealth and Indebtedness from 1950 to 2004*, in Banca d'Italia, *Financial Accounts: History, Methods, the Case of Italy and International Comparisons*, 2008, p. 227; and www.bancaditalia.it/statistical/database (bip online).
16. Carr E., *Greed-and fear, The Economist*, 22 January 2009, p. 4 of the special report (Carr quotes Philip Lane of Trinity College Dublin).

11. Financial Structure of the Three Economies: Never So Deep

1. Turner, A., *What do banks do, what should they do and what public policies are needed to ensure best results for the real economy*, speech at the Cass Business School, 17 January 2010, p. 14.

12. Growth and Collapse of the Shadow Banking System in the United States

1. As distinct from the “external shadow banking” (see below).
2. This section is largely based on FDIC, *History of the Eighties. Lessons for the Future: An Examination of the Banking Crises of the 1980s and Early 1990s*, 1997, vol. I.
3. *Ibid.*, pp. 92–93.
4. *Ibid.*, vol. I, p. 176.
5. Tymoigne, E., *Deregulation, the financial crisis, and policy implications*, the Levy Economic Institute of the Bard College, Working paper no. 573.2, 2009.
6. FDIC, *History of the Eighties*, vol. I, p. 15. By total bank assets we refer to bank assets at the end of 1979, plus the assets of banks chartered during the 1980–1984 period.
7. *Ibid.*, p. 14.
8. What follows is largely based on the publication just quoted.
9. *Ibid.*, p. 12.
10. Wall, L.D., *Too Big to Fail After FDICIA*, *Federal Reserve Bank of Atlanta Economic Review*, vol. 95, no. 1, 2010, p. iii.
11. “By insisting that Penn Square Bank be liquidated in 1982, with enormous losses for ‘upstream’ participating banks such as Continental Illinois Bank, the FDIC merely set in motion the eventual failure of confidence in the US banking system”: See Olson, G.N., *Banks in Distress. Lessons from the American Experience of the 1980s*, Kluwer Law International, 2000, p. 151.
12. Olson, *Banks in Distress. Lessons from the American Experience of the 1980s*, p. 152.
13. The figures do not coincide with data in Table 12.1, which include all savings institutions (S&Ls, mutual savings banks, federal savings banks) and credit unions.
14. FDIC, *History of the Eighties*, vol. I, p. 178.
15. *Ibid.*, p. 179.
16. See statement of W.M. Isaac, in FDIC, *A History of the FDIC 1933–1993*, 1984, vol. II, p. 102.
17. FDIC, *History of the Eighties*, vol. I, pp. 168–169.
18. *Ibid.*, p. 187.
19. *Ibid.*
20. Federal funds rate (www.federalreserve.gov).
21. Olson, *Banks in Distress. Lessons from the American Experience of the 1980s*, p. 154.
22. Wall, *Too Big to Fail After FDICIA*.
23. FDIC, *History of the Eighties*, p. 88.
24. Lichtenstein, C.C., *The U.S. Response to International Debt Crisis: The International Lending Supervision Act of 1983*, *Virginia Journal of International Law*, vol. 25 (1984–85).
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26. It was then privatized in 2004 as SLM Corporation. Ginnie Mae, Sallie Mae and Fannie Mae are now considered as private financial institutions.
27. Federal Reserve Board, *Flow of Funds Guide*.
28. Roubini, N., Mihm, S., *Crisis Economics. A Crash Course in the Future of Finance*, Allen Lane, 2010, p. 64.

