Speculation by the next-door neighbour.
The 1907 Italian financial crisis

[Provisional draft. Not to be quoted]

by Gianfranco Tusset*

1. Introduction

"Come into our stock exchanges, and you will be astonished by people you meet, who usually are unrelated to stock exchange. Among them, doctors, lawyers, drapers or furniture shopkeepers, and clerks." This image of the speculators who played a key role in the making of the 1907 Italian financial crisis was provided in 1912 by Alfonso De Pietri Tonelli, and it implicitly underlines that this was first and foremost a Stock Exchange crisis. Another economist of the time, Gustavo Del Vecchio, added in 1913: "By now, there are no longer doubts that the 1907 crisis was mainly a stock exchange one, that is, a bounded and superficial fact that did not arise from the real *economy*" (Del Vecchio 1913, p. 285). According to these views, therefore, the causes of this financial crisis should be sought in the Genoa Stock Exchange; whose collapse then spread through the whole banking system and into the North-West, which was Italy's most highly-industrialized area.

Since Italy was taking its first steps towards industrialization at that time, the Genoa crash confirmed the notion that financial crises and financial euphoria are typical of the birth and development of economies based on competition and the free market.[1] The Turin-Genoa-Milan area, which was the most highly-industrialized in Italy, suffered from the crash, but not to a dramatic extent. It was the banking system which experienced the worst consequences, partly because the banks were responsible for the crash in more than one way: effectively, they financed speculation and favoured the circulation of the riskiest stocks.

Certainly symbolizing of the crisis was the crash of the Genoa Stock Exchange, and the difficulties of all the Italian Stock Markets, which in 1907 suffered the malfunction that had been depicted by Ghino Valenti ten years earlier:

> Every kind of misuse becomes customary: the authorities show laxity rather than supervising the operations of the Stock Exchange; there is a lack of capital and serious investors. On the contrary, there are hazardous operations that show a lack of responsibility, and clients have no qualms about mediating among themselves. In effect, the clients do not know why they should choose official instead of independent brokers; and anyway, why must free independent

---

* Department of Economics and Management, Padua University. For correspondence Gianfranco.tusset@unipd.it. I would like to thank the Ansaldo Foundation, Genoa, for giving me the opportunity to look through the Genoa Stock Exchange archive. Particularly, I'm indebted with Alessandro Lombardo, Maura Micheli and Simone Gatto for their irreplaceable support.

[1] See Galbraith 1991, 11.

> brokers be registered. Finally, the competitive advantages enjoyed by the independent brokers push the official brokers towards free competition with no rules. (1894, 154)

The articles which appeared in *Il Giornale d'Italia* around 1907 confirmed the picture that Valenti had painted previously. In the years before the crash, the Stock Exchange operated without rules: carry-over contracts fuelled speculation, and new stocks started out bullish and then invariably became bearish. The young Italy faithfully reproduced the financial relationships that were already well known in other, more industrialized, countries such as the United States and Germany.

In 1907, the Italian Stock Exchange was a model of an unregulated stock market, with no rules to regulate brokers' activity, and with no boundaries on the entry or exit of listed companies. Firms could easily sound out the Stock Exchange's response to their entry by passing through the over-the-counter market that had been added to the official market in 1904. This state of anarchy was considered to be the main cause of the Genoa crash by the press of the time. 'Lack of discipline' caused by 'euphoria for stocks' was the 'mantra' of the time. In reality, as we shall seek to demonstrate, although inefficient operations were a real problem, the euphoria was limited to just a few stocks. The volume of the financial bubble remained low, and did not fully justify the crash; for example, Italy did not experience the euphoria over railway stocks which had been so crucial to the 1873 American crisis.

These few remarks will suffice to introduce the topic of this paper, which is the causes of the crash, starting with an attentive micro-analysis of the performance of shares at the time. Obviously, investors' decisions were influenced by the context, so that the lack of rules, the role of the banks, and the decisions concerning monetary and credit policy all affected the course of events in the Stock Market. But here we shall primarily focus on the behaviour of Stock Exchange regulars in order to understand this 'crisis without a bubble.'

The prevailing interpretation of the 1907 Italian financial crisis ascribes responsibility for its development to errors by the commercial banks, which favoured Stock Exchange speculation at the cost of relinquishing productive investments (Bonelli 1971). As evidence of this, one might mention the bailing out of the Società Bancaria Italiana, a commercial bank that was heavily exposed to speculators and was saved by the Banca d'Italia, which was one of the three issuing banks and was to become the Italian Central Bank. However, this interpretation seems to gloss over the behaviour of private investors, who were often depicted as agents at the mercy of or conniving with the banks.

However, the fact that a Stock Exchange exists and stocks are quoted is a sufficient condition to cause some kind of crash. Italy had also experienced a financial crisis in 1883-84, when the level of economic development had been lower. Section 2 deals with the history of the Genoa crisis by examining the data on the shares listed on the Genoa Stock Exchange. After describing the history, we will investigate the features which characterized the crisis in Sections 3 and 4: first, the absence of evident euphoria over stocks in the context of the lack of rules and 'anarchy' that characterized the Genoa Stock Exchange. Why were investors in the Stock Exchange attracted by shares that saw only very slow price increases? Why did the bullish trend give way to a bearish trend, considering that the speculation was mainly short-selling? To find an answer these questions, analysis of the data is followed by discussion of the opinion-makers of the time, preferably economists, who indicated two clear directions. There were those who focused their attention on the banking system, and blamed the commercial banks for their practice of favouring speculation, while others looked at the behaviour of speculators as an indicator of instability in the securities markets. Section 5 is devoted to those newspapers that were attentive to the dimensions of the crisis. We will attempt to reconstruct the context in which a favourable attitude towards Stock Exchange speculation took shape.

2. The Genoa Stock Exchange crisis seen from the data on listed stocks

What was striking about the trend of exchanges on the Genoa Stock Market in the years before the crisis was not the growth in listings or the euphoria, but the increase in the numbers of shares. Between 1898 and 1907, the number of listed stocks increased five times, and we must not forget that from 1903 on an over-the-counter market made its appearance, which allowed quotations of stocks first on an unofficial market and then on the official one.

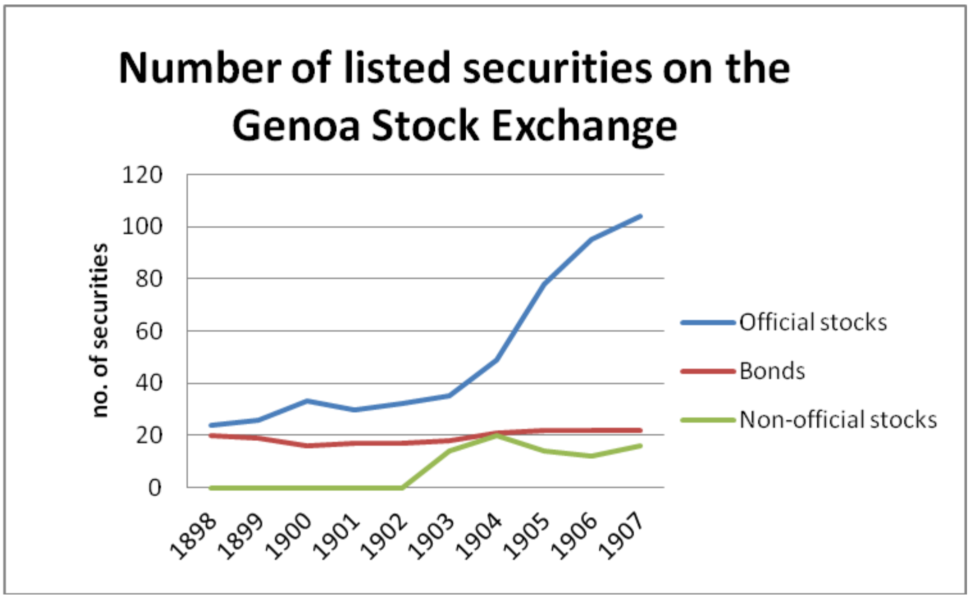

Figure 1. Number of different securities listed on the Genoa Stock Exchange between 1897 and 1907.
Source: Author's elaboration on data from the Stock Exchange registers kept at the Ansaldo Foundation, Genoa.

Figure 1 shows that 1903 was the year in which the number of shares listed on the Genoa Stock Exchange began to accelerate. In some sense, this was a kind of "stock market euphoria," although it referred to the number of exchanges rather than price.

The main surprise, however, emerges from the 'sales register' prepared by the Chairman of the Genoa Stock Exchange Stockbrokers. From 1902 onwards, the lack of a connection between the volume of exchanges and the number of listed stocks came to the fore. Figure 2 shows both recorded exchanges (continuous line) and exchanges mediated by official brokers. It makes the difference between the 1901 data and subsequent years very clear. In 1901, the volume of recorded exchanges was higher than the volume of official exchanges (dotted line).

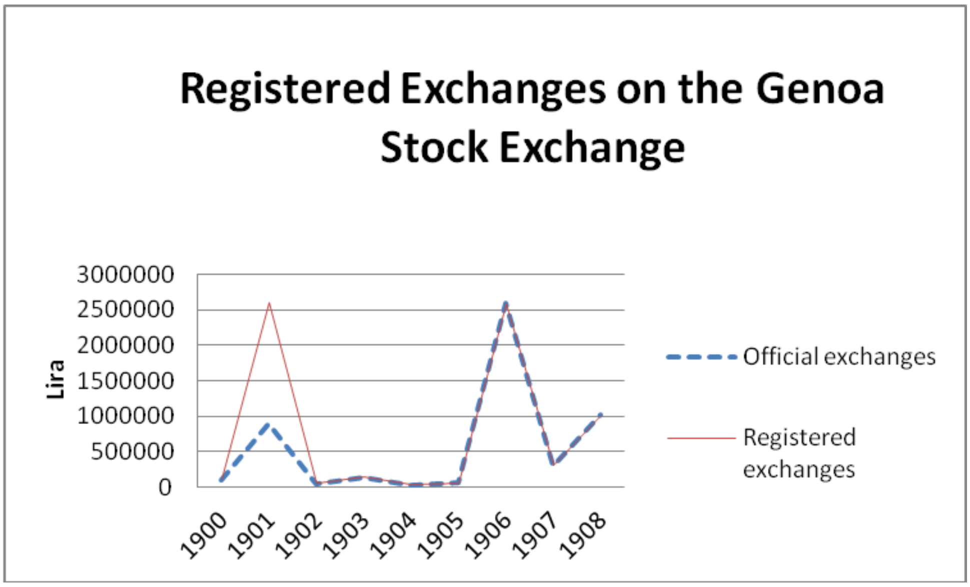

Figure 2. Registered exchanges (official and non-official) on the Genoa Stock Exchange.
Source: Author's elaboration on data from the Stock Exchange registers kept at the Ansaldo Foundation, Genoa.

The data on official transactions are confirmed by the trend of the fees paid by brokers on each settled agreement (see figure 3).

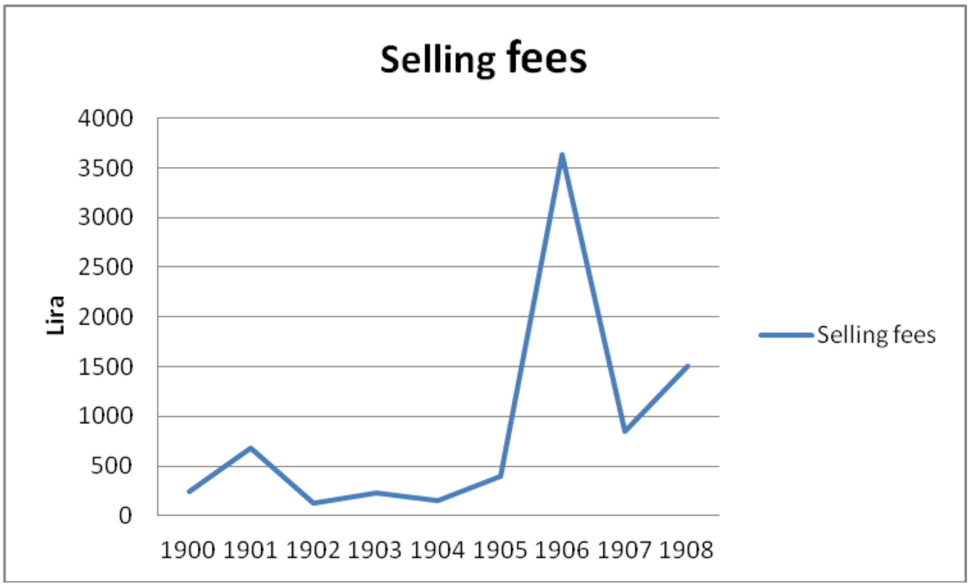

Fig. 3. Sales fees registered ate the Genoa Stock Exchange from 1900 to 1908.
Source: Author's elaboration on data from the Stock Exchange's archive kept at the Ansaldo Foundation, Genoa.

Data on non-official exchanges apart from 1901 are not available, but just the 1901 data show that the volume of non-official transactions could reach three times the 'official exchanges.' In 1901, official transactions amounted to 893,015 Lire, while non-official reached 2,612,779 Lire.

The trend of the lines in Figure 2 leads us to suppose that the volume of trades also reached two or three million Lire in the period between 1902 and 1905. That the volume of trades could not have been the one reported in the official transactions is also demonstrated by the economic prosperity forecasts, which suggested that investors buy securities and shares issued by new companies. These companies were listed, but they were not able to distribute their profits. Furthermore, diminishing profits from government bonds and revenues induced investors to move their deposits towards the new shares.

The lack of rules was influential: we read in *Il Sole* in 1907: "With the exception of two or three Stock Exchanges - that is, those cases where the Chambers of Commerce are effective - the brokerage profession is practically open to people who have some thousands of Lire to invest or who know someone who has that kind of money at their disposal." (Il Sole, 12/06/1907)

The above data suggest that there was a significant problem of access to and administration of the role of brokers. The then state of quasi-anarchy could have had serious consequences for the effectiveness of Stock Exchange activities. On the other hand, the lack of control over brokers had its counterpart in the freedom of access to stock market quotations, which is clearly proved by the increase in the number of listed stocks. We will return to the lack of rules in the subsequent sections, but for now we focus on share trends, and seek to understand the relevance of stock market euphoria.

What does the trend in the shares listed on the Genoa Stock Exchange show us? If we look at the prices of stocks from the beginning of the century to 1907, we observe – if not actual euphoria – at least some price movements around 1903. Assuming that the 1901 price is equal to 100, we detect buoyant activity in the Genoan sugar company Eridania from mid-1903 to mid-1905, after which the price decreased. The rise in the value of shares in Calcium Carbide was more restrained, but was significant nonetheless. The trend in metallurgical and railway stocks was notably stable. Finally, bank stocks showed virtually constant prices.

Remaining with the years from 1901 to 1907, the increasing trend began in 1903 and ended in 1906, after which the Stock Exchange closed down for many months until the crash of October 1907. The slight level of euphoria between 1903 and 1906 was thus followed by a decidedly bearish phase.