29. Norton, J., Lubbock, J., Walsh, J., Demise of the Glass-Steagall Act? A study in policy indeterminance, Research Paper 96/8, Institute of European Finance, Bangor, 1996, p. 15.
30. *Ibid.*, pp. 10–11.
31. Greenspan, A., An Overview of Financial Restructuring, remarks before the Conference on Bank Structure and Competition, Federal Reserve Bank of Chicago, 12 May 1988, in www.fraser.stlouisfed.org/historicaldocs.
32. But Volcker expressed a dissenting opinion, because this ruling would make feasible, as a matter of law if not Board policy, the affiliation of banks with investment houses: see p. 505 of the decision listed in the following note. As a matter of fact, however, no such affiliation occurred until the legislation of 1999.
33. Federal Reserve Bulletin, vol. 73, no. 6, June 1987, Order Approving Applications to Engage in Limited Underwriting and Dealing in Certain Securities, pp. 473–508.
34. FDIC, History of the Eighties, p. 79.
35. Greenspan, A., Remarks before the Conference on Bank Structure and Competition, Federal Reserve Bank of Chicago, 2 May 1991, in www.fraser.stlouisfed.org/historicaldocs.
36. This was Volcker's view.
37. Norton, Lubbock, Walsh, Demise of the Glass-Steagall Act?.
38. Federal Reserve Bank of San Francisco, Gramm-Leach-Bliley Act: A New Frontier in Financial Services, in www.frbsf.org/publications.
39. Haubrich, J.B., Umbrella supervision and the role of the central bank, Federal Reserve Bank of Cleveland, Policy Discussion Papers, no. 11, December 2005, pp. 6–7.
40. Sorcher, A.E., Gramm-Leach-Bliley Review: Has the Promise of Less Regulation Led to More Rules?, in www.sifma.org/regulation (the website of the securities firms association).
41. An excellent description of how securitization works is in Twinn, C.I., Asset-backed securitization in the UK, Bank of England Quarterly Bulletin, May 1994.
42. Bonsall, D.C., *Securitisaton*, Butterworths, 1990, pp. 21–22; Milne A., *The Fall of the House of Credit*, Cambridge University Press, 2009, p. 31.
43. This process is described in Adrian, T., Shin, H.S., The Changing Nature of Financial Intermediation and the Financial Crisis of 2007–09, Federal Reserve Bank of New York, Staff report, no. 439, April 2010.
44. Pozsar, Z., Adrian, T., Ashcraft, A., Boesky, H., Shadow Banking, Federal Reserve Bank of New York, Staff Report, no. 458, July 2010, p. 14.
45. Pozen, *Too Big To Save? How To Fix the US Financial System*, p. 75.
46. Pozsar et al., Shadow Banking.
47. “Risky behavior of th[is] sort . . . was individually rational during the bubble”: see Posner, R.A., *A Failure of Capitalism. The Crisis of '08 and the Descent Into Depression*, Harvard University Press, 2009, p. 106.
48. This is a very recurrent expression in the literature of the crisis. See, for instance: Baily, M.N., Litan, R.E., Johnson, M.S., The Origins of the Financial Crisis, Business and Public Policy at Brookings, November 2008.
49. Caballero, R.J., The “other” imbalance and the financial crisis, Paolo Baffi Lecture, 10 December 2009, in www.bancaditalia.it/publications.
50. Wood, G., Financial stability in an international context, paper presented at the Bank of Italy, mimeo, September 2009.

51. Posner, R.A., Shorting Reason, *The New Republic*, 15 April 2009.
52. Roubini lists them as follows (numeration is mine): “[1] securitization of bad loans was the beginning... [2] corporate governance and compensation schemes played a role... [3] Greenspan’s monetary policy... [4] decades of government policies favoring home ownership” (Roubini, *Crisis Economics*, p. 61).
53. The federal funds rate went down from 6.24 per cent in 2000, to 1.13 per cent in 2003, then climbed to 5.02 per cent in 2007, to decrease abruptly the following year, to 1.92 per cent. The low has been in 2009, at 0.16 per cent (annual averages; source www.federalreserve.gov/historical data).
54. Krugman, P., The Slump Goes On: Why?, *The New York Review of Books*, 10 September 2010.
55. One huge difference, in reference to the 1920s, is that, then, the US was in a net foreign creditor position, whereas now its situation is in the opposite: one more reason, in the 1920s, for not increasing interest rates.
56. The definition of sub-prime borrower is not precise, but it generally refers to a borrower with a poor credit history who, for this reason, pays higher interest rates. Alt-A borrowers are considered less risky, but without documentation of income. Home equity loans are provided to home-owners to extract value from the home itself.
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14. Italy: Financially More Stable, but Structural Problems Persist

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23. For US data, see www.federalreserve.gov/statistical_releases_and_historical_data/mortgage_debt_outstanding. For Italy, see www.bancaditalia.it/Annual_Reports/appendix. Mortgage loan figures are not directly available. We have taken, as a proxy, the following items: for banks, loans to households; for other financial institutions, consumer loans.
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15. Conclusion

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