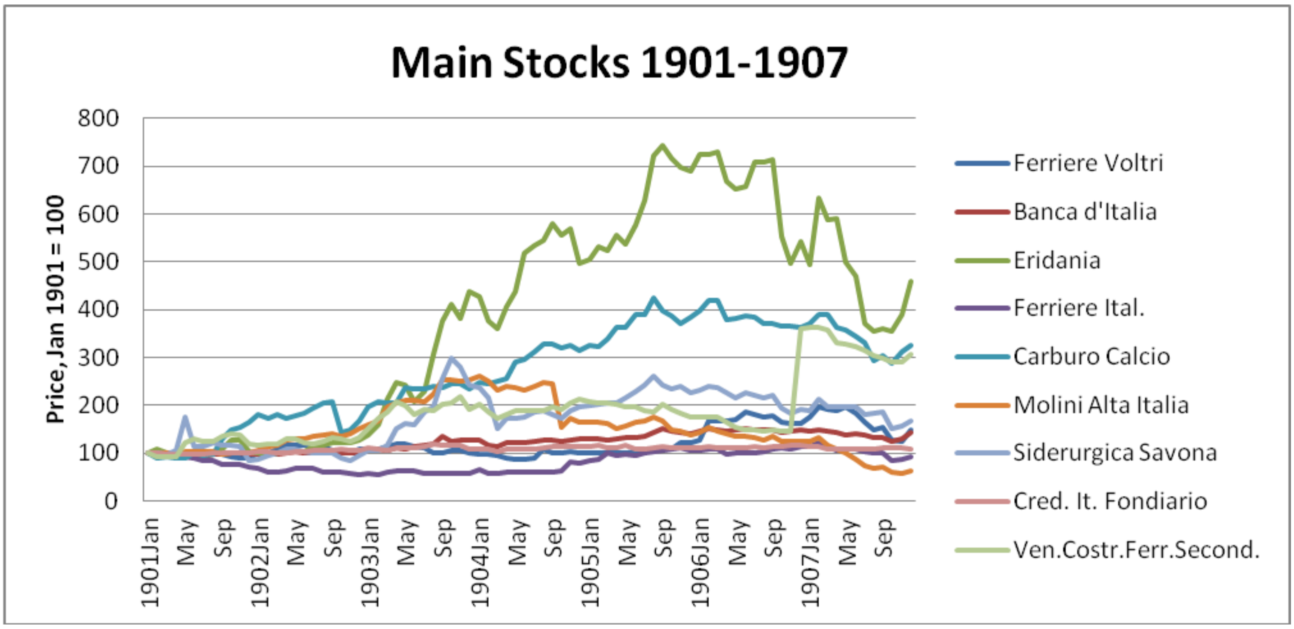

Fig. 5. Performance of the main stocks listed on the Genoa Stock Exchange between January 1901 and December 1907.
Source: Author's elaboration on data from the Stock Exchange archive kept at the Ansaldo Foundation, Genoa.

If we focus on the three years before the crisis, from 1903 to 1905, and assume the January 1903 quotation as 100, we find confirmation that the only stock that showed any euphoria was Eridania. At the end of 1905, the price was five times that of early 1901. At the beginning of 1905, we read in *L'economista italiano*, the Italian newspaper that was most attentive to Stock Exchange affairs, that Eridania stock was forecast to increase to 2000 Lire because of expected new dividends (*L'economista italiano*, 1 January 1905). In reality, the price, which stood at 1024 Lire at the end of January, grew to 1500 in September, but then decreased to 1394 Lire at the end of December. As we can see in Figure 5, the September quotation marked the highest level reached by the shares.

Between August and October 1907, Eridania was listed at 720 Lire, which was, in any event, four times the 1901 price.

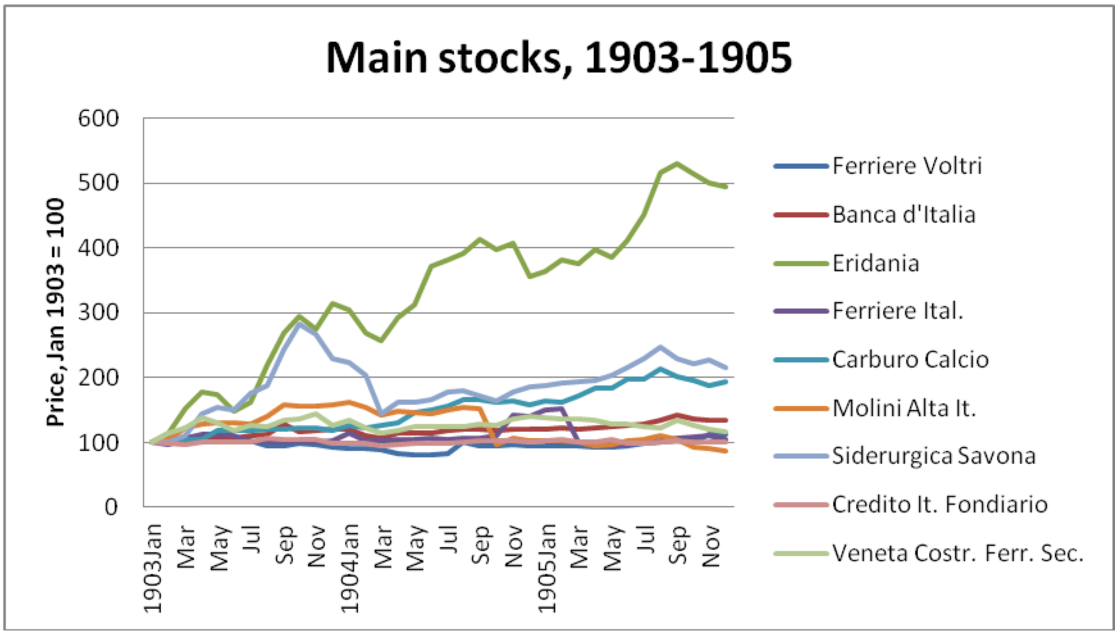

Fig. 6. Performance of the main stocks listed on the Genoa Stock Exchange between January 1903 and December 1906.
Source: Author's elaboration on data from the Stock Exchange archive kept at the Ansaldo Foundation, Genoa.

At this point, we can narrow our study of the three-year period between 1905 and 1907, the years of the crisis, to an investigation of bull and bear trends.

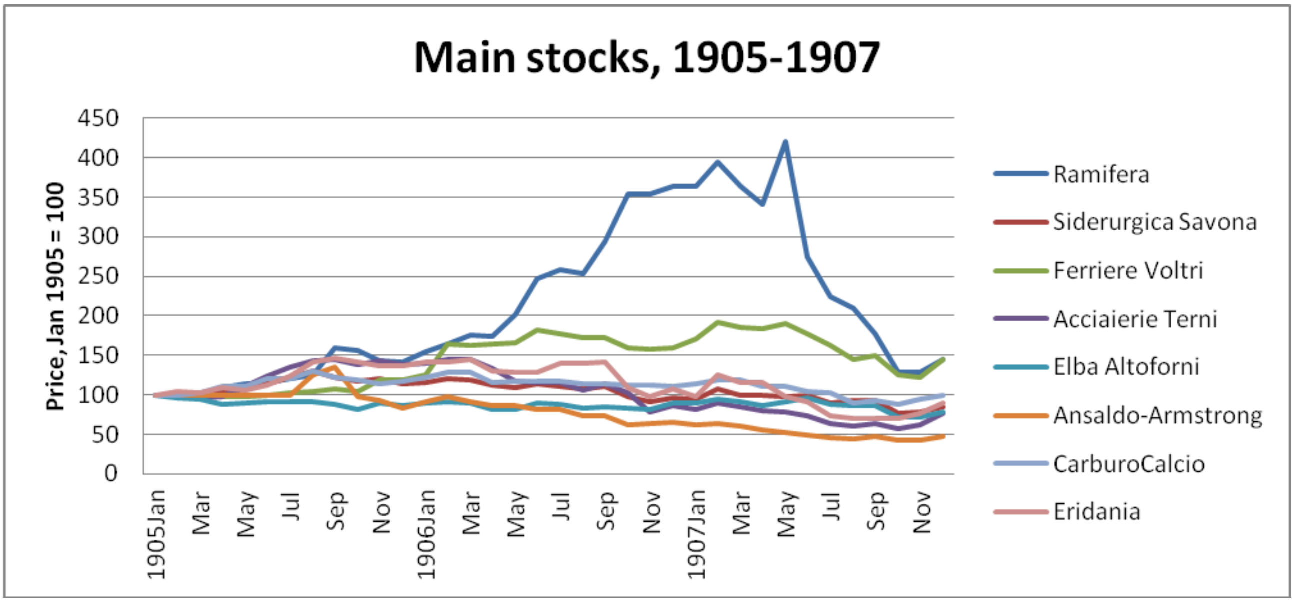

Fig. 7. Performance of the main stocks listed at Genoa SE between January 1905 and December 1907.
Source: Author's elaboration on data from the Stock Exchange archive kept at the Ansaldo Foundation, Genoa.

One remarkable fact is that the number of listed stocks grew at the beginning of 1905, with the result that the attention of speculators was drawn to these new issues. The metallurgical and sugar industries and the other more traditional stocks were abandoned in favour of these new shares; in particular, the automobile industry became a protagonist in the Stock Exchange in mid-1905, (*L'economista italiano*, 19 March 1905).

The role that had been Eridania's was now taken over by new shares, those of Società Ramifera, a much-discussed firm that was at the centre of massive speculation promoted by the brokers at the Genoa Stock Exchange themselves. In this case, a rapid increase in price was followed by an equivalent fall. This was the emblematic stock of the Genoan crisis. The history of Ramifera has been accurately related by Bonelli (1971), who stressed the role of the commercial banks, particularly the Società Bancaria Italiana, in triggering the explosion of the crisis. It was Società Bancaria Italiana that financed the purchase of Ramifera shares.

Without a doubt, the speculation on Ramifera shares and the carry-over contracts drawn up by Società Bancaria Italiana favoured the eruption of the financial crisis, but we have to wonder whether a single stock can produce a crisis such as the one that struck the Genoa Stock Exchange: the euphoria surrounding one stock alone – first Eridania and then Ramifera – cannot explain a general crisis.

Our tale of the Genoa crisis based on share performances continues with a novelty that invested Stock Exchanges around the mid-1905: the appearance of automotive shares. As clearly depicted in Figure 8, these stocks were constantly bearish a few months after their entrance into the Stock Exchange.

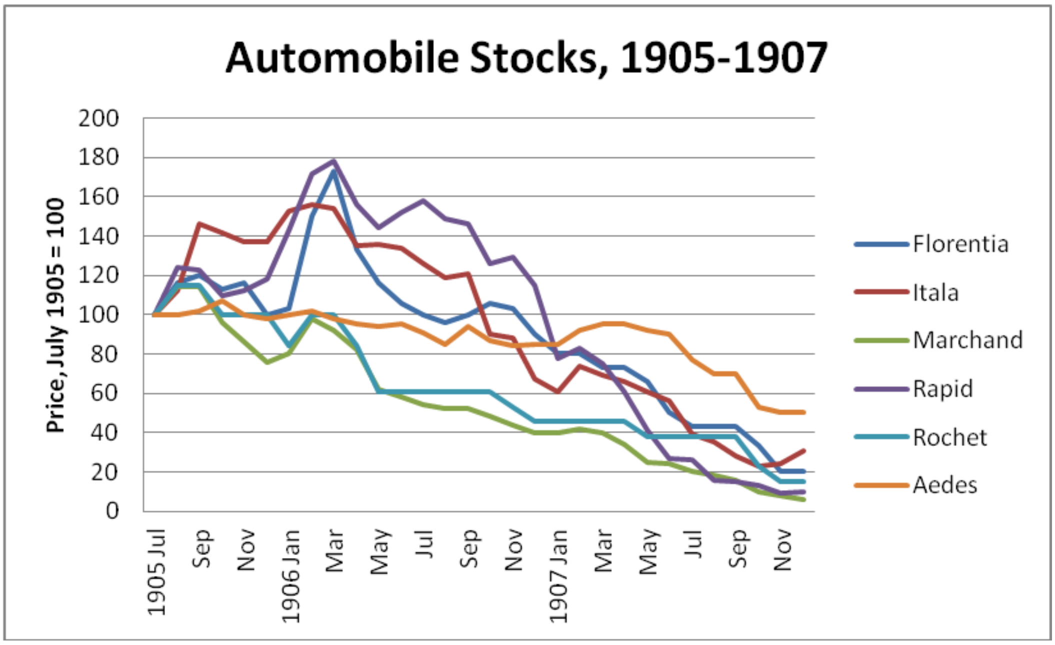

Fig. 8 Performance of automobile stocks listed on the Genoa Stock Exchange between July 1905 and December 1907.
Source: Author's elaboration on data from the Stock Exchange archive kept at the Ansaldo Foundation, Genoa.

If we assume that the quotations of the main car stocks at the July 1905 price are equal to 100, we see that three of the main national stocks saw modest growth until the end of the year, followed by a fall that brought the shares in the six companies to prices between 50, in the least dramatic case, and 10 or less in the worst case.

As had occurred previously, automotive industry securities excited the curiosity of speculators, who first bought the new stocks, after which the bear period was under way without interruption until the crisis of Autumn 1907. The devaluation in automotive stocks was dramatic, to the extent that these stocks, more than Eridania's and Ramifera's, could be considered symbolic of the Genoa Stock Exchange crisis, that is, a financial crisis based on a bear run.

In this case, just as before, the fall in prices was not preceded by a dramatic increase; on the contrary, bearish speculation hit the new shares immediately after their quotation on the Stock Exchange. At the same time, other stocks, such as the those of the railways, banking, and parts of the food sector escaped unharmed, and oscillated moderately around a stable price.

We read from time to time that the abandonment of fluctuating stocks is a sort of "flight to safety" towards stable shares, but it seems that speculation was not confined to just a few securities, so we must now look at the kind of speculative behaviour that occurred during these years in some detail.

If we look at 1907 alone, we see that bullish expectations had to make room for bear forecasts. If we take the early 1907 prices of the main stocks to be 100, we can observe (Figure 8) some slight increase over the first few months – limited to just a few stocks, however – and then a general fall that was limited in the case of bank stocks, and dramatic for others.

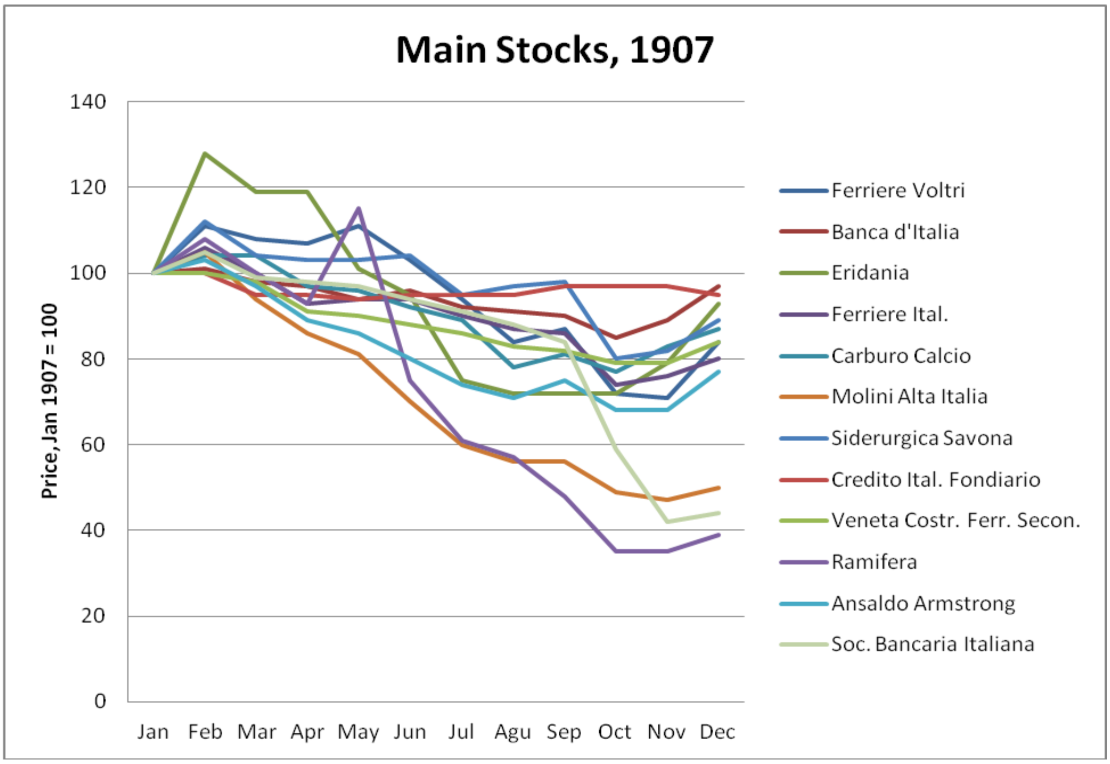

Fig. 9. Performance of the main stocks listed on the Genoa Stock Exchange during 1907.

Source: Processing by the author using data from the Stock Exchange archive kept at the Ansaldo Foundation, Genoa.

Figure 9 makes it clear that the crash was not sudden and violent, but was anticipated by a slow decrease in stock prices.

At this point, we can restrict our attention to the more fluctuating stocks, those that might be subject to speculative attacks, and seek to understand the moves made by speculators.

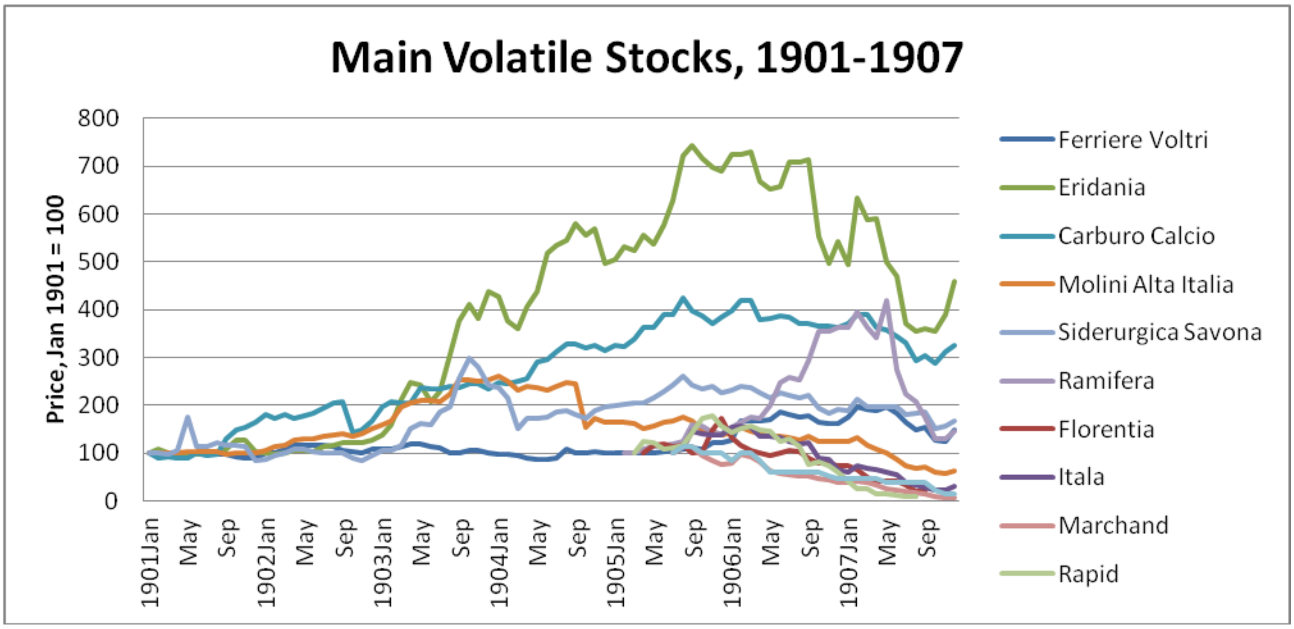

Fig. 10. Performance of the most volatile stocks listed on the Genoa Stock Exchange between January 1901 and December 1907.
Source: Author's elaboration on data from the Stock Exchange archive kept at the Ansaldo Foundation, Genoa.

The trends tracked in Figure 10 show that during the months from early 1903 to the end of 1905, euphoria was restricted to three or four stocks (Eridania and Carburo Calcio, and, to a lesser extent, Siderurgica Savona and Molini Alta Italia). Once these stocks started to decline, speculation moved towards Ramifera and automotive stocks, provoking a price increase only for the former. It is probable that speculation moved from bull to bear bets, with specific attention being paid to automotive stocks.

We can see that the shares that had been subject to euphoria did not decrease below their starting prices once the euphoria ceased and had been transformed into a fall, and that they regained ground after the crisis, during 1908. When the crisis erupted, Eridania shares were more than three times the price they had been in 1901, however. In September 1907, Ramifera was listed at the same price as at the time of its listing. The really dramatic bear market involved automotive stocks.

Although automotive securities were not affected by euphoria of any kind, they represented for Genoa and Italy what railway stocks had been during the long United States depression of 1873-75, or what construction and real estate stocks had signified in other financial crises.

This reinforces our hypothesis that the 1907 financial crisis was a Stock Exchange crisis, which was born and died in the stock market. Certainly, banking and industrial decisions mattered, but they influenced the crisis rather than caused it. Before we return to Stock Exchange trends and speculative behaviour, however, it would be useful to investigate other potential causes.

3. The crisis and it potential causes

3.a. Was it a crisis determined by productive euphoria?

	Increases in capitalization (existing and new companies)	Decreases in capitalization (existing and new companies)	Net increase
1904	299.4	70.3	229.1
1905	857.3	69.5	787.8
1906	763	70	693
1907	617.4	93.6	523.8
1908	354.5	130.5	224
1909	324.6	180.2	144.4

Table 1. Capital movements of corporations (millions of Lire)
Source: *Società Italiane per Azioni – Notizie Statistiche 1928*. Rome 1928, pp. 104-05, in Confalonieri I, p. 45.

Was Italy going through a period of strong economic expansion at the beginning of the twentieth century? According to Canovai (1912, p. 214), the speculative exuberance of the stock market was a consequence of the chaotic development that Italy was experiencing during those years. In addition, he was persuaded that Italy would have been hit by the crisis even in the absence of any type of financial contagion. This state of disorder is proved by the corporate capitalization that occurred between 1905 and 1907; this investment was mainly directed towards new companies. Table 1 shows a net increase that reached its height during 1905.

As we know, in 1907 a severe financial crisis affected the United States, and then spread to the Netherlands, Germany, Turkey, Egypt, and Chile. This event halted capital flows to Italy, a fact that certainly weighed on the crisis. But it is also true that the Banca d'Italia was able to handle the lack of liquidity, bailing out the Società Bancaria Italiana. The contagion effect was therefore weak, and local or national causes came to the fore.

Echoing Canovai – and also Schumpeter (1939) – the banking historian Antonio Confalonieri thought that regardless of any financial contagion, Italy was destined for a crisis: "Economic development was too chaotic" (1982, p.3). Was the Italian crisis therefore similar to the one that hit the United States in 1873? If capital investment did occur, it did not result in increased production. Certainly, there were expanding sectors: textiles grew by 60.9% between 1901 and 1907; wheat production rose from 39 million quintals in 1900 to 52 million in 1907. As the agricultural data in

Table 2 show, however, we cannot speak of a euphoric increase in agricultural production, which remained almost the same after the crisis.

Media 01-05	Corn 47,520	Rice 5,681	Maize 24,045	Sugar beet 7,496;	Grapes 70,170	Olives 17,978
1906	51,491	5,803	24,944	8,435	54,744	7,458
1907	51,783	6,560	23,738	10,234	99,074	19,400
1908	44,483	5,896	25,734	16,267	95,114	4.235

Table 2. Agricultural production 1901-1908
Source: ISTAT, Summary, p. 106 ff. (thousands of quintals)

It is true that during the Giolitti era, the Italian economy experienced a good pace of growth. Between 1898 and 1907, GDP increased by 3.4 per cent annually, and industrial production grew by 5.9% (Forsyth, p. 71). However, this trend was far from the euphoric production levels shown by the US in the years before the 1873 crisis or other similar crises.

The same conclusions can be drawn from an analysis of price trends. If we compare export prices with internal prices, we notice that Italian export prices continued to be above those of analogous imported goods, but without the peaks or oscillations that are symptomatic of a domestic speculative bubble.

If we look at the main Italian exported good, coarse silk and its derivatives (Figure 11), it can be seen that the price remained almost exactly the same over the twenty years from 1890 to 1910.

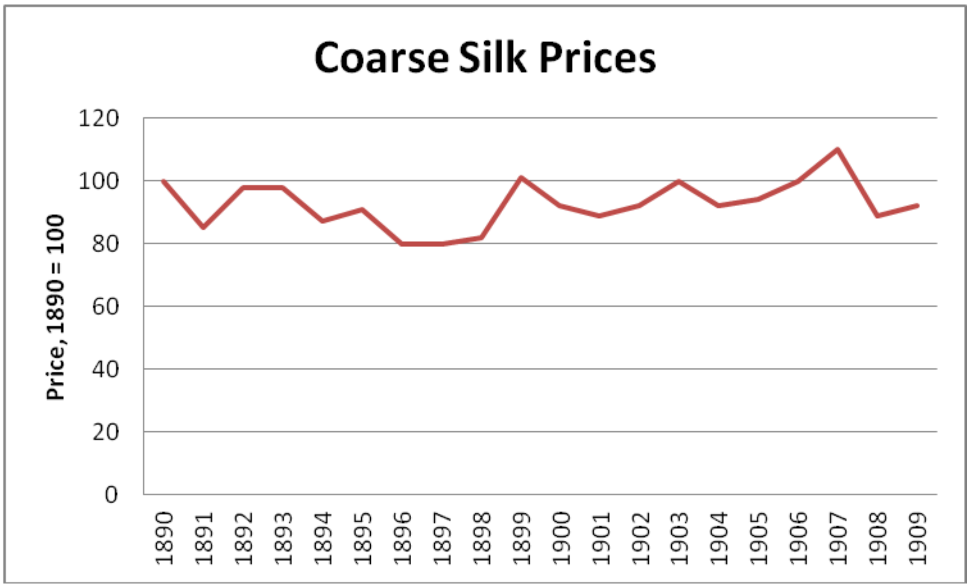

Fig. 11. Coarse silk prices from 1890 to 1910
Source: Necco 1910, pp. 18-19, author's elaboration.

A slight variation is shown by metallurgical products (Figure 12). If we leave aside tin, and to a lesser extent copper and brass, the prices of iron, cast iron, and zinc did not show a notable change over the first decade of the twentieth century.

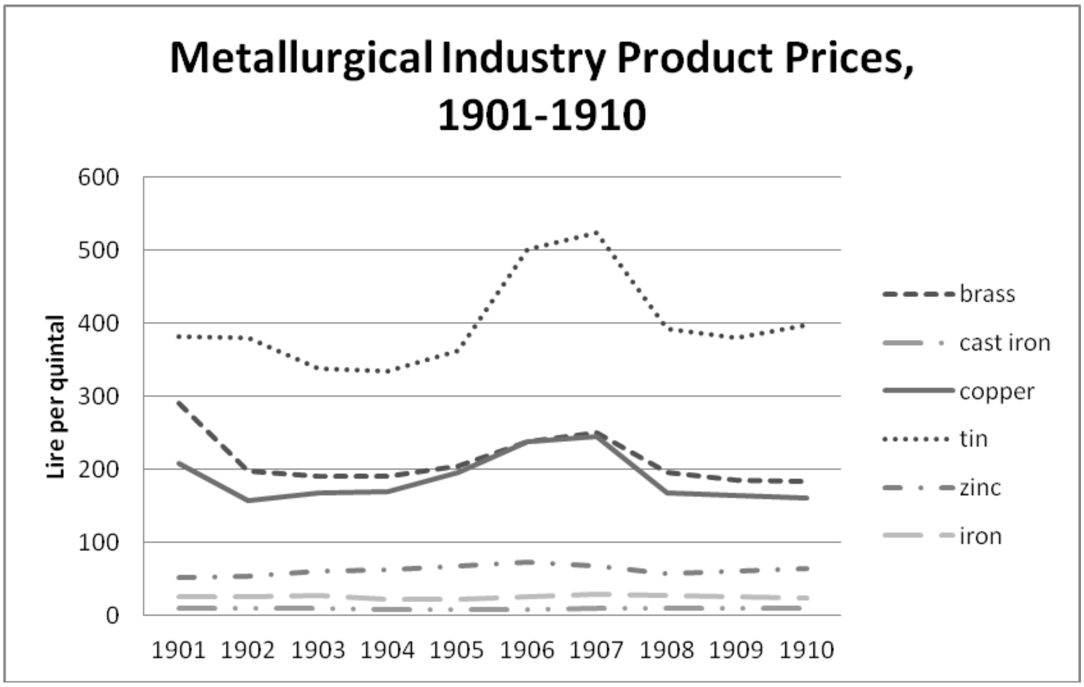

Fig. 12 Prices of metallurgical products
Source: ISTAT 1958, 187-188

In addition, if we widening our analysis to cover a longer period, it can be observed (Figure 13) that price growth in certain products during the period 1906-1907 also appears to be physiological once the thirty-year trend (between 1880 and 1910) is taken into account. Figure 13 allows comparison of the export and import prices of minerals, steel and other metals.

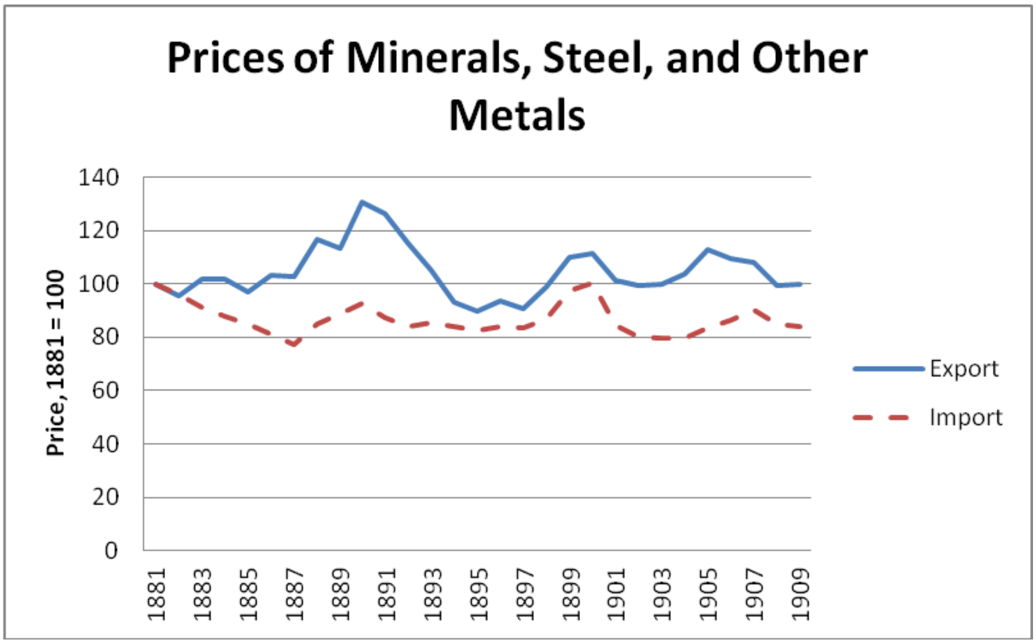

Fig. 13. Prices of minerals, steel, and other metals
Source: Necco 1910, p. 81, author's elaboration.

The limited growth of metallurgical prices is reflected in the slow development of the Italian railway system, as a comparison with other European countries shows (Table 3). The acceleration in the construction of kilometres of new track took place after the 1907 crisis, which means that there could not have been any kind of euphoria over railway stocks during the period under consideration here.

	1893-99 (km)	1900-06	1907-13
Austria-Hungary	444	402	198
France	373	326	142
Germany	909	983	828
Great Britain	252	271	129
Italy	274	139	213

Table 3. Kilometres of railway track built per year
Source: Confalonieri I p. 57, based on data from Mitchell

On the contrary, production, and to some extent prices, were affected by the current account surplus, which was lower only than that of Germany in those years. Between 1901 and 1905, financial flows allowed Italy to offset the trade deficit caused by the importation of raw materials and equipment. It should be stressed that these flows consisted mainly of remittances from emigrants, so that they were more stable than speculative ones. Finally, revenue from tourism contributed to the equilibrium in the balance of payments, with the result that in 1907, notwithstanding the crisis, Italy was not indebted towards foreign countries.

3.b. Was it a liquidity crisis?

Forsyth (1998) ascribed the explosion of the Italian financial crisis to two factors: first, international contagion, and second, the more or less visible conflict between the commercial banks (particularly Banca Commerciale and Credito Italiano) on the one hand, and Banca d'Italia on the other.[2]

In fact, the Stock Exchange crash cannot be kept separate from the performance of the banking system as a whole, particularly the issuing banks. First, during the period of interest to us here, there were no cash flow problems. Between 1900 and 1907, the three issuing banks assured a final growth in liquidity equal to 42.8% (see Confalonieri, p.9). During that time, the assets available to savings banks [*Casse di Risparmio*] and people's banks [*Banche Popolari*] grew by 62%, while the commercial banks saw their assets increase by 84.4%. Certainly, the expansion in the monetary basis made credit easier, as testified by the reduction of the interest rate from 4.5% to 4% in 1906.

Liquidity grew in the decade before the crisis, and this trend continued until 1913 (De Mattia, II.2, 1133). Thus, at a national level, it is difficult to argue that a sudden stop or reduction in issuing

[2] "The fact that the private-public banks were conditioned by the industrial activity meant that the industrial recession would be spread to the whole bank system and to the whole economy. Thus, little shocks in the stock market could provoke crisis and stagnation of the whole economic system. This was what happened in 1907 …" (Forsyth, p. 12)

could have favoured the crisis. However, this level of liquidity was also maintained after the 1907 crisis, to the extent that in Italy in 1908:

> … There was plenty of money available for short-term use; this abundance of liquidity was favoured by large supplies of credit, which could be employed for short-term deals. (Banca d'Italia, Report 1908, pp. 5-6, in Confalonieri 43).

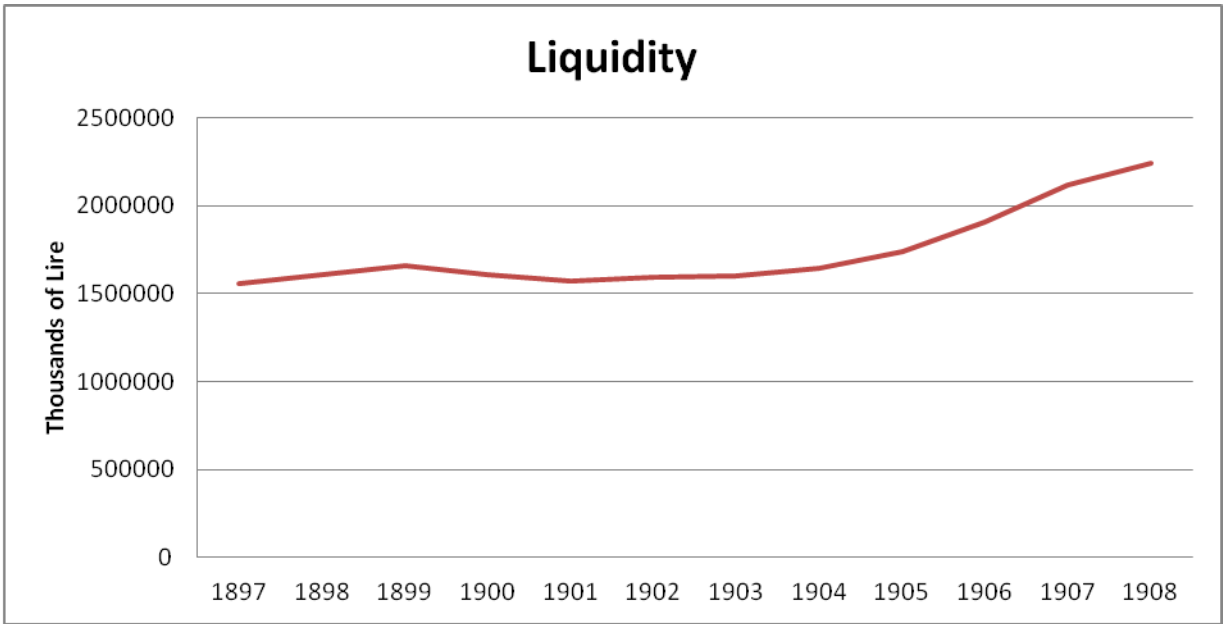

Figure 14. Circulation of paper money
Source: Author's elaboration on data from De Mattia (De Mattia I.2 pp. 452-53). A mean of the monthly circulation of paper money is calculated for each year.

The discount rates applied by Banca d'Italia also remained unvaried during the crisis, without the sudden increases that characterize most financial crises. In January 1906, the discount rate was 4.5% and the interest rate 5%. In February 1906, they were 4% and 5%, in October 1907 4.5% and 5%; in November 1907, 4.5% and 5.5%, in December 1907 5% and 5.5% and, finally, in January 1908 4.5% and 5.5% (see De Mattia I.2, 822-23).

4. The lack of rules

After the country had been unified, the national government was faced with the problem of Stock Market operation and its regulation:

In 1872, Minister Castagnola attributed the task of investigating the problem to a Special Commission.

> The Commission included the Presidents of the existing Stock Exchanges. The most crucial points regarded the establishment of syndicates, the spot and forward trade of public goods, and trading … [in] 1882, Minister Berti put forward a regulatory scheme for Stock Exchanges and brokers, which was fully accepted, and was included among the general rules accompanying the Commercial Code on 27 December 1882 (De Tullio, 23/11/06, Giornale d'Italia).

The subsequent years saw a succession of commissions and draft bills, until the final act, which occurred time before the 1907 crisis: a draft proposed by Minister Luzzatti in 1904 which "was aimed mainly at breaking insane speculation." At the same time as Stock Exchange tensions were developing, the topic of their regulation came to the fore (Majorana draft bill, Cocco Ortu). However, De Tullio wrote that the proposals "did not include the suppression of forward agreements, carry-over contracts, and short-selling: that is, the common tools used by that type of speculation known as the 'Stock Exchange game'" (23/11/06, Giornale d'Italia).

However, as Valenti had already stressed in 1894 and reaffirmed in the documents attached to the 1908 draft bill on Stock Exchanges, the malfunctions were evident:

> The lack of guarantees regarding the prohibition of entry into the Stock Exchanges on specific categories of people; vigilance over the rates applied by Stock Exchange syndicates outside the control of Stock Exchange Committees; the lack of discipline relating to the listing of the shares of new companies; the substantial abuse that occurred during dealings in the ring; and the rapid growth of the number of brokers without any control over their efficiency.[3]

In some sense, this degeneration could be interpreted as the result of the application of the principle of non-interference, according to which the government took a neutral position with regard to financial markets, in line – according to Luzzatti – with the thoughts of Jean-Baptiste Say. On the other hand, we read in Giornale d'Italia that certain kinds of prohibition against specific trades in German law "had yielded an over-the-counter market outside the official Stock Exchange where stocks were traded with no control over speculation" (De Tullio 23/11/06, Giornale d'Italia. This meant that regulation could not prevent risky speculative behaviour.

Luigi Luzzatti (Corriere della Sera, 8/10/07) ascribed the 1907 crisis not to weaknesses in the banking and financial systems, but to the absence of caution. "Young people lack one quality: prudence. They learn it on their own, but they forget it when a ray of sunshine appears on the horizon". On 27 October of that year, however, Luzzatti imputed the responsibility for "having contributed to the sad past" to the "fatal competition among the financial banks, which were dominated by jealousy and the desire to defeat each other."

The government's response imposed more rigid controls and limitations on the freedom of initiative of investors and financial brokers, banks included. Ministers were convinced that by controlling the activities of intermediaries and credit and the use of savings, speculation and risky conduct could be wiped out. The crisis therefore exploded because of the lack of control and rules. Finally, on 23 November 1907, Luzzatti agreed to the anti-bear measures adopted by the Government, recognizing the need to control the operations of Stock Exchanges at the cost of abandoning the Sayan precepts of free trade.

[3] See Confalonieri 1982 II, p. 491, who quoted the A.P. of the XXII Legislature, doc. no. 1012.

Luzzatti supported the duty to deliver securities before the contract expired, because this would reduce the activity of bears, whose actions Luzzatti considered worse than that of bulls. Luzzatti was persuaded that the Government should have intervened in 1905 by freezing the euphoria of the bulls and avoiding the subsequent decline. Luzzatti declared himself to be an interventionist, despite the fact that this position would attract charges against the government that it would be harmful for credit. We believe that the crisis was foreseeable (Corriere della Sera, 8/10/97): it would have been sufficient to watch for the speculative bubble that started to swell from 1905 onwards.

5. The *Giornale d'Italia* and Stock Exchange players

According to Canovai, there was financial euphoria, although it must be determined what caused or promoted it:

> At the beginning of 1905, improvements in the national financial and economic position led to a bullish movement involving all securities that few scholars judged to be dangerous or excessive. The price of Italian securities increased by 70% compared with their nominal value. This growth was not justified by a corresponding increase in the prosperity of banking, industrial and commercial companies, or by high dividends from shares. (Canovai 1912, p. 213)

The causes of the euphoria must therefore be sought in the operations of the Stock Exchange itself.

The evolution of the Stock Exchange would yield the causes behind its fall. This, in brief, was the main view common to the columnists of the *Giornale d'Italia*, the newspaper that paid the most attention to events in Genoa and to stock market events in general.

On 31 December 1906, Antonio Di Tullio, who later became the President of the Bari Chamber of Commerce, wrote that the main activity in Stock Exchanges was "pure gambling", and they were no longer a useful means of moving savings to listed companies. De Tullio identified a Stock Exchange regular who had no connection with the 'professional' speculator. De Pietri Tonelli wrote: "This occasional speculator is a player who, tempted by the chance of an unexpected fortune, goes towards the most dangerous risk ... a player destined to ruin himself" (1912, 143).

De Tullio raised a question, too: "Is it possible that all these people have money to make investments every day?" But the answer was revealing: "Not in the least. All these people who are not brokers and attend the Stock Exchange go there every day to play a game worth hundreds or thousands of Lire".

We might deduce that the Italian Stock Exchange regulars, just like the investors that would crowd Wall Street two decades later, made use of carry-over contracts to sell or buy short, guaranteed by deposits with brokers or banks that were not sufficient to cover them.

> Each of these individuals knows a broker or one or two broker's assistants. He goes to the Stock Exchange to buy or sell a certain number of securities at the end of the month, without

having the necessary money to actually buy those securities or without ever having seen the securities he sells…

Finally, De Tullio asked himself whether these fictitious trades “help or damage the progress of trade and production.”

These practices were assisted by the lack of rules regarding brokers. The *Giornale d’Italia* stressed the improvisation and low levels of information that characterized the new Stock Exchange investors: “It is strange that in business calculations should make room for fantasy. But they do: none, or almost none, of the new investors ask for information about the company issuing the securities they are buying” (Benedetti, 20/05/07, Giornale d'Italia).

Another columnist, F. Carnelutti, wrote in the Giornale d’Italia (19/05/1908): “The reorganization of the Stock Exchange is demanded by public opinion,” evoking a sort of rejection of stock market trading. He continued:

But, it will be said, and not without reason, that before adopting the rules, the Government had let the stock market be swept away by a violent rush, which ruined hundreds of families, impoverished many small capitalists, and provoked the suicide of some well-known speculators.

Carnelutti provided a clear depiction of the doubts that had prevented the legislature from adopting the reforms that had been expected for nineteen years:

… It will be hard to obtain regulation of Stock Exchange trading in such a way it does not conflict with ethical values and damage the national economy without reforming the law governing companies.

It would be necessary to raise the prestige of the companies listed on the Stock Exchange, and avoid increases in stock prices following mergers.

The problem, therefore, was the malfunctioning of the Stock Exchange, which, in the absence of rules, encouraged less than virtuous conduct. According to the columnists of the *Giornale*, it was clear that the institution was not capable of regulating itself: on the contrary, it needed external guidance.

5.1 *The* Giornale d’Italia *and the economic policies facing the crisis*

With regard to monetary policies, economic columnists thought that the reduction in the discount rate would favour the explosion of the crisis. De Tullio wrote in the *Giornale d’Italia* that:

In his *Notes on Finance,* published in March 1899, Minister Sonnino stated clearly that it had been an error to grant an untimely and artificial reduction in the discount rate, which fostered speculation in the Stock Exchange. A few days later, Luzzatti declared that he agreed with Sonnino, and recalled that he had strongly resisted the request from the Chambers of Commerce to reduce the interest rate … Finally, Minister Ferraris gave an ample demonstration of the harmful influence of an excess of circulation and the artificial reduction in the discount rate on the promotion of speculation and determination of the rise in the exchange rate (20 November 1906).

Contrary to this view, current opinion was inclined to consider the narrow circulation and high interest rate to be causes of financial crises, including those that periodically affected the Genoa Stock Exchange, which was held to be "the most important in Italy, due to its resources and its influence on the remaining Stock Markets" (Giornale d'Italia, 20/11/06).

But only if the prices of a large number of stocks had been high could the "expedition to the Stock Exchange" by "dealers and professionals, the frustrated well-to-do and the poor who were tired being poor" have been prevented (Giornale d'Italia, 20/11/06); these were all people who made use of carry-overs to finance the purchase of securities and stocks, which went up in price as a consequence.

> But the stock prices that increased in such a short time represented industries which produced promising performances, but on whose desert manna did not fall. But the greedy rabble attending the Stock Exchange was not worried about this as long as their earnings multiplied by means of carry-overs. (Giornale d'Italia, 20/11/06)

6. Conclusions

Our analysis of the data, on the one hand, and our reviews of the newspapers of the time on the other, show that the Genoa Stock Exchange was built on a great deal of small or micro speculation. If we look at the bullish phases, we see that they were restricted to just a few shares that followed one after the other in the role of the most bullish stock. The more volatile stocks did not increase in value together, but drove the Stock Exchange one by one, after which they invariably maintained a bearish trend. This is what happened from 1903 to 1907. The crisis exploded when the bullish trend of the automotive stocks, when they were called upon to play their role of pushing up the Stock Exchange, failed almost immediately, giving rise to a devastating bearish movement.

The newspapers that were most attentive to financial affairs, such as the *Giornale d'Italia*, gave a good description of the psychological attitude of a great part of the speculators of the time. They were reassured by periodic rises in the value of certain securities, and considered the succession of bull stocks to be proof of stability, after which bearish speculation could follow. The crisis came when this model failed, inducing Stock Exchange regulars to retire their investments.

The economists and columnists of the time focused mainly on the rules governing the Stock Exchange, on liquidity, and on fundamentals such as production and balance of payments, stressing the significance of contagion. In reality, while these macro-causes mattered, but they often hid individual conduct, that of the next-door neighbour.

References

Bonelli F., 1971. *La crisi del 1907. Una tappa dello sviluppo industriale in Italia,* Torino, Fondazione Einaudi.

Canovai T., 1912. *La banche di emissione in Italia,* Roma, Casa Editrice Italiana.

Confalonieri A., 1982. *Banca e industria in Italia*. Dalla crisi del 1907 all'agosto del 1914. 2 Vol. Milano, Banca Commerciale Italiana.

Corbino E., 1938. *Annali dell'economia italiana*. Volume V: 1901-1914, Città di Castello, Leonardo da Vinci.

Da Pozzo M., Felloni G., 1964. *La Borsa Valori di Genova nel Secolo XIX*, Torino, ILTE.

De Mattia R., 1967. *I bilanci degli istituti di emissione italiani 1845-1936*, Roma, Banca d'Italia, 2 volumes.

De Mattia R., 1990. *Storia delle operazioni degli istituti di emissione italiani dal 1845 al 1936 attraverso i dati dei loro bilanci*, Roman, Banca d'Italia, 3 volumes.

Del Vecchio G., 1913. "Il nuovo regime delle borse", *Giornale degli Economisti*, XLVII, 281-92.

De Pietri Tonelli A., 1912-13. *La speculazione di borsa,* Rovigo, Tipografia sociale editrice.

Forsyth D.J., 1998. *La crisi dell'Italia liberale*. *Politica economica e finanziaria 1914-1922,* Ed it. Corbaccio. Or. *The Crisis of Liberal Italy*¸ CUP 1993.

Galbraith J.K., 1991. *Breve storia dell'euforia finanziaria*. *I rischi economici delle grandi speculazioni*, Milano, Rizzoli, 1991.

Gigliobianco A, Giordano C., and Toniolo Gianni, 2009. "Innovation and regulation in the wake of financial crises in Italy (1880s-1930s)", *Working Paper*, Roma, Banca d'Italia.

ISTAT, 1958. *Sommario di statistiche storiche italiane 1861-1955*, Roma.

La Francesca S., 2006. "La crisi del 1907", in P. Pecorari (ed.), *Crisi e scandali bancari nella storia d'Italia,* Venezia, Istituto Veneto di Scienze, Lettere ed Arti, 97-114

Necco A., 1910. *La curva dei prezzi delle merci in Italia negli anni 1881-1909*, Torino, Società Tipografico-Editrice Nazionale.

Necco A., *Il corso dei titoli di borsa in Italia*. *Dal 1861 al 1912*. Titoli di Stato, Torino, Società Tipografico-Editrice Nazionale.

Valenti G., "Il riordinamento delle borse di commercio", *Giornale degli Economisti*, VIII, 553-579; vol. IX, 130-164, 266-87, 443-68.

Il Corriere della Sera. Various years

Il Giornale d'Italia. Various years

Il Sole. Various years